THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Greater China Financial Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

大中華金融控股有限公司

GREATER CHINA FINANCIAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 431)

website: http://www.irasia.com/listco/hk/greaterchina/index.htm

(1) MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF XIN YUNLIAN INVESTMENT LIMITED INVOLVING THE ISSUE OF CONVERTIBLE NOTES, NEW SHARES, INCENTIVE NOTES AND CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND (2) NOTICE OF SPECIAL GENERAL MEETING

Capitalized terms used in this cover shall have the same meanings as those defined in this circular. A letter from the Board is set out on pages 9 to 65 of this circular. A notice convening the SGM to be held at Suites 3001-11, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on Wednesday, 22 July 2020 at 11:00 a.m. together with the form of proxy are enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case maybe).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish, and in such case the form of proxy previously submitted shall be deemed to be revoked.

30 June 2020

CONTENTS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

"Acquisition"	the acquisition of the Sale Shares and the Sale Loan by the Purchaser from the Vendor
"Acquisition Agreement"	the agreement dated 16 November 2019 as amended by the supplemental agreement dated 29 June 2020 entered into by the Company, the Purchaser, the Vendor and the Vendor Guarantor in respect of the Acquisition
"Acquisition Consideration"	HK$360 million
"Actual Profit"	has the meaning ascribed in the paragraph headed "(2) *Profit guarantee*" in this circular
"Announcement"	the announcement of the Company dated 16 November 2019
"Board"	the board of the Company
"Business Day"	a day (excluding a Saturday or Sunday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"Closing Accounts"	the accounts comprising (i) the statement of financial position as at the last day of the calendar month immediately preceding the Completion Date and the statement of profit or loss of the Target Company for the period from 1 January 2020 to the last day of the calendar month immediately preceding the Completion Date; and (ii) the consolidated statement of financial position as at the last day of the calendar month immediately preceding the Completion Date and the consolidated statement of profit and loss of the Target Group for the period from 1 January 2020 to the last day of the calendar month immediately preceding the Completion Date

"CNTC"	has the meaning ascribed in the paragraph headed "**BUSINESS PROFILE**" in this circular
"Company"	Greater China Financial Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Completion Date"	the fifth Business Day after the date of fulfillment (or waiver) of the conditions precedent of the Acquisition Agreement (or such other date as the parties to the Acquisition Agreement may agree in writing)
"Consideration Shares"	the 50,000,000 Shares to be allotted and issued by the Company to the Consultant pursuant to the Consultancy Agreement
"Consultancy Agreement"	the agreement dated 16 November 2019 as amended by a supplemental agreement dated 29 June 2020 entered into by the Company, the Purchaser and the Consultant in respect of the provision of consultancy service by the Consultant to the Company
"Consultancy Fee"	HK$10 million, being the total fee for the consultancy service under the Consultancy Agreement
"Consultant"	呂宏國 (Lu Hongguo), an individual providing consultancy service to the Group
"Conversion Period"	has the meaning ascribed in the paragraph headed "**THE CONVERTIBLE NOTES**" in this circular
"Conversion Price"	the initial conversion price of HK$1.0 per Conversion Share or per Share upon conversion of the Incentive Note, as the case may be, subject to adjustment

"Conversion Share(s)"	the Share(s) to be allotted and issued upon exercise of the rights attached to the Convertible Notes to convert the principal amount (or any part(s) thereof) of the Convertible Notes into Shares pursuant to the terms and conditions of the Convertible Notes
"Convertible Notes"	the notes in the principal amount of HK$200 million to be created and issued by the Company to settle an amount of HK$200 million of the Acquisition Consideration, and convertible into Shares
"Development Plan"	has the meaning ascribed in the paragraph headed "**DEVELOPMENT PLAN FOR THE TARGET GROUP**" in this circular
"Director(s)"	the director(s) of the Company
"E-commerce Platform"	has the meaning ascribed in the paragraph headed "**BUSINESS PROFILE**" in this circular
"Early Redemption Date"	has the meaning ascribed in the paragraph headed "**THE CONVERTIBLE NOTES**" in this circular
"Early Redemption Right"	has the meaning ascribed in the paragraph headed "**THE CONVERTIBLE NOTES**" in this circular
"Enlarged Group"	the Group together with the Target Group after Completion
"Finance Group"	has the meaning ascribed in the paragraph headed "**Basis for determination of the Acquisition Consideration**" in this circular
"Group"	the Company and its subsidiaries
"Guaranteed Profit"	has the meaning ascribed in the paragraph headed "(2) *Profit guarantee*" in this circular
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Incentive Notes"	the convertible notes to be created and issued by the Company to settle the incentive payment and convertible into Shares, the particulars of which are set out in the paragraph headed "**Incentive payment**" in the Letter from the Board in this circular
"Independent Third Party(ies)"	third party(ies) independent of the Company and are not connected persons (as defined under the Listing Rules) of the Company
"Issued Date"	has the meaning ascribed in the paragraph headed "**THE CONVERTIBLE NOTES**" in this circular
"Issue Price"	HK$0.2, being the issue price per New Share and per Consideration Share
"Last Trading Day"	15 November 2019, being the last trading day of the Shares before the signing of the first of the Acquisition Agreement and the first of the Consultancy Agreement
"Latest Practicable Date"	29 June 2020, being the latest practicable date prior to the date of this circular for ascertaining certain information contained herein
"Licensed Retailers"	has the meaning ascribed in the paragraph headed "**BUSINESS PROFILE**" in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	15 November 2020 (or such other date as the parties under the Acquisition Agreement may agree in writing)
"Maturity Date"	has the meaning ascribed in the paragraph headed "**THE CONVERTIBLE NOTES**" in this circular
"NAV per Share"	has the meaning ascribed in the paragraph headed "**THE CONVERTIBLE NOTES**" in this circular
"New Shares"	the 800,000,000 Shares to be allotted and issued by the Company to settle an amount of HK$160 million of the Acquisition Consideration

"Ningbo Yunlian Micro-Financing"	寧波雲聯小額貸款有限公司 (transliterated as Ningbo Yunlian Micro-Financing Company Limited*), a company established in the PRC with limited liability
"PRC"	the People's Republic of China, which for the sole purpose of this circular excludes Hong Kong, the Macau Special Administration Region of the People's Republic of China and Taiwan
"Purchaser"	Good Set Investments Limited, a company established in the BVI with limited liability and a subsidiary of the Company
"Reduction Date"	has the meaning ascribed in the paragraph headed "(2) *Profit guarantee*" in this circular
"Reference Period"	has the meaning ascribed in the paragraph headed "**Conversion Price**" in this circular
"Reorganisation"	the reorganisation of the companies comprised in the Target Group referred to in the paragraph headed "**Reorganisation**" in the Letter from the Board in this circular
"Reorganisation Consideration"	has the meaning ascribed in the paragraph headed "(1) *Reorganisation cost*" in this circular
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Loan"	the unsecured interest-free loan owed by the Target Company to the Vendor at Completion. For illustrative purpose only, the principal amount of the Sale Loan as at the Latest Practicable Date was HK$60 million
"Sale Shares"	the entire issued share capital of the Target Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	the special general meeting to be convened by the Company for the Shareholders to consider and, if thought fit, approve the Acquisition Agreement, the Consultancy Agreement and the transactions contemplated thereunder, including the Specific Mandate and the adjournment thereof
"Share(s)"	ordinary share(s) of HK$0.001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Specific Mandate"	the specific mandate to be obtained by the Board from the Shareholders at the SGM for the allotment and issue of the Conversion Shares, the New Shares, Shares to be issued under the Incentive Notes, and the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC
"Target Clients"	has the meaning ascribed in the paragraph headed "**BUSINESS PROFILE**" in this circular
"Target Company"	Xin Yunlian Investment Limited, a company established in the BVI with limited liability and wholly owned by the Vendor before Completion
"Target Group"	the Target Company and its subsidiaries and associated company
"Track Record Period"	the three years ended 31 December 2019
"Valuer"	CHFT Advisory and Appraisal Ltd., an independent valuer appointed by the Company in respect of the Acquisition
"Vendor"	Skill Rich Limited, a company established in the BVI with limited liability and wholly owned by the Vendor Guarantor on behalf of Wangxin Technology
"Vendor Guarantor"	Mr. Chen Zheng, the sole shareholder of the Vendor, holding the entire equity interest of the Vendor on behalf of Wangxin Technology

"Wangxin Technology"	網新新雲聯技術有限公司 (transliterated as Wangxin Xin Yunlian Technology Limited*), a company established in the PRC with limited liability and the ultimate beneficial owner of the Vendor
"WFOE"	寧波瑞信投資有限公司 (transliterated as Ningbo Ruixin Investment Company Limited*) a special-purpose company established in the PRC
"Xin Yunlian Advertising"	新雲聯廣告傳媒(浙江)有限公司 (transliterated as Xin Yunlian Advertising Media (Zhejiang) Company Limited*), a company established in the PRC with limited liability
"Xin Yunlian Cloud"	浙江新雲聯雲科技有限公司 (transliterated as Zhejiang Xin Yunlian Cloud Technology Company Limited*), a company established in the PRC with limited liability
"Xin Yunlian Digital"	浙江新雲聯數字科技有限公司 (transliterated as Zhejiang Xin Yunlian Digital Technology Company Limited*), a company established in the PRC with limited liability
"Xin Yunlian Financial"	網新新雲聯金融信息服務(浙江)有限公司 (transliterated as Wangxin Xin Yunlian Financial Information Service (Zhejiang) Company Limited*), a company established in the PRC with limited liability
"Xin Yunlian Investment"	網新新雲聯投資(浙江)有限公司 (transliterated as Wangxin Xin Yunlian Investment (Zhejiang) Company Limited*), a company established in the PRC with limited liability
"Xin Yunlian Network"	Xin Yunlian Network Technology Limited, a company established in Hong Kong with limited liability
"Zhongyan E-commerce"	中煙新商盟電子商務有限公司 (transliterated as Zhongyan Xin Shangmeng E-commerce Limited*), a company established in the PRC with limited liability
"%"	per cent

For the purposes of illustration only, any amount denominated in RMB in this circular was translated into HK$ at the rate of RMB1 to HK$1.0946. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.

The English name of the Chinese entities marked with "" are translations of their Chinese names and are also included in this circular for identification purposes only. Such translations should not be regarded as their official English name.*

In case of any inconsistency, the English text of this circular shall prevail over the Chinese text.

大中華金融控股有限公司
GREATER CHINA FINANCIAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)
(Stock Code: 431)
website: http://www.irasia.com/listco/hk/greaterchina/index.htm

Executive Directors:
Mr. Liu Kequan *(Chairman)*
Mr. Yang Dayong *(Chief Executive Officer)*
Mr. Zhang Peidong

Independent Non-executive Director:
Mr. Kwan Kei Chor
Dr. Lyu Ziang
Mr. Zhou Liangyu

Registered Office:
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

Principal Place of Business in Hong Kong:
Suites 3001-11,
Tower Two Times Square
1 Matheson Street
Causeway Bay
Hong Kong

30 June 2020

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF XIN YUNLIAN INVESTMENT LIMITED INVOLVING THE ISSUE OF CONVERTIBLE NOTES, NEW SHARES, INCENTIVE NOTES AND CONSIDERATION SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Acquisition and the announcement of the Company in relation to the amendments of the terms of the Acquisition and the Consultancy Agreement dated 29 June 2020.

Under the Acquisition Agreement, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to acquire the Sale Shares and the Sale Loan.

Under the Consultancy Agreement, the Consultant has agreed to provide consultancy services to the Group in relation to the Acquisition.

The purposes of this circular are to provide you with, among other things, (i) the principal terms of the Acquisition and the Consultancy Agreement; (ii) the financial information of the Group; (iii) the financial information of the Target Group; (iv) the management discussion and analysis of the Target Group; (iv) the financial information of Zhongyan E-commerce; (v) the management discussion and analysis of Zhongyan E-commerce; (vi) the unaudited pro forma financial information of the Enlarged Group; (vii) the business valuation report on the Target Group prepared by the Valuer; (viii) the letters in relation to the profit forecast; (ix) other information as required under the Listing Rules; and (x) the notice convening the SGM.

THE ACQUISITION

The principal terms of the Acquisition Agreement are summarized below.

The Board has consulted with the PRC legal advisers of the Company and was advised that the Acquisition Agreement is binding on the Vendor and enforceable according to its terms.

Assets to be acquired

The Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sales Shares and the Sale Loan.

The Acquisition Consideration

The consideration for the Acquisition shall be HK$360 million and settled by the Company as to HK$200 million by the issue of the Convertible Notes and as to HK$160 million by the issue of the New Shares under the Specific Mandate at Completion.

The Company has considered other alternatives to finance the Acquisition Consideration such as bank borrowings and other equity fund raising exercises. Having considered the following factors, the Company considered that the issue of the Convertible Notes and the New Shares to satisfy the Acquisition Consideration is appropriate, fair and reasonable:

(a) the Convertible Notes will be unsecured and have a lower finance cost with a progressive interest rate of up to 6% per annum and a longer tenure of five years as compared to bank borrowings which are usually required to be secured and will have a higher finance cost and a shorter tenure. The Company is asset-light and does not have fixed assets that could be taken as collateral required by the banks for financing purposes. For the bank loans advanced to the Company in 2019, the average interest rate is approximately 6.3% per annum and the majority of the loans have a tenure of more than 2 years but not more than 5 years;

(b) the initial conversion price of the Convertible Notes is HK$ 1.0 per Share and represents a significant premium to the current market price of the Shares. The potential dilution effect of the Convertible Notes is therefore lower as compared to other equity fund raising exercises such as rights issue, open offer or placing of new shares, in which the issue price usually represents a discount to the current market price. There is also no certainty that such equity fund raisings will be completed; and

(c) no immediate cash will need to be paid by the Company by the issue of the Convertible Notes and the New Shares.

For the principal terms of the Convertible Notes, please refer to the paragraph headed "**THE CONVERTIBLE NOTES**" below.

Conditions precedent

Completion is subject to and conditional upon satisfaction (or waiver if, permitted) of the following conditions precedent, on or before the Long Stop Date:

(a) the Company having obtained all necessary approvals, authorisations, consents and permits from the Stock Exchange (including but not limited to the approval for the allotment and issue of the Conversion Shares, the New Shares and Shares to be issued under the Incentive Notes);

(b) the Shareholders having duly passed the resolutions to approve the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Notes, the New Shares and Shares to be issued under the Incentive Notes;

(c) Zhongyan E-commerce having obtained Value-Added Telecommunications Business License*《增值電信業務經營許可證》or is authorised to continue the relevant business to ensure the legality to operate the e-commerce platform. Wangxin Technology, Zhongyan E-commerce and the other members of the Target Group having confirmed in writing that during the effective period of the Value-Added Telecommunications Business License, Zhongyan E-commerce will continue the operation of the e-commerce platform and continue to collaborate with other members of the Target Group;

(d) the Purchaser having performed and completed the due diligence on the Target Group (included legal, accounting, financial, operational, or other aspects that the Purchaser considered necessary) and satisfied with the result of the due diligence; and

(e) the representations and warranties made by the parties under the Acquisition Agreement having not been violated.

If any of the conditions precedent is not fulfilled (or being waived) on or before 5 pm on the Long Stop Date, the Acquisition Agreement shall cease to be of any effect and terminate pursuant to the Acquisition Agreement.

The Purchaser has the discretion to conditionally or unconditionally waive in writing the conditions precedent (c), (d) and (e) set out above. Such conditions precedent are for the protection and benefit of the Company and therefore, they are capable of being waived by the Company conditionally or unconditionally such that the Company will have the flexibility to address any unforeseen circumstances should they arise in the future. The Company does not currently have any intention to waive any of such conditions precedent. In the event that there occurs any circumstance which warrants a waiver, the Directors will exercise due care and will consider imposing appropriate conditions to protect the interest of the Company before a waiver is granted.

As at the Latest Practicable Date, none of the above conditions precedent was fulfilled.

The Vendor's undertaking

(1) Certain undertakings have been provided by the Vendor to the Purchaser to govern the operation of the Target Group between the date of the Acquisition Agreement and Completion. Undertakings include, among other things, (i) undertaking to ensure the operation of the Target Group will continue to operate in the same manner as to prior to the execution of the Acquisition Agreement; and (ii) undertakings in relation to the treatment of assets and liabilities, staffing and daily operation of the Target Group.

(2) On the Completion Date, the Vendor shall submit the Closing Account to the Purchaser. The Vendor shall assist the Purchaser's designated accounting firm to audit the Closing Accounts. The Vendor guaranteed that the loan receivable of Xin Yunlian Financial and its subsidiaries as stated in the Closing Accounts, save for any inter-group receivable among the members of the Target Group, should be recovered within two years after the Completion Date. If the uncollected loan receivable (save for any inter-group receivable among the members of the Target Group) exceeds 1.8% of the total loan receivable of Xin Yunlian Financial and its subsidiaries and results in any loss of the Purchaser, the Target Company or any member of the Target Group, the Vendor shall repay the excess of the uncollected loan receivable in full. The aforesaid 1.8% was arrived at after negotiation with the Vendor taking into account the historical percentage of uncollectible loan receivable of Xin Yunlian Financial and its subsidiaries which are set out below.

The provision of doubtful debts in respect of loan receivable overdue over one year accounted for 0.39%, 0.07% and 2.03% of the total loan receivable of Xin Yunlian Financial and its subsidiaries for the three years ended 31 December 2019 respectively. For the three years ended 31 December 2019, no write-off of loan and interest receivable was provided by the Target Group as no default of loan receivable was recorded during the relevant periods.

The 1.8% threshold was determined mainly with reference to the doubtful loan provision of 2.03% in the year ended 31 December 2019. The provision in 2017 and 2018 was not referenced as the financing business of Xin Yunlian Financial was less developed then and would therefore be less meaningful as a reference point.

The loan receivable overdue over one year was fully impaired as disclosed on page II-77 of this circular, which is consistent with the Company's accounting policy.

The provision of doubtful debts of 2.03% as at 31 December 2019 represents the amount of loan receivable overdue over one year in the amount of HK$2,835,000 (which is fully impaired by the Company) over the total loan receivable before impairment as at 31 December 2019 in the amount of HK$139,334,000.

Subsequent to the year ended 31 December 2019, 3% of the doubtful loan provision in the year ended 31 December 2019 (i.e. 3% x 2.03%) had been recovered as at 30 April 2020. Therefore, around 1.97% (which is 97% of 2.03%) of the doubtful loan provision had not been recovered and this is the reference point in the determination of the 1.8% threshold.

The Board considers that there is sufficient safeguard to ensure that the Vendor is able to honour its obligations:

(a) the Vendor has the financial capacity to pay the excess above the 1.8% threshold, given the lock-up on the New Shares and the related sale proceeds. As disclosed in the aging analysis on page II-77 in this circular, as at 31 December 2019, the loan and interest receivable that is neither past the due date nor individually impaired amounted to approximately HK$140,194,000 in total, which is below the value of the New Shares in the amount of HK$160 million.

(b) The position of the loan receivable due to the Target Group has been closely monitored in the ongoing due diligence exercise conducted by the Company. The Company is not aware of any circumstances that would lead to any significant change in the exposure of the Target Group. In addition, as the financing business mainly involves the grant of micro loans which tend to spread the default risk evenly, a significant change in the overall exposure is not expected in the foreseeable future.

(c) In the event that the Vendor fails to pay such excess, the Company would resort to the claims against the Vendor Guarantor who would be jointly liable with the Vendor in accordance with the terms and conditions of the Acquisition Agreement.

Reorganisation

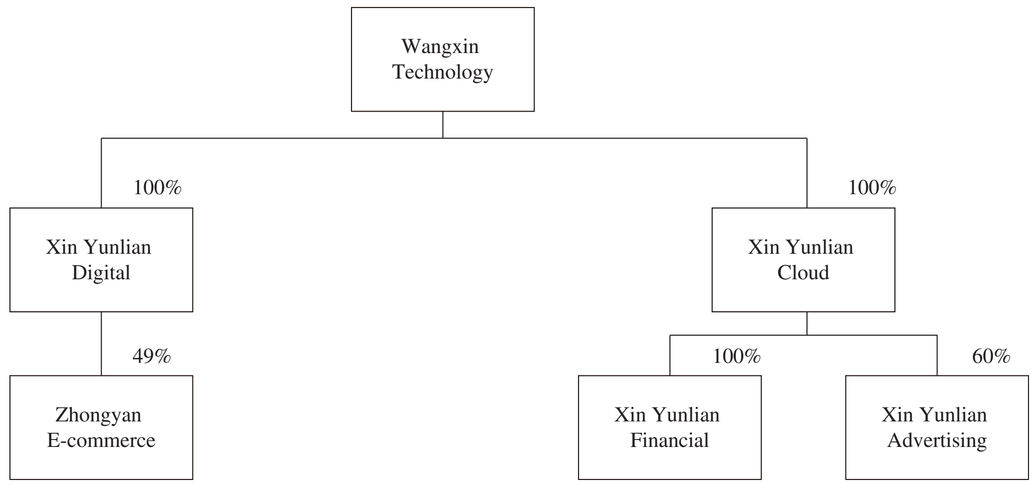
The following companies comprised in the Target Group went through a reorganisation in 2019 as follows:

(1) pursuant to an agreement dated 5 November 2019, 51% of the equity interest in Xin Yunlian Digital was transferred by Wangxin Technology to the WFOE for a consideration of RMB51,000,000 which was determined on the basis of the registered capital of Xin Yunlian Digital; and

(2) pursuant to an agreement dated 5 November 2019, 51% of the equity interest in Xin Yunlian Cloud was transferred by Wangxin Technology to the WFOE for a consideration of RMB88,230,000 which was determined on the basis of the registered capital of Xin Yunlian Cloud.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is a company wholly owned by the Vendor Guarantor on behalf of Wangxin Technology, and the WFOE is a wholly-owned subsidiary of the Vendor.

The simplified shareholding structure of the Target Group before completion of the Reorganisation is set out below:



To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the shareholders of Zhongyan E-commerce (other than Xin Yunlian Digital) and Xin Yunlian Advertising (other than Xin Yunlian Cloud) are independent of the connected persons of the Company.

The post-Completion guarantee

(1) Reorganisation cost

The Acquisition Consideration shall not cover any unpaid consideration (the "**Reorganisation Consideration**") payable by the WFOE for the Reorganisation. The Vendor and the Vendor Guarantor jointly undertook that they shall pay an amount equal to the Reorganisation Consideration to the Purchaser on (i) the due date of the Reorganisation Consideration or (ii) within three years after the Completion Date, whichever is earlier.

If the Reorganisation Consideration is not paid to the Purchaser on time, the principal amount of the Convertible Notes shall be reduced by an amount equal to the Reorganisation Consideration.

(2) Profit guarantee

The Vendor undertook that the audited consolidated net profit of the Target Group (excluding extraordinary gain and gain on merger and acquisition, which, for the avoidance of doubt, are the only items which will be excluded) for the five years ending 31 December 2024 in aggregate shall be not less than RMB153 million (equivalent to approximately HK$167.5 million) (the "**Guaranteed Profit**"). The Vendor represents that the aggregate consolidated net profit of Xin Yunlian Digital and Xin Yunlian Cloud (excluding extraordinary gain and gain on merger and acquisition) for the five years ending 31 December 2024 is expected to be not less than RMB300 million (equivalent to approximately HK$328.4 million) after negotiation among the parties.

The Board considers such representation by the Vendor to be fair and reasonable on the following basis:

(a) The amount of RMB300 million above was arrived at with reference to the assessment and the result of the profit and cash flow forecast of the Target Group;

(b) given the expected growth of the Target Group, the cost control measures as disclosed in the section headed "(iv) Control measures" in this circular and the costs expected to be saved as disclosed under that section, the Company expects to achieve a turnaround of the Target Group and to deliver profits arising from the expected synergy;

(c) while there is a non-controlling interest in the Target Group, the Target Company has a 51% interest in each of Xin Yunlian Digital and Xin Yunlian Cloud and consolidates their income, and in the case of Xin Yunlian Digital, its income will be in the form of dividend distributed by Zhongyan E-commerce if any dividend is declared by Zhongyan E-commerce; and

(d) with the PRC economy starting to recover and the measures that the Chinese government is expected to roll out to encourage domestic consumption, it is expected that the business and profitability of the Target Group would benefit substantially.

If the actual audited consolidated net profit of the Target Group (excluding extraordinary gain and gain on merger and acquisition, which, for the avoidance of doubt, are the only items which will be excluded) for the five years ending 31 December 2024 in aggregate (the "**Actual Profit**") falls short of the Guaranteed Profit, the Vendor will make up the shortfall to be determined in the manner set out below:

Reduction Amount = (A-B) x 1.2

A = the Guaranteed Profit

B = the Actual Profit

For the avoidance of doubt, if Actual Profit is less than or equal to zero, i.e. the Target Group will be not making profit or making a loss, B will equal to zero. In the case of B being equal to zero, the Reduction Amount would be RMB 183.6 million (equivalent to approximately HK$201.0 million). This maximum Reduction Amount represents approximately 55.8% of the Acquisition Consideration.

The Board takes the view that while the maximum Reduction Amount represents approximately 55.8% of the Acquisition Consideration, there is safeguard on the balance of the Acquisition Consideration and the profit guarantee is fair and reasonable on the following reasons:

(a) through the Acquisition, the Company will have a readily available platform with the exclusive endorsement from CNTC to carry out non-tobacco transactions with the Licensed Retailers and a potential borrower pool which the Group would otherwise have to incur considerable costs that would likely exceed 44.2% of the Acquisition Consideration (which is the balance of the Acquisition Consideration after deducting the maximum Reduction Amount therefrom) to establish and develop organically. In addition, it would be highly unlikely that the Company will be granted an endorsement from CNTC even if the Company sets up a similar platform. Without such endorsement, it would be difficult to attract Licensed Retailers to the platform.

(b) The platform provided by the Target Group and the potential borrower pool would bring about synergy to, and hence enhance, the existing financing business of the Group in the PRC.

The Board considers that there is sufficient safeguard as follows to ensure the Vendor to honour its obligations under the profit guarantee arrangement:

(a) the Vendor is a company wholly owned by the Vendor Guarantor on behalf of Wangxin Technology and Wangxin Technology is the 49% holder in each of Xin Yunlian Digital and Xin Yunlian Cloud. Therefore, the Vendor has vested interest that is aligned with that of the Company. It can be expected to cooperate with the Company to maximize the profits of each of Xin Yunlian Digital and Xin Yunlian Cloud;

(b) the Vendor is subject to the lock-up on the New Shares and the Convertible Notes to the extent of the Guaranteed Profit and the related sale proceeds and set-off can be applied to satisfy the guarantee; and

(c) in the event that the Vendor fails to honour its obligations, the Company would resort to the claims against the Vendor Guarantor who would be jointly liable with the Vendor in accordance with the terms and conditions of the Acquisition Agreement.

The principal amount of the Convertible Notes shall be reduced by an amount equal to the Reduction Amount within 90 days from the date when the parties confirm such Reduction Amount or any other time as the parties may mutually agree (the "**Reduction Date**").

The outstanding principal amount of, and the interest accrued on, the Convertible Notes held by the Vendor will be reduced by the Reduction Amount.

When considering the mechanism of the profit guarantee, the Directors took into consideration among other things, (i) the profit guarantee mechanism of acquisition transactions previously carried out by the Group; and (ii) the arm's length negotiations with the Vendor.

The Group had carried out two acquisitions in 2016 and 2017 with both target companies engaging in financial services in the PRC. In both transactions, profit guarantees offered to the Group was 1.2 times the actual profit shortfall against the guaranteed profit. After negotiating with the Vendor, the Directors considered that applying 1.2 times compensation on the shortfall profit would be appropriate.

The Company will publish further announcements in a timely manner to inform Shareholders of the fulfillment of the profit guarantee and where applicable, the Company's action upon non-fulfillment failure of the profit guarantee.

Incentive payment

To incentivize the Vendor to contribute in the development of the Target Group after Completion, the Company has agreed to issue the Vendor the Incentive Notes or pay the Vendor in cash at the request of the Vendor in the following events:

(a) In the event that the Actual Profit shall exceed the Guaranteed Profit and shall be less than RMB255 million (equivalent to approximately HK$279.1 million), the Company shall pay to the Vendor in cash, or issue to the Vendor the Incentive Notes, in the amount equal to 80% of the difference between the Actual Profit and the Guaranteed Profit;

(b) In the event that the Actual Profit shall be equal to or shall exceed RMB255 million (equivalent to approximately HK$279.1 million) and shall be less than RMB408 million (equivalent to approximately HK$446.6 million), the Company shall pay to the Vendor in cash, or issue to the Vendor the Incentive Notes, in the aggregate amount of (i) 80% of the difference between RMB255 million (equivalent to approximately HK$279.1 million) and the Guaranteed Profit, and (ii) 50% of the difference between the Actual Profit and RMB255 million (equivalent to approximately HK$279.1 million); and

(c) In the event that the Actual Profit shall be equal to or shall exceed RMB408 million (equivalent to approximately HK$446.6 million), the Company shall pay to the Vendor in cash, or issue to the Vendor the Incentive Notes, in the aggregate amount of (i) 80% of the difference between RMB255million (equivalent to approximately HK$279.1 million) and the Guaranteed Profit, (ii) 50% of the difference between RMB408 million (equivalent to approximately HK$446.6 million) and RMB255 million (equivalent to approximately HK$279.1 million); and (iii) 20% of the difference between the Actual Profit (subject to a cap of RMB612 million (equivalent to approximately HK$669.9 million)) and RMB408 million (equivalent to approximately HK$446.6 million).

The benchmarks of the incentive payment are determined on the following basis and the Board considers the arrangement fair and reasonable:

(i) The profit thresholds of RMB 255 million, RMB408 million and RMB612 million are arrived at after arms-length negotiation among the parties based on the different levels of better than expected growth of the business at growth rates ranging from two times to over three times the existing projected growth rate.

(ii) As for the profit-sharing ratio of 80%, 50% and 20%, it has been negotiated and agreed upon among the parties that the lower level of profit of RMB255 million in event (a) is more likely to be attributable to the efforts of the legacy of the operation of the Target Group pre-Acquisition, and hence the Vendor would have a higher profit-sharing ratio.

(iii) At a higher profit threshold of RMB408 million in event (b) or RMB612 million in event (c), the parties agreed that it would only be achieved because of the management and involvement by the Company in the Target Group post-Acquisition, and hence the Vendor would have a descending profit-sharing ratio.

(iv) The Company will control the Target Group post-Acquisition and has every interest to maximize the profit of the Target Group The Company does not need any incentive offered by the Vendor to further that aim. The Vendor is not in a position, and will not be allowed, to hinder the growth of the Target Group because of its higher profit-sharing ratio at a lower profit level in the determination of the incentive payment.

The Target Company will be wholly owned by the Company upon Completion. The payment of incentive payment by the Company instead of the Target Company is mainly a result of arms-length negotiation. The Vendor and the Company have agreed that, against the background of the unforeseen spread of COVID-19 which led to the decrease in the valuation of the Target Group, the Vendor should be afforded an opportunity to enjoy the benefit of the future recovery of the Target Group by way of the incentive payment to be made by the Company. Payment by the Target Group to Wangxin Technology is by way of dividend distribution, which is directly linked to the financial performance of the Target Group in its normal course of business which does not have any incentive element. There will not be immediate cash outflow as the payment will be settled in the form of the Incentive Notes.

Given the decrease in the valuation of the Target Group due to the unforeseen spread of COVID-19, the Vendor could have declined to proceed with the Acquisition and waited to sell the Target Group after the recovery from the COVID-19 at a much higher valuation. The Board considers the E-Commerce Platform and its attendant potential borrowers pool essential for the future development of the financing business of the Group. To secure the E-Commerce Platform at an earlier stage, the Company therefore agreed to the Vendor's term to put in place the incentive payment arrangement to afford the Vendor the opportunity to enjoy the benefit of the recovery of the Target Group.

The incentive payment does not form part of the Acquisition Consideration, as incentive payment is in substance a profit-sharing mechanism based on the ordinary and usual course of business of the Target Group.

It would only be triggered upon the fulfillment of certain conditions. If the incentive payment is added to the Acquisition Consideration, the maximum amount payable by the Company would be approximately HK$449,316,000 in the case of event (a), HK$533,050,000 in the case of event (b) or HK$577,708,000 in the case of event (c). The inclusion of the principal amount of the Incentive Notes to the Acquisition Consideration will not affect the classification of the Acquisition under Chapter 14 of the Listing Rules.

The Company is advised by the reporting accountant that the contingent payable for the incentive payments was considered and evaluated by the Valuer for the purposes of preparing the pro forma financial information. According to the mechanism of the profit guarantee under the section headed "(2) Profit guarantee" in this circular (which would constitute contingent receivables) and the incentive payment under this section (which would constitute contingent payables), the calculation of the contingent receivable or payable is based on the actual aggregate profit attributable to the owners of the Target Group in the event that there is a shortfall or excess to the Guaranteed Profit. As disclosed on pages VI-5 and VI-6 of this circular, the combined effect of the profit guarantee and the incentive payments resulted a contingent receivable of HK$1,643,000. The net effect of contingent receivable and contingent payable is classified as financial asset at fair value through profit or loss, and subject to fair value change in the coming financial periods.

The terms of the Incentive Notes will be the same as those of the Convertible Notes (except the principal amount and the right to convert the Incentive Notes any time after the issue date of the Inventive Notes). Based on the initial conversion price of HK$1.0 per Share and the exchange rate as of the Latest Practicable Date:

(i) in the event in (a) above, approximately 89,316,000 Shares will be allotted and issued upon exercise of the conversion rights attaching to the Incentive Notes in full, representing approximately 1.29% of the issued share capital of the Company as at the Latest Practicable Date; and approximately 1.11% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares, the New Shares, the Consideration Shares and the new Shares to be issued under the Incentive Notes;

(ii) in the event of (b) above, approximately 173,050,000 Shares will be allotted and issued upon exercise of the conversion rights attaching to the Incentive Notes representing approximately 2.50% of the issued share capital of the Company as at the Latest Practicable Date; and approximately 2.12% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares, the New Shares, the Consideration Shares and the new Shares to be issued under the Incentive Notes; and

(iii) in the event of (c) above, approximately 217,708,000 Shares will be allotted and issued upon exercise of the conversion rights attaching to the Incentive Notes, representing approximately 3.14% of the issued share capital of the Company as at the Latest Practicable Date; and approximately 2.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares, the New Shares, the Consideration Shares and the new Shares to be issued under the Incentive Notes.

The aggregate nominal value of the new Shares to be issued under the Incentive Notes (with a par value of HK$0.001 each) will be HK$217,708:

The issue of the Incentive Notes and allotment and issue of new Shares under the Incentive Notes are subject to the Specific Mandate to be sought at the SGM.

Completion

Completion is expected to take place on the Completion Date.

Upon the Completion, the Group will be interested in the entire issued share capital of the Target Company, and the Target Company will become an indirect wholly-owned subsidiary of the Company. The financial results of the Target Group will be consolidated into the accounts of the Group.

THE CONVERTIBLE NOTES

The principal terms of the Convertible Notes are summarized as follows:

Issuer:	The Company
Issue Date:	The date on which the Company issues the Convertible Notes in the initial principal amount stated on the certificate to the Noteholder pursuant to the Acquisition Agreement (the "**Issue Date**")
Principal amount:	HK$ 200 million

Maturity date:	The date falling on the fifth anniversary of the Issue Date (the "**Maturity Date**")
Interest rate:	The interest rate is nil for the period commencing upon the Issue Date and expiring on the first anniversary of the Issue Date. The interest rate is 1% per annum for the period commencing from the first anniversary of the Issue Date and expiring on the second anniversary of the Issue Date. The interest rate is 4% per annum for the period commencing from the second anniversary of the Issue Date and expiring on the third anniversary of the Issue Date. The interest rate is 6% per annum for the period commencing from the third anniversary of the Issue Date and expiring on the Maturity Date. The interest accrued on the Convertible Notes will be payable on the Maturity Date
Conversion period:	The Convertible Notes in the principal amount of the Guaranteed Profit cannot be converted until the Reduction Date under the section headed "(2) Profit guarantee" in this circular. Subject to the aforesaid, from the third anniversary of the Issue Date up to the day immediately before the fifth anniversary of the Issue Date, up to 30% of the principal amount of each Convertible Note can be converted. On the Maturity Date, the holder has the right to convert the outstanding principal amount of each Convertible Note in full (the "**Conversion Period**")

Conversion rights:	The holders shall have the right to convert on any Business Day during the Conversion Period, the whole or any part (in multiples of HK$1,000,000) of the outstanding principal amount of the Convertible Notes into Shares at any time and from time to time at the Conversion Price provided that such part of the principal amount of the Convertible Notes has not previously been converted, early redeemed, purchased or cancelled. The Convertible Notes are subject to restrictions such that upon the conversion, (i) the Company would meet the public float requirements prescribed under the Listing Rules, and (ii) the Vendor and his respective associates, together with any parties acting in concert (as defined in the Takeovers Code) with them, will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code, unless (a) such conversion is permissible under the Takeovers Code following the application by the holder of the Convertible Notes and granting by the Executive (as defined in the Takeovers Code) of a whitewash waiver and the approval of the Shareholders in this regard; or (b) such holder of the Convertible Notes has fulfilled sufficient financial resources to make a general offer pursuant to Rule 26 of the Takeovers Code.
Conversion Price:	The conversion price of the Convertible Notes shall be HK$1.0 per Conversion Share, subject to adjustment as set out in accordance with the terms and conditions of the Convertible Notes. As at 31 December 2019, the audited net assets value per Share of the Company was HK$0.065 (the "**NAV per Share**"). The initial Conversion Price represents a premium of approximately 1,438% over the NAV per Share.

Adjustment to Conversion Price:

The Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions, subject to the terms of the Convertible Notes:

(i) If and whenever (x) there is any consolidation or sub-division of the Shares or (y) the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the total number of Shares immediately after the consolidation, sub-division or issue of Shares by way of capitalisation; and

B = the total number of Shares immediately before the consolidation, sub-division or issue of Shares by way of capitalisation.

(ii) If and whenever the Company shall after the date of issue of the Convertible Notes offer to holders of Shares as a class new Shares for subscription by way of rights, or shall grant to holders of Shares as a class any options, warrants or other rights to subscribe for or purchase any Shares, in each case at a price per Share which is less than 95 per cent. of the Current Market Price (as defined in the terms of the Convertible Notes) at the date of announcement of the terms of offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of announcement of such offer or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of announcement;

B = the number of Shares which the aggregate amount (if any) payable for the rights, options or warrants and for the total number of new Shares being offered for subscription or comprised therein would purchase at the Current Market Price at the Trading Day immediately preceding the date of announcement of the terms of offer or the grant; and

C = the aggregate number of Shares offered or to be offered or comprised in the options or warrants or other rights.

(iii) If and whenever the Company (at the direction or request of or pursuant to any arrangements with the Company) or any of its subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the Total Effective Consideration per Share (as defined below) initially receivable for such securities is less than 95 per cent. of the Current Market Price at the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of the issue;

B = the number of Shares which the Total Effective Consideration receivable for the securities issued would purchase at the Current Market Price at the Trading Day (as defined in the terms of the Convertible Notes) immediately preceding the date of announcement of the terms of issue of such securities; and

C = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities, at the initial conversion or exchange rate or subscription price.

(iv) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in the above paragraph (iii) are modified so that the Total Effective Consideration per Share initially receivable for such securities shall be less than 95 per cent. of the Current Market Price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such modification;

B = the number of Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at the Current Market Price at the Trading Day immediately preceding the date of announcement of the proposal to modify such rights of conversion or exchange or subscription; and

C = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the modified conversion or exchange rate or subscription price.

For the purposes of the above paragraphs (iii) and (iv), the "Total Effective Consideration" receivable for the securities issued shall be deemed to be the consideration receivable by the Company or (at the direction or request of or pursuant to any arrangements with the Company) or any of its subsidiaries for any such securities plus the additional minimum consideration (if any) to be received by the Company or (at the direction or request of or pursuant to any arrangements with the Company) or any of its subsidiaries upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate, ratio or price or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

(v) If and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than 95 per cent. of the Current Market Price at the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of announcement by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of announcement;

B = the number of Shares which the aggregate consideration receivable for the issue would purchase at the Current Market Price at the Trading Day immediately preceding the date of announcement of the terms of such issue; and

C = the number of Shares so issued or to be issued.

(vi) If and whenever the Company shall issue the Shares for the acquisition of asset at a Total Effective Consideration (as defined below) per Share which is less than 95 per cent. of the Current Market Price at the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying it by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of announcement of such acquisition;

B = the number of Shares which the Total Effective Consideration would purchase at the Current Market Price at the Trading Day immediately preceding the date of announcement of the terms of such issue; and

C = the number of Shares to be issued in connection with such acquisition.

For the purpose of this paragraph (vi), the "Total Effective Consideration" shall be the fair value of the asset(s) to be acquired, such value to be determined by the independent accountant or approved financial adviser as selected by the Company, and the "Total Effective Consideration per Share" shall be the Total Effective Consideration divided by the number of Shares issued as aforesaid.

(vii) If and whenever the Company shall issue any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares for the acquisition of asset at a Total Effective Consideration per Share (as defined below) initially receivable for such securities is less than 95 per cent. of the Current Market Price at the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying it by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of announcement of such acquisition;

B = the number of Shares which the Total Effective Consideration would purchase at the Current Market Price at the Trading Day immediately preceding the date of announcement of the terms of such issue; and

C = the number of Shares to be issued upon full conversion or exchange of, or the exercise of the subscription rights conferred by, such securities to be issued in connection with such acquisition, at the initial conversion or exchange rate, ratio or price or subscription price.

For the purpose of this paragraph (vii), the "Total Effective Consideration" shall be the fair value of the asset(s) to be acquired, such value to be determined by the independent accountant or approved financial adviser as selected by the Company, and the "Total Effective Consideration per Share" shall be the Total Effective Consideration divided by the number of Shares issued upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights as aforesaid.

Notwithstanding the provisions of the above paragraphs (i) to (vii), in any circumstances where the directors of the Company or the Noteholder shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions, the Company may appoint the independent accountant or approved financial adviser as selected by the Company to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such independent accountant or approved financial adviser as selected by the Company shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including without limitation making an adjustment calculated on a different basis) as shall be certified by such independent accountant or approved financial adviser selected by the Company to be in its opinion appropriate.

Conversion Shares: Based on the initial Conversion Price of HK$1.0 per Conversion Share, 200 million new Shares will be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes in full.

The Conversion Shares represent

(i) approximately 2.89% of the existing issued share capital of the Company as at the Latest Practicable Date;

(ii) approximately 2.81% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares only; and

(iii) approximately 2.44% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares, the New Shares and the Consideration Shares and the new Shares to be issued under the Incentive Notes.

The aggregate nominal value of the Conversion Shares (with a par value of HK$0.001 each) will be HK$200,000.

The issue of the Convertible Notes and allotment and issue of the Conversion Shares will not result in a change of control of the Company and are subject to the Specific Mandate to be sought at the SGM.

As shown in the section headed "EFFECT ON THE SHAREHOLDING STRUCTURE" in this circular, the conversion of the Convertible Notes in full would not result in the public float of the Company falling below the minimum requirement under Rule 8.08 of the Listing Rules.

Redemption:

(i) Redemption on the Maturity Date

The Company shall redeem the Convertible Notes by repaying the holder(s) of the Convertible Notes all outstanding principal amount with all accrued and unpaid interest (if any) on the Maturity Date;

(ii) Redemption at the option of the Company

The Company shall have a right (the "**Early Redemption Right**") to redeem the Convertible Notes at any time after the Issue Date, prior to the fourth anniversary of the Issue Date. The Early Redemption Right may be exercised to redeem the Convertible Notes in respect of the whole or any part (in multiples of HK$1,000,000) of the outstanding principal amount of the Convertible Notes, provided that such part of the principal amount of the Convertible Notes to be early redeemed has not previously been converted, purchased, early redeemed or cancelled.

To exercise the Early Redemption Right, the Company shall give the holder a prior written notice at least 10 Business Days before the redemption (the "**Early Redemption Date**").

The redemption money payable by the Company for early redemption of the Convertible Notes shall be 100% of the outstanding principal amount of the Convertible Notes to be redeemed.

If any Conversion Share is due to be allotted and issued by the Company on the Early Redemption Date as a result of the exercise of the Conversion Rights, the Company shall, on the holder's behalf, first apply so much of the redemption money in subscribing for the new Conversion Shares as is available, and only the remaining balance of the redemption money shall be payable to the Noteholder on the Early Redemption Date.

Transferability: The Convertible Notes in the principal amount of the Guaranteed Profit are not transferable until the Reduction Date under the section headed "(2) Profit guarantee" in this circular. Subject to the aforesaid, the Convertible Notes may be assigned or transferred at any time by the holder (the principal amount of such Convertible Notes in aggregate subject to the cap of the amount equal to the difference between HK$200 million and the Guaranteed Profit), provided such assignment or transfer shall also be in compliance with the terms and conditions of the Convertible Notes and further subject to (where applicable) the conditions, approvals, requirements and any other provisions of or under:

(i) the Stock Exchange (and any other stock exchange on which the Shares may be listed at the relevant time) or its rules and regulations; and

(ii) the Listing Rules and all applicable laws and regulations.

Voting rights: Holders of the Convertible Notes shall not be entitled to attend or vote at any meetings of the Company by reason only of it being a holder of the Convertible Notes.

Listing: No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange.

	The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares to be allotted and issued upon exercise of the conversion rights attached to the Convertible Notes.
Ranking:	The Conversion Shares will, when allotted and issued, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue.
Events of default:	After the occurrence of an event of default as specified in the terms and conditions of the Convertible Notes, a holder of the Convertible Notes may give notice to the Company that the Convertible Notes are immediately due and payable.

Conversion Price

The initial Conversion Price of HK$1.00 per Conversion Share represents:

(i) a premium of approximately 415.5% over the closing price of HK$0.194 per share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a premium of approximately 410.2% over the closing price of HK$0.196 per Share as quoted on the Stock Exchange as at the date of the Acquisition Agreement;

(iii) a premium of approximately 405.1% over the average closing price of approximately HK$0.1980 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to the date of the Acquisition Agreement; and

(iv) a premium of approximately 404.0% over the average closing price of approximately HK$0.1984 per Share as quoted on the Stock Exchange for the six-month period from 16 May 2019 to the Last Trading Day (the "**Reference Period**").

The initial Conversion Price was determined after arm's length negotiation between the Company and the Vendor with reference to, among others, the average closing prices of the Shares during the Reference Period. The Directors consider that the Conversion Price is fair and reasonable.

During the arm's length negotiation between the Company and the Vendor, the Vendor agreed to provide a guaranteed profit of the Target Group of RMB153 million. Taking into account the average closing price of approximately HK$0.198 per Share during the Reference Period and the Conversion Period and factoring in a multiple of 5, the Company agreed on an initial Conversion Price be HK$1.0 per Conversion Share with the Vendor.

THE NEW SHARES

An amount of HK$160 million out of the Acquisition Consideration will be settled by the issue of the New Shares at the Issue Price on Completion. The New Shares will be subject to a lock-up for a period commencing on the issue date and ending on the day immediately before the first anniversary of the issue date.

The Issue Price of HK$0.2 per New Share represents:

(i) a premium of approximately 1.0% over the closing price of HK$0.1980 per Share as quoted on the Stock Exchange as at the date of the Acquisition Agreement;

(ii) a premium of approximately 1.0% over the average closing price of approximately HK$0.1980 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to the date of the Acquisition Agreement; and

(iii) a premium of approximately 0.8% over the average closing price of approximately HK$0.1984 per Share as quoted on the Stock Exchange for the Reference Period.

The Issue Price was determined after arm's length negotiation between the Company and the Vendor with reference to, among others, the average closing prices of the Shares during the Reference Period. The Directors consider that the Issue Price is fair and reasonable. The Issue Price reflects the market price of the Shares, which would be the reference price at which the Company would place new Shares to investors. On the contrary, as is typical for a convertible instrument, the Conversion Price is set at a premium to the market price of the Shares so as to make conversion desirable over the Conversion Period only if the Shares experience a significant increase in value. The Issue Price represents a premium of approximately 207% over the NAV per Share.

The New Shares represent

(i) approximately 11.55% of the existing issued share capital of the Company as at the Latest Practicable Date; and

(ii) approximately 9.77% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares, the New Shares, the Consideration Shares and the new Shares to be issued under the Incentive Notes.

The allotment and issue of the New Shares is subject to the Specific Mandate to be sought at the SGM.

AMENDMENT OF THE TERMS OF THE ACQUISITION

The terms of the Acquisition have been amended as announced on 29 June 2020. The reasons for the amendments are outlined below.

The Reduction in the Acquisition Consideration

The reduction in the Acquisition Consideration has resulted from the reduction in the valuation of the Target Group.

The initial valuation was conducted in October 2019 before the outbreak of the COVID-19. The revised valuation has taken into account of the impact of the outbreak. It has not taken into account the incentive payment as set out in the section headed "**The post-Completion guarantee**" in this circular.

For the revised valuation (as set out in more detail in the section headed "**Basis for determination of the Acquisition Consideration – (4) Valuation**" in this circular), the Valuer has lowered the growth rate in the total number of applicants for the financing services provided by the Target Group on the basis that there will be significant change in the market penetration percentage of the marketing campaign. With the outbreak, the business of the Licensed Retailers has been, and would be, adversely affected by the reduced customer traffic, decreased inventory turnover (and need for replenishment) and disrupted transport and logistics.

For the initial valuation and the revised valuation, the Board has considered each factor that goes into the determination of the cash flow and the discount rate, and the downward adjustment in the market penetration percentage and the growth rate in the applicants. The Board considered the changes reasonable.

A comparison between the factors taken into account in the initial valuation and the revised valuation is set out in Appendix X.

The Amendment to the Settlement Terms

(1) The Vendor's position

From the Vendor's perspective, the Vendor considers that the Target Group is worth more than HK$360 million (being the Acquisition Consideration) and is confident about a higher growth rate in the applicants for the financing services provided by the Target Group despite the outbreak. The Vendor's position is that if it were to accept a lower valuation of the Target Group, it would ask for a combination of cash payment, the Convertible Notes and the opportunity to participate in the growth in the business of the Target Group.

As disclosed in the section headed "INFORMATION ON THE VENDOR" in the circular, the Vendor is a company wholly owned by the Vendor Guarantor on behalf of Wangxin Technology. Wangxin Technology is the 49% holder in each of Xin Yunlian Digital and Xin Yunlian Cloud. It contributes to the development of the business of the Target Group by maintaining a long-standing cooperative relationship with the CNTC, which is conducive to attracting the Licensed Retailers to become registered users of the E-commerce Platform.

(2) The Company's position

(i) The New Shares

With a cash portion, the Company would have to raise the funds by placing new Shares to investors at the market price. The Issue Price reflects the market price of the Shares. But the completion risk of the Acquisition will be increased as the placing may not be successful. To minimize the completion risk, the Company has therefore considered the issue of the New Shares at the Issue Price.

(ii) The Incentive Notes

The incentive payment will allow the Vendor to participate in the growth of the business. It is in the interest of the Company to incentivize the Vendor to help develop the business of the Target Group by way of an earn-out in the form of the Incentive Notes.

(iii) Profit guarantee

To adjust to the impact of the COVID-19 on the business of the Licensed Retailers and hence that of the Target Group, the profit guarantee period is adjusted from three years to five years. The extension of the profit guarantee period is intended to reflect the downward adjustment in the market penetration percentage and the growth rate in the applicants in the valuation. As the growth of the Target Group is predicted to slow down, the Board considers it fair and reasonable to extend such profit guarantee period with the same profit target.

(3) The Board's view

The rationale behind the Board's decision to proceed with the Acquisition despite the drop in valuation is that the Target Group presents the Group a readily available platform and a potential borrower base of the Licensed Retailers that has the endorsement by the CNTC. The endorsement by CNTC is critical to drawing the Licensed Retailers to the E-Commerce Platform. Even if the Company has plans to set up the infrastructure, it would be highly unlikely for the Company to be granted an endorsement from CNTC. Without such endorsement, it would be difficult to attract Licensed Retailers to the platform. Even with an endorsement by CNTC, the Company estimates that it would have to incur over 44.2% of the Acquisition Consideration (which is the balance of the Acquisition Consideration after deducting the maximum Reduction Amount therefrom as set out in the section headed "(2) Profit guarantee" in this circular) to develop the E-Commerce Platform organically.

The Board also takes the view that it is the right timing to proceed with the Acquisition for the following reasons:

(a) The reduction in the valuation presents an opportunity to acquire the same platform that has the endorsement of the CNTC and tap into its existing user base pool at a lower price, with the prospect of the economic recovery and the considerable growing demand for the financing services of the Target Group. With the experience and management of the Group in the financing business, such a broad user base is expected to be converted into a meaningful potential borrower pool.

(b) The PRC government has announced its intention to support micro and small sized enterprises by way of encouraging the financing industry to provide related financial support. It has announced《國務院關於促進融資擔保行業加快發展的意見》國發[2015] 43號)(Opinions of the State Council on Promoting the Accelerated Development of the Financing Guarantee Industry (No. 43 [2015], State Council)*) and《國務院辦公廳關於有效發揮政府性融資擔保基金作用切實支援小微企業和「三農」發展的指導意見》(國辦發[2019] 6號) (Guiding Opinions of the General Office of the State Council on Effectively Bringing into Play the Role of Government-backed Financing Guarantee Funds and Effectually Supporting the Development of Micro and Small sized Enterprises and "Agriculture, Rural Areas and Farmers" (No. 6 [2019] of the General Office of the State Council)*). With the Acquisition, the Company will be in a position to benefit from the government policy with a view to bringing synergy between the Target Group and its financing business that targets the Licensed Retailers which are mostly micro and small-sized enterprises. The loan referral business of the Target Group would also benefit from the support by the government of the financing in relation to the micro and small-sized enterprises.

From the Company's perspective and as stated in the section headed "**REASONS FOR AND BENEFITS OF THE ACQUISITION**" in this circular, the Company considers the Acquisition a valuable opportunity to grow its lending business in the PRC. This is a segment that accounted for around 40 % of the Company's total revenue in 2019 and has been managed by the executive directors of the Company. The E-Commerce Platform is an on-line B2B website that connects the Licensed Retailers with the suppliers and manufacturers. Zhongyan E-commerce is not involved in the sourcing, purchase and sales of any product. The current management team of Zhongyan E-commerce will be retained after Completion and will work closely with the management of the Company.

The Board considers that the issue of the New Shares and the Incentive Notes is a reasonable and fair solution to bridge the gap between the expectation of the Company and that of the Vendor having weighed the strategic value of the Acquisition against the dilution effect of the issue of additional Share.

As a safeguard, the Shareholders are entitled to consider whether to approve in the SGM the Specific Mandate for the allotment and issue of the Conversion Shares, the New Shares and Shares to be issued under the Incentive Notes.

On how the Vendor will pay the shortfall under the profit guarantee, the Board is of the view that the revised arrangement is in the interest of the Company and the Shareholders for the following reasons:

(a) Under the revised settlement terms, there is no cash element in the consideration for the Acquisition. The set-off against the outstanding amount under the Convertible Notes due from the Company to the Vendor has the same effect of a return of cash payment by the Purchaser to the Company.

(b) With the alternative of repurchase of any of the New Shares, there is uncertainty as to the repurchase price. With the sale of the New Shares, there will be overhang on the price of the Shares on the market.

THE CONSULTANCY AGREEMENT

Under the Consultancy Agreement, the Consultant has agreed to provide consultancy service to the Company in relation to the Acquisition Agreement and the transactions contemplated thereunder.

The Consultant has been engaged in investment related work with broad experiences in merger and acquisition and deep knowledge of the PRC tobacco market. The Consultant provides business consultancy on the tobacco sector and due diligence support to the Company in the Acquisition, including assistance in the negotiation with the Vendor, and collecting and analysing necessary information for due diligence purposes.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Consultant was Independent Third Party and did not hold any Shares or other convertible securities in the Company as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Consultant was independent of the Vendor Guarantor or the ultimate beneficial owners of Wangxin Technology as at the Latest Practicable Date.

Consultancy Fee

The Consultancy Fee shall be HK$10 million which shall be settled by the Company by way of issuing the Consideration Shares at the Issue Price under the Specific Mandate (to be sought at the SGM) to the Consultant or any company wholly-owned by the Consultant within seven Business Days after the satisfaction of the following conditions:

(i) the entering into of the Acquisition Agreement by the Company, the Purchaser, the Vendor and the Vendor Guarantor;

(ii) the Shareholders having duly passed the resolutions to approve the Consultancy Agreement, the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Notes and the Incentive Notes;

(iii) the Company having obtained all necessary approvals, authorisations, consents and permits from the Stock Exchange (including but not limited to the unconditional approval for the allotment and issue of the Consideration Shares and the Conversion Shares); and

(iv) completion of the Acquisition.

The Board considers that the Consultancy Fee payable to the Consultant is proportionate to the support and expertise brought by the Consultant in connection with the Acquisition which the Company would not otherwise have. The Directors consider that the settlement of Consultancy Fee by issuing the Consideration Shares to the Consultant is fair and reasonable as it preserves cash resources for the Company.

Profit guarantee

The Consultant undertook that if the Actual Profit falls short of the Guaranteed Profit, the Consultant irrevocably assigns the Company to sell the Consideration Shares, and the sale proceeds will be applied to compensate the Company for the shortfall.

The Consultant has irrevocably undertaken to the Company that the Consultant will not sell, transfer or dispose of the Consideration Shares (i) within five years after the issue of the Consideration Shares; or (ii) until the profit guarantee requirement as stipulated under the Consultancy Agreement is satisfied, whichever is later.

The Consultant has not participated in the management of the Target Group and is not expected to participate in the management of the Target Group after the Acquisition.

EFFECT ON THE SHAREHOLDING STRUCTURE

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of the New Shares and the Consideration Shares, assuming no conversion of the Convertible Notes and the Incentive Notes and no exercise of options granted by the Company and (iii) immediately after the issue of the New Shares and the Consideration Shares and the full conversion of the Convertible Notes and the Incentive Notes, assuming no exercise of options granted by the Company:

	(i) as at the Latest Practicable Date		(ii) immediately after the issue of New Shares and the Consideration Shares		(iii) immediately after the issue of New Shares, the Consideration Shares and full conversion of the Convertible Notes		(iv) immediately after the issue of New Shares, the Consideration Shares, full conversion of the Convertible Notes and the Incentive Notes (in the case of event (a) under the section headed "Incentive payment")		(v) immediately after the issue of New Shares, the Consideration Shares, full conversion of the Convertible Notes and the Incentive Notes (in the case of event (b) under the section headed "Incentive payment")		(vi) immediately after the issue of New Shares, the Consideration Shares, full conversion of the Convertible Notes and the Incentive Notes (in the case of event (c) under the section headed "Incentive payment")	
	No. of shares	*%*	*No. of shares*	*%*	*No. of shares*	*%*	*No. of shares*	*%*	*No. of shares*	*%*	*No. of shares*	*%*
Mr. Liu Kequan *(Note 1)*	1,447,750,000	20.91%	1,447,750,000	18.62%	1,447,750,000	18.16%	1,447,750,000	17.95%	1,447,750,000	17.77%	1,447,750,000	17.67%
Mr. Yang Dayong *(Note 2)*	614,826,000	8.88%	614,826,000	7.91%	614,826,000	7.71%	614,826,000	7.62%	614,826,000	7.55%	614,826,000	7.51%
The Vendor	0	0.00%	800,000,000	10.29%	1,000,000,000	12.54%	1,089,316,010	13.51%	1,173,049,770	14.40%	1,217,707,775	14.86%
The Consultant	0	0.00%	50,000,000	0.64%	50,000,000	0.63%	50,000,000	0.62%	50,000,000	0.61%	50,000,000	0.61%
General Shareholders	4,861,501,621	70.21%	4,861,501,621	62.53%	4,861,501,621	60.97%	4,861,501,621	60.29%	4,861,501,621	59.67%	4,861,501,621	59.35%
	6,924,077,621	100%	7,774,077,621	100%	7,974,077,621	100%	8,063,393,631	100%	8,147,127,391	100%	8,191,785,396	100%

Notes:

1. The interests are held by Eastern Spring Global Limited. Mr. Liu Kequan is the beneficial owner of the entire issued share capital of Eastern Spring Global Limited.

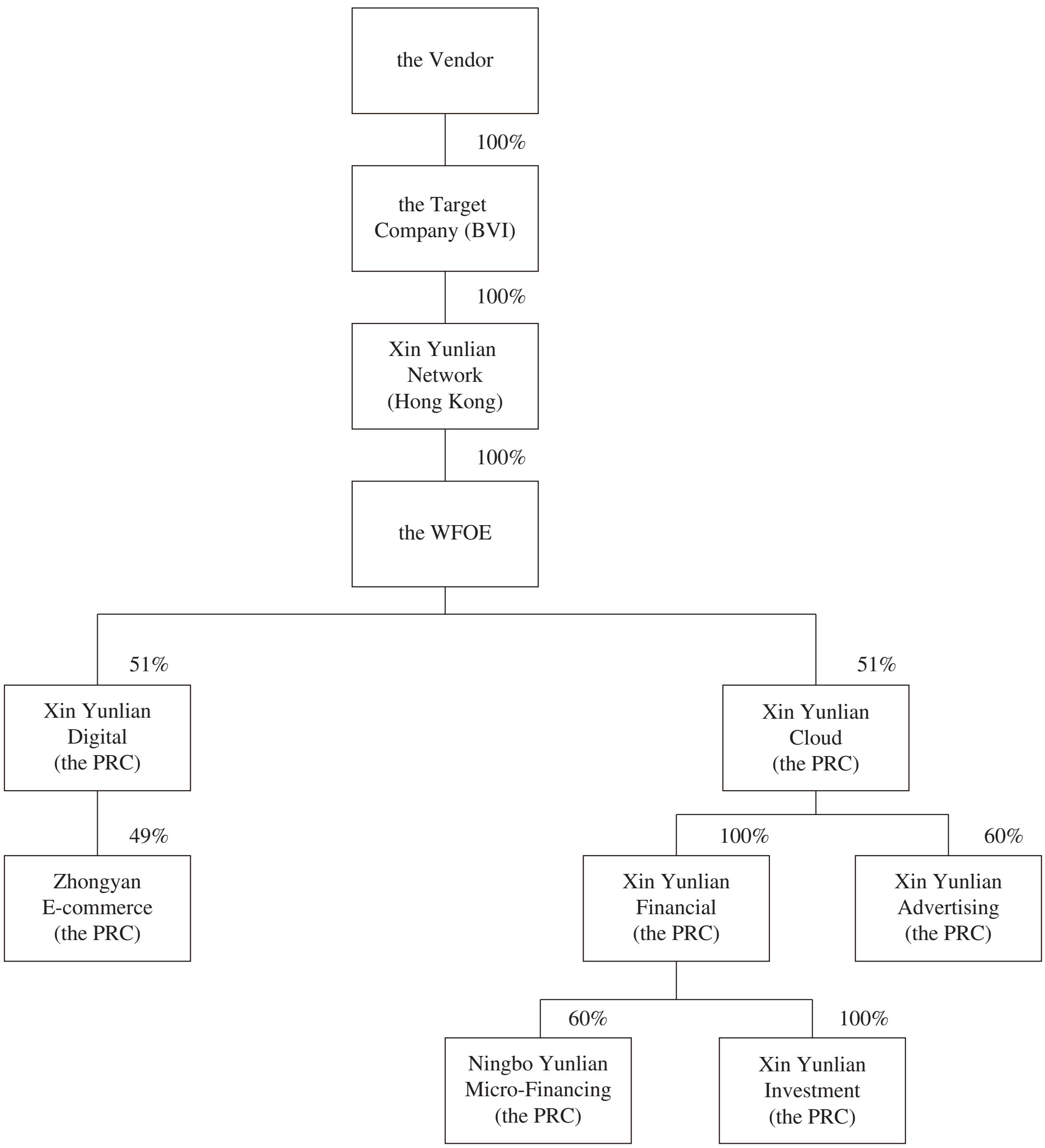
2. The interests include (i) 612,810,000 Shares held by Eternally Sunny Limited and (ii) 2,016,000 Shares held by Ms. Liang Miaoxin, being the spouse of Mr. Yang Dayong. Mr. Yang Dayong is the beneficial owner of the entire issued share capital of Eternally Sunny Limited.

3. For illustrative purpose only, based on the initial Conversion Price of HK$1.0 per Conversion Share, 200 million new Shares will be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes in full.

INFORMATION OF THE TARGET GROUP

The Target Company is established in the BVI with limited liability which principally engaged in investment holding.

The simplified shareholding structures of the Target Group immediately after the completion of the Reorganisation is set out below:



The minority shareholders of Zhongyan E-commerce, Xin Yunlian Advertising and Ningbo Yunlian Micro-Financing are set out below, and, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of these minority shareholders and their ultimate beneficial owners is independent of the Company, the Vendor and Wangxin Technology and their respective connected persons.

(a) Zhongyan E-commerce is owned as to 51% by Zhongyan Xin Shangmeng Commercial Logistics Holdings Limited Company* (中煙新商盟商務物流控股有限公司) whose principal business is investment holding;

(b) Xin Yunlian Advertising is owned as to 40% by Shanghai Yin Run Holding (Group) Limited Company* (上海銀潤控股(集團)有限公司) whose principal business is the development and management of tourism projects, financial investment, guard services, and mining; and

(c) Ningbo Yunlian Micro-Financing is owned as to 33.33% by Beijing Science and Technology Park Zhi Ye Limited Company* (北京科技園置業股份有限公司) whose principal business is property development and management, and as to 6.67% by Hainan Jin Zhi Yuan Shi Ye Limited Company* (海南錦之源實業有限公司) whose principal business is investment holding.

BUSINESS PROFILE

The principal activities of the Target Group are (1) the operation of an e-commerce platform; (2) the provision of financial services (including small business financing); and (3) the provision of advertising and related services.

(1) Operation of an E-commerce platform

Business partners

The e-commerce business is carried out by Zhongyan E-commerce. Zhongyan E-commerce is owned as to 49% by Xin Yunlian Digital and as to 51% by Zhongyan Xin Shangmeng Commercial Logistics Holdings Limited Company* (中煙新商盟商務物流控股有限公司). Xin Yunlian Digital is owned as to 51% by the Target Company.

The shareholders of Zhongyan Xin Shangmeng Commercial Logistics Holdings Limited Company* (中煙新商盟商務物流控股有限公司) are Zhongyan Commercial Logistics Limited Liability Company* (中煙商務物流有限責任公司) as to 50% and Zhejiang Zheda Wangxin Xin Yunlian E-commerce Company* (浙江浙大網新新雲聯電子商務公司) as to 50%, which hold the interest in Zhongyan E-commence on behalf of China National Tobacco Corporation ("**CNTC**") and Zhejiang University.

CNTC is the state-owned enterprise engaged in marketing, production, distribution and sale of tobacco products in China. CNTC is under the same auspice of the State Tobacco Monopoly Administration.

CNTC sells its tobacco products to retailers of consumer products across the PRC that are also licensed to distribute through their outlets tobacco products by the State Tobacco Monopoly Administration (the "**Licensed Retailers**"). As at 31 December 2019, there were 5.6 million retailers licensed by the State Tobacco Monopoly Administration. The Licensed Retailers purchase tobacco products from CNTC for their retail sale and form CNTC's retail distribution network in the PRC.

The E-commerce Platform

Zhongyan E-commerce was set up under the Strategic Cooperation Framework Agreement on Developing an E-commerce System of Non-cigarette Products* (《關於建立非煙商品的電子商務系統戰略合作框架協議》) between the People's Government of Zhejiang Province, CNTC and Zhejiang University. It is authorised by CNTC to be the sole operator of an on-line, business-to-business platform to facilitate the sourcing and purchases of consumer products (other than tobacco products) by the Licensed Retailers for their retail business (the "**E-commerce Platform**").

Zhejiang University provides strong research and development support to the E-commerce Platform which involves "blockchain + big data analysis + artificial intelligence".

Business model

The Licensed Retailers normally sell tobacco products together with other consumer products such as alcohol, beverages, snacks and other non-perishable products at their outlets. The E-commerce Platform provides the Licensed Retailers with a one-stop service to source and purchase consumer products (other than tobacco products) as their inventory. The E-commerce Platform consolidates the purchase orders of its registered users and place the consolidated purchase orders on other business platforms thereby connecting with the suppliers of these products.

Through its service, the E-commence Platform helps reduce the operating cost of its registered users by shortening the supply chain and achieves a win-win solution for its registered users and the suppliers. A registered user that purchases through the E-commerce Platform will be charged a fee which is a function of the transaction amount completed on the platform.

Zhongyan E-commerce will continue to attract the Licensed Retailers to become registered users of the E-commerce Platform (the "**Target Clients**") and conduct their sourcing and purchases through the E-Commerce Platform. As of 31 December 2019, out of 5.6 million of the Licensed Retailers, 4.4 million of them were registered users on the E-commerce Platform.

(2) Financial services business

(a) Xin Yunlian Financial

Scope of business

Xin Yunlian Financial provides comprehensive internet financial services such as the facilitation of loans, and supply chain financing services through the referral of potential borrowers to financial institutions.

Xin Yunlian Financial is a wholly-owned subsidiary of Xin Yunlian Cloud. The Target Company indirectly controls Xin Yunlian Cloud.

Business model

Xin Yunlian Financial is the exclusive financial service provider of Zhongyan E-commerce. Given the exclusive arrangement, the Target Clients form a pool of potential borrowers as the offerings by Xin Yunlian Financial are promoted through the E-commerce Platform. With the authorization of the relevant registered user of the E-commerce Platform, Xin Yunlian Financial can access the readily available customer database of the relevant registered user without incurring additional cost.

The services provided by Xin Yunlian Financial include the referral of potential borrowers for loan services to financial institutions with a focus on the Target Clients. The Target Clients from time to time require trade financing to support their procurement of inventories for their retail business. With direct contact with Xin Yunlian Financial via the E-commerce Platform, the Target Clients can initiate financial services enquiries. After a review of their needs, and a preliminary assessment of their credit profile, Xin Yunlian Financial will refer them to the appropriate financial institutions for the suitable financial products.

With the authorization from the potential borrower, Xin Yunlian Financial is able to obtain information on the potential borrower such as its trading information, procurement data and repayment record through the E-commerce Platform for the evaluation of the credit risk of the potential borrower. Since the credit risk is the principal risk inherent to the financial services business, with the support of the E-commerce Platform, Xin Yunlian Financial is able to effectively manage and monitor the credit risks in connection with the potential borrowers to be referred by Xin Yunlian Financial.

For the loan transactions with referral, Xin Yunlian Financial as an intermediary will receive handling fee paid by the borrowers as revenue.

For the loan transactions with referral and guarantee, Xin Yunlian Financial also enters into contracts with the financial institutions and guarantee companies committed to buy back the loans in the event of default by the borrowers. Xin Yunlian Financial bears the credit risk of the borrowers. In addition to the handling fee paid by the borrowers receives the premium paid by the financial institutions as revenue to compensate the credit risk.

(b) Ningbo Yunlian Micro-Financing

Scope of business

Ningbo Yunlian Micro-Financing is engaged in micro-financing business in the PRC and holds an Internet Micro-Financing License. Ningbo Yunlian Micro-Financing was rated as a Grade A micro-financing company in 2017, and recognised as a national outstanding micro-financing company in the PRC in 2018.

Business model

Ningbo Yunlian Micro-Financing provides credit support for small and micro enterprises such as the Target Clients.

Through the E-commerce Platform, the Target Clients can initiate enquires with, and reach out to, Ningbo Yunlian Micro-Financing for its offering of the appropriate loan products.

The Target Clients are licensed with the State Tobacco Monopoly Administration. To maintain their licence, they are required to have a healthy track record in their purchase orders and payments with CNTC. With the authorization of the potential borrower, Ningbo Yunlian Micro-Financing is able to access its trading information, procurement data and payment record maintained by the E-commence Platform.

Ningbo Yunlian Micro-Financing benefits from such access in its assessment of the credit risk of the potential borrower in terms of time and cost efficiency and the reliability of the data maintained by CNTC through the E-commerce Platform. Since the credit risk is the principal risk inherent to the small business financing, with the support of the E-commerce Platform, Ningbo Yunlian Micro-Financing is able to effectively manage and monitor the credit risks in connection with the loans granted to the borrowers.

Ningbo Yunlian Micro-Financing as the lender generates interest income from the loans extended to the borrowers.

(3) Advertising and related services

Xin Yunlian Advertising is engaged in advertising and related services. Its services include advertising support to e-commerce platform and outdoor advertising campaign. It is 60% owned by Xin Yunlian Cloud. Xin Yunlian Cloud is owned as to 51% by the Target Company.

DEVELOPMENT PLAN FOR THE TARGET GROUP

The development plan after the Acquisition (the "**Development Plan**") contemplated by the Company with respect to the principal activities of the Target Group, i.e. (1) the operation of the E-commerce Platform; (2) the provision of financial services (including small and micro enterprises financing); and (3) the provision of advertising and related services is as follows:

(1) the operation of the E-commerce Platform

The Group will continue to build the E-commerce Platform into the one-stop service for the Target Clients to source and purchase consumer products. This will entail promoting the use of the E-commerce Platform among the Target Clients, streamlining the process of handling the purchase orders and delivery, and gaining a competitive edge over other market players by strengthening the relationships with the Target Clients.

(2) the provision of loan financing services (including small and micro enterprises financing)

With the deepening of the relationship among the Target Clients, Xin Yunlian Financial and Ningbo Yunlian Micro-financing will continue to focus on the financing needs of the Target Clients so as to tailor the financing solutions to serve their specific needs. Xin Yunlian Financial will further consolidate or explore its relationships with various financial institutions such that the financing solutions would be diverse and appealing to the Target Clients.

The overall condition of the finance market and macro-economic stability in the PRC is likely to be the major risk factor that Xin Yunlian Financial and Ningbo Yunlian Micro-financing will face in rendering its financing services. The Board would closely monitor the macro economic environment and implement appropriate measures according to the change in the market and the credit profile of the Target Clients.

(3) the provision of advertising and related services

Xin Yunlian Advertising will continue to provide support for the business endeavors of the Target Group and in particular, the expansion of the provision of loan financing services.

To carry out the Development Plan, the Board expects that the Target Group would streamline its existing resources and no material capital or operating expenditure would be incurred. As indicated above, the deepening of the cooperation with financial institutions is expected to provide the required facilities and lines of credit in furtherance of the expansion of the provision of loan referral services.

The Group's loan financing segment includes the provision of financing guarantee services, loan financing (which is similar to the business carried out by Ningbo Yunlian Micro-Financing) and loan referral services (which is similar to the business carried out by Xin Yunlian Financial) in Hong Kong and the PRC. The Board believes that the Directors are equipped with the necessary management experience and knowledge to manage the businesses of the Target Group, given the sound and extensive experience of the Directors in loan financing services. The Board does not expect any change in its composition shortly after the Acquisition.

FINANCIAL INFORMATION OF THE TARGET GROUP

As at the Latest Practicable Date, the Target Group consisted of the Target Company, Xin Yunlian Network, the WFOE and its subsidiaries and associated company. The operating entities are (i) Xin Yunlian Cloud and its subsidiaries; and (ii) Zhongyan E-commerce. Zhongyan E-commerce has become an associated company of the Target Company on 1 November 2019, and no combined financial statement shall be presented for the financial years 2017 and 2018 that would include Zhongyan E-commerce within the Target Group, on the following basis as advised by the reporting accountant:

(1) According ''AG5 'Merger Accounting for Common Control Combinations''', consolidation is performed in accordance with HKAS 27.

(2) The investment in Zhongyan E-commerce by Wangxin Technology was not combined in the Target Group's combined financial statement under the merger accounting principles, because the Target Group, being the non-controlling interest of Zhongyan E-commerce, held only 49% of its equity interest. Wangxin Technology was not the controlling shareholder of Zhongyan E-commerce and its investment should be subject to HKAS 28 "Investments in Associates". Therefore, Zhongyan E-commerce should not be included in the combined financial statement in 2017 and 2018.

(3) After completion of transfer of 49% equity interest on 1 November 2019 from Wangxin Technology to Xin Yunlian Digital, the interest in Zhongyan E-commerce should be included in the financial statements.

Hence, the financial information of the Target Group shall be presented as the audited combined financial information of the Target Group and the stand-alone audited consolidated financial statement of Zhongyan E-commerce.

Set out below is the summary of the audited combined financial information of the Target Group for the two years ended 31 December 2018 and 2019:

	Year ended 31 December	
	2019	**2018**
	HK$'000	*HK$'000*
Revenue	54,008	75,393
Loss before taxation	(80,190)	(27,912)
Loss after taxation	(76,855)	(27,386)

The audited combined capital deficiency value of the Target Group attributable to owners and the audited combined net asset value of the Target Group as at 31 December 2019 were approximately HK$59,402,000and HK$130,653,000 respectively.

The Target Company after completion of the Reorganisation is indirectly and effectively interested in 24.99% of Zhongyan E-commerce and its subsidiaries. Set out below is the summary of the audited consolidated financial information of Zhongyan E-commerce for the two years ended 31 December 2018 and 2019:

	Year ended 31 December	
	2019	**2018**
	HK$'000	*HK$'000*
Revenue	13,763	38,118
Loss before taxation	(91,528)	(91,346)
Loss after taxation	(91,528)	(91,346)

The audited capital deficiency of Zhongyan E-commerce attributable to owners of Zhongyan E-commerce and the consolidated capital deficiency of Zhongyan E-commerce as at 31 December 2019 were approximately HK$345,579,000 and HK$366,758,000 respectively.

As the Target Company has an effective interest of 24.99% in Zhongyan E-commerce after completion of the Reorganisation, the investment in Zhongyan E-commerce by the Target Group is considered as investment in an associated company by the Target Company and any profit or loss of Zhongyan E-commerce will be shared up to 24.99% by the Target Company after Completion.

The Target Company was valued at RMB327.8 million (equivalent to approximately HK$358.8 million) as at 31 December 2019 based on the valuation of the operating subsidiaries and an associated company of the Target Company (including the equity interest in Zhongyan E-commerce) at RMB642.8 million (equivalent to approximately HK$703.6 million) as at 31 December 2019 by the Valuer, by way of the income approach.

Pursuant to an agreement dated 4 November 2019, the intangible assets were transferred from Wangxin Technology to the Target Group. Since the intangible assets have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment in accordance with HKAS 36 "Impairment of Assets". As at 31 December 2019, the Target Group recognized approximately HK$52.4 million for the impairment of intangible assets because the recoverable amounts of those cash-generating units are lower than the carrying amount of the intangible assets. As indicated on page II-74 of this circular, the impaired intangible assets of HK$52.4 million represented the software and technology used by Zhongyan E-commerce for its E-commerce business, because the Valuer advised to record a zero amount for such intangible assets after assessing its net liabilities position and recurring net loss for these years. The intangible assets (i.e. software and technology) were purchased and recognized by Wangxin Technology during the period from 2014 to 2017 at the time when the relevant companies were set up and developed the E-Commerce Platform.

The carrying amount of the intangible assets as at 31 December 2019 of approximately HK$4.1 million represented the software and technology used in the loan facilitating business in relation to the assessment of credit risk of the potential and current borrowers. As the Valuer advised to record a recoverable amount which is higher than their carrying amount, and therefore no impairment loss was recognized for these intangible assets. The Board considers that the valuation and the Acquisition Consideration have factored in the impairment loss recognized by the reporting accountant in compliance with the relevant accounting principles and is fair and reasonable.

As at 31 December 2019, the total amount due from the Target Group to a shareholder, director, associate and non-controlling interest amounted to approximately HK$66,417,000. Out of this amount, an amount of HK$60,010,000 constitutes the Sale Loan. The balance of HK$6,407,000 will remain outstanding after Completion. Further details in relation to the related-party transactions are set out in the note headed "27. RELATED PARTY TRANSACTIONS" in Appendix II to this circular. The Company intends to monitor and manage connected/related party transactions by maintaining a list of connected parties, related parties and their respective directors, and will abide by the relevant approval requirements pursuant to the Listing Rules.

FINANCIAL EFFECT OF THE ACQUISITION

After Completion, the Target Company will become an indirect wholly-owned subsidiary of the Group. The financial results statement of the Target Group (other than the results of Zhongyan E-commerce), including assets and liabilities, profit or loss of the Target Group, will be consolidated by the Group. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix VI to this circular, the total assets of the Group as at 31 December 2019 would increase from approximately HK$786.0 million to approximately HK$1,507.9 million and its total liabilities as at 31 December 2019 would increase from approximately HK$334.2 million to approximately HK$695.7 million as a result of the Acquisition.

The issue of the Consideration Shares to the Consultant will also be accounted for as expenses of the Group.

INFORMATION ON THE VENDOR

The Vendor is a company established in the BVI with limited liability, which is wholly owned by the Vendor Guarantor on behalf of Wangxin Technology. The principal business activities of Wangxin Technology are development of software, IT technology, and E-commerce.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, Wangxin Technology was effectively held as to approximately 10.0% by the eight PRC government authorities, as to approximately 2.0% by four PRC listed companies, the remaining approximately 88.0% held by 93 individuals and no shareholder held more than 16% ultimate beneficial equity interest in Wangxin Technology. As at the Latest Practicable Date, the single largest shareholder of Wangxin Technology did not have the right to exercise control over Wangxin Technology.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, all the equity holders of Wangxin Technology were Independent Third Parties and did not hold any Shares or other convertible securities in the Company as at the Latest Practicable Date.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, the Vendor Guarantor, Wangxin Technology and the ultimate beneficial owners of the Vendor and Wangxin Technology were all Independent Third Parties and did not hold any Shares or other convertible securities in the Company as at the Latest Practicable Date.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is principally engaged in investment holding and its subsidiaries are engaged in (i) industrial property development in the PRC; (ii) trading of Moutai and other popular Chinese liquors in the PRC; (iii) securities brokerage in Hong Kong; (iv) insurance brokerage in Hong Kong; (v) asset management in Hong Kong; and (vi) loan financing in Hong Kong and the PRC.

The loan financing segment includes the provision of financing guarantee services, loan financing (which is similar to the business carried out by Ningbo Yunlian Micro-Financing) and loan referral services (which is similar to the business carried out by Xin Yunlian Financial) in Hong Kong and the PRC. The loan financing segment recorded revenue of approximately HK$62.4 million for the year ended 31 December 2019. The revenue of the loan financing segment accounted for approximately 41.3% of the total revenue of the Company for the year of 2019. The loan financing segment is the most profitable segment of the Group.

A series of practical initiatives concerning inclusive finance have been introduced by the government of the PRC in 2019, with an aim to effectively encourage lending to small and micro-sized businesses. As alluded in its 2019 interim report and 2019 annual report, the Company believes that given the Group's experience in the loan financing segment in the PRC, the Group is well-positioned to capture the new business opportunities in, among others, supply chain financing services associated with the Chinese government's initiative in the small and micro enterprises financing sector. The Group has been actively exploring opportunities to this end.

Against this objective, the Board believes that the Acquisition

(a) presents the opportunity for the Group to partner with CNTC through the E-commerce Platform and expand into the loan financing segment in the PRC with a focus on the Target Clients; and

(b) could increase the Group's market share and geographical presence in the PRC by consolidating the businesses of the Target Group, and expand its loan financing business in the PRC in both breadth and depth.

The Board has considered the alternative of an organic growth of the Group's financial services business in the PRC but concluded that given, among other things, the reasons above, the Acquisition is more cost-effective to achieve this end.

Basis for determination of the Acquisition Consideration

The Acquisition Consideration is determined with reference to, among others, (1) the business model and the large customer database of the Target Group; (2) the financial performance and position of the Target Group;. (3) the benefits of the Acquisition as set out in the paragraph headed "**REASONS AND BENEFITS OF THE ACQUISITION**" above; and (4) the valuation on the Target Group by the Valuer. Having considered the totality of these factors, the Directors consider that the Acquisition Consideration is fair and reasonable.

(1) The business model and large customer data base of the Target Group

The management of the Group consider that part of the value of the Target Group lies in its partnership with CNTC, the Target Clients' direct contact with and access to Xin Yunlian Financial and Ningbo Yunlian Micro-Financing through the E-commerce Platform, and the ability of Xin Yunlian Financial and Ningbo Yunlian Micro-Financing to conduct their credit evaluation on the Target Clients based on reliable data maintained on the E-commerce Platform and in a cost- and time- efficient manner.

The Company believes that there will be synergy with the Target Group. The Group can leverage its knowledge, know-how, experience in the loan financing business in the PRC and financial resources to lead and empower Xin Yunlian Financial and Ningbo Yunlian Micro-Financing in developing their loan financing business. The combined network of client base and financial institutions covered by the Group and the Target Group is expected to form a stronger platform for cross-selling and growth in their loan financing services especially in the loan referral business and the small and micro enterprises financing business.

The loan financing services provided by the Target Group as described in the section headed "**Business Profile**" above broaden the Group's geographical reach and customer base for its loan financing segment in the PRC. These services are aligned with the strategy on dedicating to the supply chain financial services as alluded in the Company's 2019 interim report and 2019 annual report.

Through the E-commerce Platform, the Target Clients can have access to, and initiate enquiry regarding the service offerings of, Xin Yunlian Financial and Ningbo Yunlian Micro-Financing. With their authorization, Xin Yunlian Financial and Ningbo Yunlian Micro-Financing can access the readily-available customer database on the Target Clients for credit evaluation maintained on the E-commerce Platform. If the Group were to build a similar promotion channel and compile a customer database regarding the Target Clients, it would have to incur considerable time and costs.

In 2018, Xin Yunlian Financial and Ningbo Yunlian Micro-Financing had around 4,500 clients that are Target Clients. With the pool of 4.4 million Target Clients as of 31 December 2019, the Company believes that there is significant growth potential for Xin Yunlian Financial and Ningbo Yunlian Micro-Financing in their financial services.

(2) Financial performance and position of the Target Group

(i) The E-commerce Platform

During the Track Record Period, the Target Group has focused on the promotion of the E-commerce Platform by attracting the Licensed Retailers to become registered users of the platform. As a result of heavy promotion expenses, Zhongyan E-commerce recorded significant losses during the relevant period.

(ii) Advertising and related service

The Target Group recorded an increase in the impairment loss in its advertising business in the Track Record Period. In 2017, the Target Group was committed to a fixed-term agreement for the use of billboards at bus terminals in Shanghai for its outdoor advertising service offering. The Target Group provided billboard advertising services to its clients. In 2018, a major client defaulted in its payment of advertising fee. This client accounted for over 50% of the total advertising revenue. As a result, a significant impairment in the trade receivable was recorded in 2018.

(iii) Loan financing service

Performance

In 2017, for its micro-financing business, the Target Group charged an interest rate ranging from 12% to 24% per annum based on the credit assessment of each individual borrower. The Target Group also co-operated with certain P2P platforms to which it referred potential borrowers and acted as a guarantor of such borrowers. The Directors considered that the rates charged by the Target Group were in line with the market.

In 2018, the Target Group started to enter into more co-operative agreements with local and regional banks where the banks would provide financing to the borrowers referred by the Target Group. As a result, loan referral income and loan interest income rose significantly in 2018 to almost triple the total revenue of loan financing operation in 2017. The Directors considered that the referral fee from 3% to 6% charged by the Target Group were in line with the market.

The business slowed down in the second and third quarter of 2019 as the Target Group underwent some internal restructuring in order to reduce the overall cost and improve the profitability. The Board considers that such downturn in revenue is temporary and the profitability would be improved by adopting the cost control measures as set out in the section headed "(iv) Control measures" in this circular.

In 2019, there was an increase in bad debts as a result of the meltdown of the PRC sector in the PRC since 2018 and certain debtors refused to pay the loans they obtained via the P2P platform. As a result, Target Group had to repay the loans obtained by the borrowers via the P2P platform which it had committed to the repayment of these loans defaulted on the repayment.

Prior to 2019, the Target Group appointed certain financing referral agents in various locations to refer borrowers which are not limited to tobacco retailers as the customers of the Target Group for the loan financing services operation, resulting in loans having been granted, and financing referral services having been rendered, to customers other than tobacco retailers. Certain customers sourced in this way failed to repay the loans directly granted by the micro-financing operation of the Target Group or loans granted by financial institutions for which the Target Group had committed to the repayment of the same defaulted on the repayment. Accordingly, impairment loss were incurred in both 2018 and 2019 which in turn has contributed to the overall loss.

Credit management

The credit management and control of the Target Group starts with the investigation into the background of the prospective borrower through one or the combination of the following means:

(a) field investigation of the retail store of the prospective borrower and the management of such retail operation,

(b) telephone investigation and online searches, and

(c) accessing the data compiled by third party data providers.

With the authorization of the potential borrowers, Xin Yunlian Financial and Ningbo Yunlian Micro-financing are able to access their trading information, procurement data and repayment record maintained by the E-commerce Platform. This first-hand information allows the Target Group to perform thorough credit evaluation, and to actively monitor and manage the credit profile of the borrowers. Upon the satisfaction of the assessment of results derived from such investigations, the approval process would be undertaken, with different volume of loan requiring approval from different level of staff in the Target Group.

(iv) Control measures

The Target Group has actively taken the following measures to control and reduce such losses:

(a) From 2019 onwards, the advertising operation has been maintained on a limited scale to the provision of advertising consultancy services, with no further significant capital or lease commitment incurred.

(b) It is noted that the losses of the Target Group in 2019 of approximately HK$77 million was due to an impairment of intangible assets in the amount of approximately HK$52 million which is non-cash in nature and resulted from incidents that are non-recurring. This is further mitigated by the fact that the loan referral operation would benefit from the cooperation between the Target Group and more reputable banks in the fourth quarter of 2019.

The Directors would continue to implement the following measures to improve the profitability of the Target Group:

(a) reducing the existing administrative and operation cost and cutting the number of redundant staff. Since 2019, an internal staff restructuring plan has been implemented in this respect. For the financial referral operation, the headcount of staff for the credit control and technical function which is comprised of staff with higher fixed salary was reduced from 53 to 21 from December 2019 to May 2020, and the average monthly staff cost in this regard is reduced from approximately HK$1.8 million to HK$1.1 million during the same period. The measure is expected to result in saving in staff cost in the amount of approximately HK$ 8.4 million for the year of 2020. Such latest financial information of the Target Group supports the Company's assessment on the results of the control measures. To further streamline the costs of the financial referral operation, sales staff will be hired but the remuneration package of the newly hired sales staff will be based on performance bonus, and therefore the hiring of such sale staff will only improve the overall profitability of the operation;

(b) negotiating closely with the banks for better terms of cooperation;

(c) cooperating with the Group's own financial guarantee company which would in turn lower the overall cost of operation; and

(d) maintaining and monitoring the credit control measures to reduce the impairment rate of the outstanding loan.

Apart from the cost control measures, the Board is confident that with the synergy offered by the Acquisition, the revenue of the Target Group would improve post-Acquisition.

(v) The Group's position

The management of the Group consider that the Target Group should take full advantage of the potential borrower pool in the form of the Target Clients and tap into the financing needs of the Target Clients. After Completion, collaboration efforts between the E-commerce Platform, Xin Yunlian Financial and Ningbo Yunlian Micro-Financing are expected to be enhanced.

These effort could include the offerings of:

(a) online direct installment financing for inventories procurement of the Target Clients from the E-commerce Platform;

(b) direct installment payment options as checkout option for payment;

(c) direct sales marketing, financial consultancy/referral services to the Target Clients; and

(d) renovation loans and trade financing.

Notwithstanding the losses recorded by the Target Group in the Track Record Period which the Directors consider to be temporary and manageable for the reasons outlined above, and given the potential borrower pool to be tapped into, the Directors consider that the Acquisition is in the interest of the Company and the Shareholders.

(3) Benefits

As set out in the paragraph headed "**REASONS AND BENEFITS OF THE ACQUISITION**" above, it has been the Company's strategy to expand its financial services in the PRC. The Acquisition presents the opportunity to this end and the financial services provided by the Target Group are aligned with the strategy on dedicating to the supply chain financial services as alluded in the Company's 2019 interim report and 2019 annual report.

(4) Valuation

The Target Company was valued at RMB327.8 million (equivalent to approximately HK$358.8 million) as at 31 December 2019 based on the valuation of the operating subsidiaries and an associated company of the Target Company (including the equity interest in Zhongyan E-commerce) at RMB642.8 million (equivalent to approximately HK$703.6 million) as at 31 December 2019 by the Valuer, by way of the income approach. The valuation report of subsidiaries and associated company of the Target Company by the Valuer is set out in Appendix VII. The summary is set out below:

(a) Valuation

Company	**Percentage subject to the Acquisition**	**100% Equity Interest as evaluated** *(RMB)*	**Value** *(RMB)*
Xin Yunlian Financial	100%	584,000,000	584,000,000
Ningbo Yunlian Micro-financing	60%	98,000,000	58,800,000
Xin Yunlian Advertising	60%	0	0
Xin Yunlian Investment	60%	0	0
Zhongyan E-commerce	49%	0	0
Total			**642,800,000**

The Valuer considers the market value of the equity value of Xin Yunlian Advertising, Xin Yunlian Investment and Zhongyan E-commerce to be close to zero as at the valuation date, because:

– Xin Yunlian Advertising, established in 2016, had recorded losses in 2017 and 2018 respectively and the loss is expected to continue in 2020 to 2024;

– there is no actual business operated under Xin Yunlian Investment; and

– Zhongyan E-commerce had recorded losses from 2016 to 2018 respectively and the loss is expected to continue in 2020 to 2024. The Company does not have plan to inject capital into Zhongyan E-commerce. Despite the recorded loss and the valuation of zero value, Zhongyan E-commerce is still considered by the Board to be an indispensable part of the Acquisition for the following reasons:

(1) As elaborated in the paragraph headed "(3) The Board's view" in this circular, the E-Commerce Platform is the source of potential borrowers for the financing business and is the basis for the synergy between the financing businesses of the Target Group and the Group, which is expected to be leading the growth post-Acquisition.

(2) The widespread brand recognition of "新商盟" (Xin Shangmeng*) (which is also endorsed by the CNTC) enjoyed by Zhongyan E-commerce is an invaluable asset that would give the Group as a business partner to the CNTC the market awareness and trust among the network of the Licensed Retailers.

(3) Notwithstanding the net liability position of Zhongyan E-commerce, the risk of Zhongyan E-commerce failing to operate is remote for the following reasons:

(i) The recorded losses resulted from the heavy promotion expenses at the early stage for the launch of the platform, which are not expected to be incurred in the future. Zhongyan E-commerce is therefore unlikely to sustain significant losses in the future, and is expected to be able to break even.

(ii) The E-Commerce Platform (and its attendant potential borrower pool) lays the foundation for the development of the financing business of the Target Group and the synergy with the Group. It would be against the interest of the Group to allow Zhongyan E-commerce to be out of operation.

(iii) The debt due from Zhongyan E-commerce is mainly constituted by shareholder's loans due to a shareholder and a former shareholder as more specifically set out on page IV-77 of this circular. Such shareholder and former shareholder are not expected to demand repayment in the foreseeable future, as they have confirmed their intention to renew the shareholders' loan upon maturity and are contractually entitled to do so.

(b) Assumptions

The major assumptions used in the valuation by the Valuer are:

– Xin Yunlian Cloud and its subsidiaries (including Xin Yunlian Financial and Ningbo Yunlian Micro-financing, collectively the "**Finance Group**") is expected to engage in the existing financing business under the same operating model;

– the Finance Group is expected to successfully expand its financing business to the Licensed Retailers that are registered at the E-commerce Platform and to start to record growth in 2020;

– the demand for financing by the Licensed Retailers that are registered at the E-commerce Platform will show relatively fast growth in the forecast period from 1 January 2020 to 31 December 2024; and

– the environmental policies set by the government that pertain to the Finance Group is not expected to change significantly.

In particular, the Board considers that it is fair and reasonable to adopt the B rating corporate bonds as comparable to the borrowers of the Finance Group (as defined in Appendix VII to this circular), for the following reasons:

- The Valuer considered the Finance Group as a start-up company in the industry with only a 2-year operating history, and therefore the historical loss rate may not be a reasonable indicator for its future business.

- The credit rating of the tobacco retailers may vary significantly depending on their financial situation and business operation scale, which increases the difficulty to assess the credit rating of the individual borrowers.

- The Valuer further conducted market research and noticed that B rating is the lowest credit rating with a reasonable historical average default rate of 1.76% for the period from 2013 to 2018 according to a study titled "*2018 Annual Global Corporate Default Study and Rating Transition*" issued by S&P (the CCC rating has an average default rate of more than 25%). The average recovery rate for B rating bonds is 37.62% with reference to a study titled "*Annual Default Study: Corporate Default and Recovery Rates, 1920-2017*" issued by Moody's. Based on the mentioned market information, the expected loss rate of B rating bonds is 1.15%.

- Therefore, the Valuer took this expected loss rate of B rating as a projection anchor. After a discussion with the management of the Finance Group, they are expected to take 1.5% loss rate as an operating target from a more conservative perspective and is expected to achieve this rate by implementing the credit improvement plan in the forecast period.

The Board has reviewed and assessed the assumptions and inputs adopted in the valuation report in Appendix VII of this circular, and in particular, the section "*Valuation of the Finance Group – Xin Yunlian Financial and Yunlian Micro-financing – Discussion of Financial Forecast*" and considers that such assumptions and inputs are fair and reasonable.

As for certain sources of information in the valuation report, the Board agrees to the assessment of the Valuer that each of Factset, Aswath Damodaran database, and Duff & Phelps 2016 Valuation Yearbook is a credible source of information and authoritative guide in the market, and therefore the country risk premium and size premium extracted therefrom is reliable.

As for the research conducted by the NACVA referred to in the valuation report, the Board agrees to the opinion of the Valuer that the lack of marketability discount sourced from the NACVA research seems to be applicable. The lack of marketability discount represents the valuation discount between a publicly traded stock that has a market, and a privately held stock which often has little market liquidity. The research paper provided by the NACVA revealed the investors' view regarding the lack of marketability discount in mature market. In this valuation, even though the Target Company is a private company in the PRC market, the Company is a Hong Kong listed company, which should be considered as a participant in the mature capital market, for which the research conducted by the NACVA appears to be applicable and relevant.

(c) Methodology

In terms of the valuation methodology for the Finance Group, the Valuer adopted the income approach (especially the discounted cash-flow method) and considered it to be the most appropriate approach compared with the other available alternatives:

– Market approach is not applicable for the valuation of the Finance Group, as the operating companies are expected to expand in the next few years, their current financial indicators, such as earnings and book value, would not be a good base to determine their market value.

– Cost approach is not applicable for the valuation of the Finance Group, as this approach does not take future growth potential into consideration and is usually used for companies which hold large non-income generating assets.

With respect to the inputs in the valuation model, inputs regarding the growth rate of the Finance Group have been adjusted downward to reflect a more conservative and moderate development plan taking into account the COVID-19 outbreak and its likely impact on the Finance Group.

The Directors consider that the assumptions, methodology and inputs adopted in the valuation report are fair and reasonable.

LISTING RULES IMPLICATIONS

Shareholders' approval on the Acquisition

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition fall(s) between 25% and 100%, the Acquisition constitutes a major transaction of the Company, and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

A SGM will be convened and held for the Shareholders to consider, and if thought fit, to approve (i) the Acquisition Agreement, the Consultancy Agreement and the transactions contemplated thereunder; and (ii) the Specific Mandate for the allotment and issue of the Conversion Shares, the New Shares, Shares to be issued under the Incentive Notes, and the Consideration Shares. To the best of the Directors' knowledge, information and belief, none of the Shareholder has a material interest in the Acquisition and accordingly none of the Shareholder is required to abstain from voting on the relevant ordinary resolution(s) approving the Acquisition Agreement, the Consultancy Agreement and the transactions contemplated thereunder at the SGM.

Valuation Report

The business valuation report was prepared on a discounted cash flow basis under the income approach. Any valuation based on discounted cash flows is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The principal assumptions adopted in the business valuation report on the operating subsidiaries and an associated Company of the Target Group prepared by the Valuer are set out in Appendix VII to this circular.

A letter from the Board, confirming that it is satisfied that the profit forecast has been made by the Directors after due and careful enquiry, is set out in Appendix VIII to this circular. A letter from HLM CPA Limited, the reporting accountant of the Company, confirming that it has reviewed the accounting policies and calculations for the profit forecast, is set out in Appendix VIII to this circular.

Listing application

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the New Shares, the Conversion Shares, the new Shares to be issued under the Incentive Notes and the Consideration Shares. No application will be made for the listing of the Convertible Notes and the Incentive Notes.

The Vendor

Upon the allotment and issue of the New Shares, the Vendor will become a substantial shareholder and hence connected person of the Company.

RECOMMENDATION

Having noted and considered the reasons stated under the section captioned "**REASONS OF AND BENEFITS OF THE ACQUISITION**", the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreement, the Convertible Notes and the Incentive Notes are normal commercial terms, fair and reasonable, and the Acquisition (including the issue of the Convertible Notes, the New Shares and the Incentive Notes) is in the interests of the Company and the Shareholders as a whole.

Furthermore the Directors (including the independent non-executive Directors) also consider that the settlement of the Consultancy Fee by issuing the Consideration Shares to the Consultant and the Issue Price are fair and reasonable and is also in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolution which will be proposed at the SGM for approving the Acquisition Agreement, the Consultancy Agreement and the transaction contemplated thereunder (including the issue of the Convertible Notes, the New Shares, the Incentive Notes, and the Consideration Shares).

SGM

A notice convening the SGM to be held at Suites 3001-11, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on Wednesday, 22 July 2020 at 11:00 a.m.. is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or adjourned meeting thereof if you so wish.

The Shareholders will be asked to consider and, if thought fit, to pass an ordinary resolution to be proposed at the SGM (the text of which being set out in the notice of SGM) approving the Acquisition.

VOTING BY POLL

According to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all the resolution(s) put to the vote at the SGM will be taken by way of poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

Whether or not you are able to attend and vote at the SGM, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and deliver, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 11:00 a.m. on Monday, 20 July 2020 (or if the SGM is adjourned, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting, and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

For determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Friday, 17 July 2020 to Wednesday, 22 July 2020, both days inclusive, during which period no transfer of shares will be registered. In order for a Shareholder to be eligible to attend and vote at the Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 16 July 2020.

GENERAL

Completion of the Acquisition is subject to and conditional upon satisfaction or (where applicable) waiver of conditions precedent including, among other things, the granting of the necessary approval by the Shareholders. As the Acquisition may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Circular.

By Order of the Board
Greater China Financial Holdings Limited
Liu Kequan
Chairman

1. FINANCIAL SUMMARY

Details of the financial information with respect to the profits and losses, financial record and position of the Group for the three years ended 31 December 2017, 2018 and 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.irasia.com/listco/hk/greaterchina/index.htm).

a. The audited consolidated financial statements of the Group for the year ended 31 December 2017, together with the accompanying notes to the financial statements, can be found on pages 59 to 214 of the annual report of the Company for the year ended 31 December 2017:

   https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0426/ltn201804262142.pdf

b. The audited consolidated financial statements of the Group for the year ended 31 December 2018, together with the accompanying notes to the financial statements, can be found on pages 64 to 246 of the annual report of the Company for the year ended 31 December 2018:

   https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0417/ltn20190417973.pdf

c. The audited consolidated financial statements of the Group for the year ended 31 December 2019, together with the accompanying notes to the financial statements, can be found on pages 59 to 234 of the annual report of the Company for the year ended 31 December 2019:

   https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0414/2020041400762.pdf

2. STATEMENT OF INDEBTEDNESS

At the close of business on 30 April 2020, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding bank borrowing, amount due to a shareholder, a non-controlling interest, amount due to an associate, other loans, and lease liabilities of approximately HK$269,426,000, details of which are as follows:

Bank borrowings

The Enlarged Group had i) outstanding bank borrowings (comprising both current and non-current liabilities) of RMB70,000,000 (approximately to HK$78,302,000) carried at fixed rates of 6.37% per annum will be repayable semi-annually until year 2025 which secured by the pledge of right of use assets of approximately RMB19,380,000 (approximately to HK$21,268,000) and warehouses of approximately RMB71,456,000 (approximately to HK$78,416,000) and ii) outstanding bank borrowings of RMB27,000,000 (approximately to HK$29,630,000) carried at fixed interest rate at 7%, and was pledged by a property provided by an independent third party and secured by the management of Ningbo Yunlian Micro-Financing, with maximum banking facilities of RMB27,000,000 (approximately to HK$29,630,000) repayable within 12 months has been utilised.

Amounts due to a shareholder, a non-controlling interest, an associate and a director

The Enlarged Group had amount due to a shareholder, a non-controlling interest, an associate and a director of HK$60,010,000, RMB8,400,000 (approximate to HK$9,218,000), RMB31,000 (approximate to HK$34,000) and HK$764,000 respectively which are unsecured, interest-free and repayable on demand.

Other loans

The Enlarged Group had i) secured other loans amounted to RMB1,000,000 (approximately to HK$1,097,000) carried at interest rate of 14% per annum, repayable within one year and secured by loans and interests receivables amounted to RMB10,441,000 (approximately to HK$11,458,000) with facilities RMB5,220,000 (approximately to HK$5,729,000). At 30 April 2020, facilities RMB1,000,000 (approximately to HK$1,097,000) has been utilised; and ii) unsecured other loans amounted to RMB66,215,000 (approximately to HK$72,664,000) carried at interest rate 8-11% per annum.

Lease liabilities

The Enlarged Group had lease liabilities (comprising both current and non-current liabilities) of approximately HK$17,707,000.

Guarantees issued

At the close of business on 30 April 2020, the Enlarged Group has provided the total maximum guarantees to customers of amount to RMB1,002,205,000 (approximately to HK$1,099,820,000). The total maximum guarantee issued represents the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted.

Certain equity securities listed in Hong Kong classified as financial assets at fair value through other comprehensive income are placed in a margin account of a regulated securities broker. No margin facilities was utilised as at 30 April 2020.

At the close of business on 30 April 2020, there are 5 bank accounts located in the PRC be freezed of amounted to approximately RMB2,764,000 (approximately to HK$2,519,000).

Save as disclosed above and otherwise mentioned in this circular, except and apart from the intra-group liabilities and normal trade payables, The Enlarged Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowing or other similar indebtedness, lease liabilities or hire purchase commitments, liabilities under acceptances or acceptance credits, debentures, mortgages, charges or guarantees or other material contingent liabilities as at the close of business on 30 April 2020. Since 30 April 2020, there has been no material change to the Enlarged Group's indebtedness.

For the purpose of the indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing as at 30 April 2020.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that following the completion of the Acquisition, after taking into account the financial resources available to the Enlarged Group, including the available credit facilities, the internally generated funds from operations, and cash and bank balances of the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this Circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in investment holding, industrial property development, general trading of consumable goods, securities brokerage, insurance brokerage, asset management and loan financing operation includes loan financing, financial guarantee services, loan referral and consultancy services.

Industrial Property Development

The revenue from the industrial property development segment mainly represents the warehouse storage income generated from the warehouse operation. Since the outbreak of COVID-19 in the PRC, the warehouse operation has been reduced as instructed by the local government after the Chinese New Year holiday. Due to rigorous quarantine policy, the process of renewal of the warehouse rental was suspended. Nonetheless, when COVID-19 in the PRC is under control, the management will continue to identify new customers as tenants of the warehouse operation.

General Trading

The Group continues to co-operate with a major distribution agent of Moutai, a reputable distilled Chinese liquor brand, to sell Moutai and other popular Chinese liquors in 2019. The domestic demand for Chinese liquors was discouraged by the outbreak of COVID-19 in the PRC before the Chinese New Year in February 2020. The Group anticipated that the market demand for Chinese liquors will recover when COVID-19 is under control. Meanwhile, the Group continues to negotiate with the supplier to secure a stable supply in the future. The Group will continue the Chinese liquors trading business and further develop the sales network to increase its volume and profitability gradually.

Securities Brokerage

The Group's securities brokerage services in Hong Kong comprises securities brokerage, securities trading and margin financing. The Group will implement cost saving measures to reduce the cost of operation. At the same time, the Group are looking into new products including but not limited to IPO placement and underwriting, custodian services for stock loan, odd lot trading, fixed income and structured products trading in order to broaden the products mix.

Insurance Brokerage

In 2019, the Group continues to provide tailor-made financial solutions and independent advisory services in connection with insurance products to the client and operate long term (including linked long term) insurance and general insurance business plus Mandatory Provident Fund products. The travel restriction to contain the spread of COVID-19 has significantly decrease new customers coming from the PRC to Hong Kong to purchase insurance policies. Despite the challenges ahead, the Group will continue to strengthen the existing sales team and to develop different clientele and foster close relationship with insurance companies and offer diversified products to the customers in order to stay competitive in the market until COVID-19 is under control.

Asset Management

The asset management segment manages a hedge fund established in the Cayman Islands, "Spruce Light Absolute Return Fund". The asset management business segment will continue to explore opportunities and innovated investment strategies for the stable growth in both scale and performance.

Loan Financing

The loan financing services comprise financing guarantee services, loan financing, financing consultancy and loan referral services in Hong Kong and the PRC.

The loan financing operations in Hong Kong is mainly the provision of mortgage loan. To remain competitive while mitigating the overall credit risk, the Group adopted a stringent credit approval policy and worked closely with external property valuation professionals in valuing the subject property to ensure the loan to value ratio of the relevant properties are maintained at a reasonable level. In addition, the Group installed tools to monitor the trend in the property market, which will provide alert to the credit team in case of significant fluctuation or irregularity is noted in the mortgage under supervision. Credit assessment includes full review of credit history and personal TransUnion credit report of the potential customers. The Group will continue to implement a prudent strategy with stringent internal loan management system, including credit assessment and risk management and cooperate closely with external professionals for property valuation, credit check and legal counsel and maintain the Group's focus on high net worth customers through the partnership with business partners such as loan referral agents.

The financing guarantee services and financing consultancy business in PRC will focus on small to micro enterprise financing and personal consumer loan services. The Group will develop the business and deepen the relationship with clients by providing tailored financial products. The Group will take various measures to further optimize the organizational structure, improve the market knowledge and risk control, so as to improve customer satisfaction to support the implementation of new projects and ensure compliance and stable operations.

The Group will continue to operate its existing business through various business segments which includes loan financing in Hong Kong and the PRC. As indicated above, the management continues to take actions of both short term and longer term to control costs and drive efficiency, as the economic outlook remains uncertain amidst the ongoing trade tension and the pandemic outbreak.

With the integration of the Target Group into the enlarged Group, the loan financing operation in the PRC will be strengthened with the loan referral business to the registered tobacco retailers. The management believes that the synergy could open up the loan financing services to the PRC tobacco retail market and increase the market share and geographical presence of the Group in the PRC. The management, while continuously monitoring macroeconomic developments and the aforesaid risks to the outlook, remains cautiously optimistic about the performance of the enlarged Group in the rapidly changing environment.

At the Latest Practicable Date, the Company does not have any intention, negotiation, agreement, arrangement and understanding (conclusive or otherwise) about (a) acquisition of any new businesses apart from the Acquisition, (b) injection of any new business to the Group, or (c) disposal and/or downsizing of the Group's existing businesses.

The following is the text of a report set out on pages II-1 to II-3, received from the Company's reporting accountants, HLM CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Rooms 1501-8, 15th Floor, Tai Yau Building,
181 Johnston Road, Wanchai, Hong Kong.
香港灣仔莊士敦道181號大有大廈15樓1501-8室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: info@hlm.com.hk

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF XIN YUNLIAN INVESTMENT LIMITED TO THE DIRECTORS OF GREATER CHINA FINANCIAL HOLDINGS LIMITED

Introduction

We report on the historical financial information of Xin Yunlian Investment Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-5 to II-105, which comprises the combined statements of financial position as at 31 December 2017, 2018 and 2019 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years then ended (the "Relevant Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information of the Target Group set out on pages II-5 to II-105 forms an integral part of this report, which has been prepared for inclusion in the circular of Greater China Financial Holdings Limited (the "Company") dated 30 June 2020 (the "Circular") in connection with the proposed acquisition of the Target Company (the "Acquisition").

Director's responsibility for the Historical Financial Information of the Target Group

The director of the Target Group are responsible for the preparation of Historical Financial Information of the Target Group that gives a true and fair view in accordance with the basis of preparation set out in Note 4 to the Historical Financial Information of the Target Group, and for such internal control as the director of the Target Group determines is necessary to enable the preparation of Historical Financial Information of the Target Group that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information of the Target Group is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 4 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of the Target Group, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information of the Target Group gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2017, 2018 and 2019 and of the Target Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation set out in Note 4 to the Historical Financial Information of the Target Group.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements, as defined on page II-4, have been made.

Dividends

We refer to Note 11 to the Historical Financial Information of the Target Group which states that no dividends have been paid by the Target Group in respect of the Relevant Period.

HLM CPA Limited
Certified Public Accountants
Hong Kong
30 June 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information of the Target Group

Set out below is the Historical Financial Information of the Target Group which forms an integral part of this accountants' report.

The combined financial statements of the Target Group of the Relevant Period, on which the Historical Financial Information of the Target Group is based, were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the ''Underlying Financial Statement'').

The Historical Financial Information of the Target Group is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*7*	23,942	75,393	54,008
Costs of sales		(4,687)	(16,604)	(1,935)
Gross profit		19,255	58,789	52,073
Other income, gains or losses		19,498	3,926	1,849
Administrative and other operating expenses		(38,132)	(58,194)	(42,929)
Gain on deemed disposal of a subsidiary	*16*	5,767	–	–
Impairment loss on interest in associate	*15*	–	–	(1,119)
Impairment loss on intangible assets		–	–	(52,404)
Impairment loss, net of reversal		(7,044)	(22,214)	(25,800)
Provision of guarantee losses		(2,691)	(2,236)	(2,206)
		(3,347)	(19,929)	(70,536)
Finance cost		(1,585)	(7,983)	(9,654)
Loss before tax		(4,932)	(27,912)	(80,190)
Taxation	*10*	1,260	526	3,335
Loss for the year	*8*	(3,672)	(27,386)	(76,855)

		Year ended 31 December		
		2017	2018	2019
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Other comprehensive income (expense) for the year that may be reclassified subsequently to profit or loss				
Exchange differences on translation of operations outside Hong Kong		13,774	(10,564)	3,543
Total comprehensive (expense) income for the year		10,102	(37,950)	(73,312)
(Loss) profit for the year attributable to:				
– Owners of the Target Company		341	(7,689)	(39,764)
– Non-controlling interests		(4,013)	(19,697)	(37,091)
Loss for the year		(3,672)	(27,386)	(76,855)
Total comprehensive (expense) income for the year attributable to:				
– Owners of the Target Company		1,027	(12,115)	(43,475)
– Non-controlling interests		9,075	(25,835)	(29,837)
		10,102	(37,950)	(73,312)

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	Year ended 31 December 2017 HK$'000	2018 HK$'000	2019 HK$'000
Non-current assets				
Interest in an associate	*16*	–	–	–
Intangible assets	*15*	–	–	4,197
Property, plant and equipment	*13*	2,036	3,861	3,504
Right-of-use assets	*14*	–	–	786
Deferred tax assets	*17*	1,663	5,724	11,915
		3,699	9,585	20,402
Current assets				
Inventories		–	45	–
Loans and interest receivables	*18*	208,113	184,664	140,194
Trade, other receivables, prepayments and deposits	*19*	71,325	54,746	83,228
Financial assets at fair value through profit or loss	*20*	4,323	19,523	5,709
Amount due from related companies	*27*	–	293	–
Amount due from non-controlling interests	*27*	–	6,726	10,810
Loans to non-controlling interests	*27*	–	3,416	30,155
Amount due from a shareholder	*27*	–	–	390
Restricted bank deposits	*21*	–	6,475	21,869
Bank balances and cash	*21*	29,782	3,952	42,086
		313,543	279,840	334,441
Assets held for sale	*28*	–	–	5,265
		313,543	279,840	339,706
Current liabilities				
Trade payables, other payables and accruals	*22*	10,281	12,639	15,162
Contract liabilities		–	246	595
Tax payables		30	2,038	361
Borrowings	*23*	20,412	18,822	135,148
Liabilities from financial guarantees	*25*	2,690	4,787	6,910
Amount due to a shareholder	*27*	–	–	60,010
Amount due to related companies	*27*	6,832	143	–
Amount due to an associate	*27*	–	–	23
Amount due to non-controlling interests	*27*	10,868	–	6,264
Amount due to a director	*27*	22	29	120
Loans from non-controlling interests	*27*	60,035	78,550	–
Lease liabilities	*24*	–	–	401
		111,170	117,254	224,994

		Year ended 31 December		
		2017	2018	2019
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Liabilities directly associated with assets classified as held for sale	*28*	–	–	4,099
		111,170	117,254	229,093
Net current assets		202,373	162,586	110,613
Total assets less current liabilities		206,072	172,171	131,015
Non-current liabilities				
Lease liabilities	*24*	–	–	362
Net assets		206,072	172,171	130,653
Capital and reserves				
Share capital	*26*	60,708	61,757	390
Reserves		(4,202)	(16,317)	(59,792)
(Capital deficiency)/equity attributable to owners of the Target Company		56,506	45,440	(59,402)
Non-controlling interests		149,566	126,731	190,055
Total equity		206,072	172,171	130,653

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity owners of Target Company						
	Share capital	Other reserve	Merger reserve	Accumulated loss	Sub-total	Non-controlling Interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	54,953	(2,760)	–	(2,469)	49,724	112,055	161,779
Profit (loss) for the year	–	–	–	341	341	(4,013)	(3,672)
Other comprehensive income (expense)							
– Exchange difference on translation of operations outside Hong Kong	–	685	–	–	685	13,089	13,774
– Release of translation reserve upon deemed disposal of subsidiary	–	1	–	–	1	(1)	–
Total comprehensive income	–	686	–	341	1,027	9,075	10,102
Increase in share capital	5,755	–	–	–	5,755	28,436	34,191
At 31 December 2017 and 1 January 2018	60,708	(2,074)	–	(2,128)	56,506	149,566	206,072
Loss for the year	–	–	–	(7,689)	(7,689)	(19,697)	(27,386)
Other comprehensive expense							
– Exchange difference on translation of operations outside Hong Kong	–	(4,426)	–	–	(4,426)	(6,138)	(10,564)
Total comprehensive expense	–	(4,426)	–	(7,689)	(12,115)	(25,835)	(37,950)
Increase in share capital	1,049	–	–	–	1,049	3,000	4,049
At 31 December 2018 and 1 January 2019	61,757	(6,500)	–	(9,817)	45,440	126,731	172,171
Loss for the year	–	–	–	(39,764)	(39,764)	(37,091)	(76,855)
Other comprehensive (expense) income							
– Exchange difference on translation of operations outside Hong Kong	–	(3,711)	–	–	(3,711)	7,254	3,543
Total comprehensive (expense) income	–	(3,711)	–	(39,764)	(43,475)	(29,837)	(73,312)
Increase in share capital	1,411	–	–	–	1,411	153,843	155,254
Incorporation of a subsidiary	390	–	–	–	390	–	390
Effect of reorganisation	(63,168)	–	–	–	(63,168)	(60,682)	(123,850)
At 31 December 2019	390	(10,211)	–	(49,581)	(59,402)	190,055	130,653

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Loss before tax	(4,933)	(27,912)	(80,190)
Adjustments for:			
Bank interest income	(28)	(16)	(91)
Loan interest income	(659)	–	(1,789)
Interest income arising from rented deposits	–	–	(10)
Investment income	–	–	(511)
Depreciation	377	629	724
Depreciation of right-of-use assets	–	–	399
Finance cost	1,585	7,983	9,654
Gain on deemed disposal of a subsidiary	(5,767)	–	–
Gain/(loss) on disposal of property, plant and equipment	–	(63)	3
Impairment loss on trade and other receivables, net of reversal	2,656	8,526	16,775
Impairment loss on loans and interest receivables, net reversal	4,404	13,661	3,586
Provision of financial guarantee	2,691	2,236	2,206
Impairment loss on amount due from related parties, net of reversal (reversal of impairment loss)	(16)	27	(15)
Impairment loss of interest in an associate	–	–	1,119
Impairment loss of amount due from an associate	–	–	5,454
Impairment loss on intangible assets	–	–	52,404
Operating cashflows before movements in working capital	310	5,071	9,718
Increase (decrease) in inventories	–	(47)	23
(Increase) decrease in trade receivables	(16,591)	(11,638)	12,717
(Increase) decrease in prepayments, deposits and other receivables	(50,043)	14,207	(63,412)
Decrease (increase) in loans and interest receivables	(144,441)	(1,052)	41,577
(Increase) decrease in amount due from a non-controlling interest	45	(7,025)	(9,714)
Decrease (increase) in amount due from related companies	265	(305)	307
Increase in loan to a non-controlling interest	–	(3,561)	(27,236)
Increase in trade and other payables	9,785	4,910	3,525
Increase (decrease) in contract liabilities	–	(3,703)	358
Increase in amount due to a director	22	7	93
Increase (decrease) in amount due to a non-controlling interest	10,439	(10,743)	6,355
(Decrease) increase in amount due to related companies	6,562	(6,604)	(143)
Increase in restricted bank balance	–	(6,751)	(15,733)
Increase in amount due to an associate	–	–	23
Increase in amount due from a shareholder	–	–	(396)
Cash used in operations	(183,647)	(27,234)	(41,938)

	Note	Year ended 31 December 2017 HK$'000	2018 HK$'000	2019 HK$'000
Interest paid		(1,585)	(7,983)	(9,555)
Income tax paid		(51)	(1,866)	(4,712)
Net cash used in operating activities		(185,283)	(37,083)	(56,205)
Investing activities				
Purchase of property, plant and equipment		(577)	(2,932)	(439)
Investment income received		–	–	511
Interest received		28	16	1,880
Proceeds from disposal of property, plant and equipment		–	354	6
Purchase of financial assets at fair value through profit or loss		(253,784)	(350,610)	(309,181)
Proceeds from disposal of financial assets at fair value through profit or loss		275,197	334,528	321,609
Acquisition of investment in an associate		–	–	(1,119)
Purchase of intangible assets		–	–	(57,426)
Cash and cash equivalents classified as held for sales		–	–	(57)
Net cash generated from (used in) investing activities		**20,864**	**(18,644)**	**(44,216)**
Financing activities				
Repayment of borrowing		(26,526)	(27,151)	(10,407)
Proceeds from borrowing		42,672	26,620	128,760
Repayment of loan from a non-controlling interest		–	(161,419)	(78,308)
Proceeds from loan from a non-controlling interest		57,665	183,970	–
Repayment of lease liabilities		–	–	(431)
Capital injection		34,191	4,049	91,804
Net cash generated from financing activities		**108,002**	**26,069**	**131,418**
Net increase (decrease) in cash and cash equivalents		(56,417)	(29,658)	30,997
Cash and cash equivalents at beginning of the year		77,573	29,782	3,952
Effect of foreign exchange rate changes		8,626	3,828	7,137
Cash and cash equivalent at end of the year		29,782	3,952	42,086
Analysis of balances of cash and cash equivalent:				
Bank balances and cash	*21*	29,782	3,952	42,086

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

1. GENERAL INFORMATION

Xin Yunlian Investment Limited (the "Target Company") is a limited liability company established in the British Virgin Islands on 15 April 2019. The registered office of the Target Company is located at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG 1110, British Virgin Islands. This business address of the Target Company is Room701, 7/F, Shanghai Industrial Investment Building, 48-62 Hennessy Road, Wanchai, Hong Kong.

The Target Company is an investment holding company. During the Relevant Period, the Target Group was principally engaged in involved in financial referral and loan financing services.

The Historical Financial Information of the Target Group is presented in Hong Kong dollars and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

As at the date of this report, the Target Company has direct or indirect interests in the following subsidiaries, and the particulars of which are set out below:

Name	Place and date of incorporation	Principal activities	Issued/registered share capital	Percentage of equity attributable to the Target Company Directly	Indirectly
Xin Yunlian Network Technology Limited#	Hong Kong 27 July 2015	Inactive	HK$10,000	100%	–
寧波瑞信投資有限公司 (Ningbo Ruixin Investment Company Limited*)^	PRC 29 April 2019	Inactive	US$30,000,000	–	100%
浙江新雲聯數字科技有限公司 (Zhejiang Xin Yunlian Digital Technology Company Limited*)^	PRC 1 November 2019	Inactive	RMB100,000,000	–	51%
浙江新雲聯雲科技有限公司 (Zhjiang Xin Yunlian Cloud Technology Company Limited*)^	PRC 1 November 2019	Inactive	RMB173,000,000	–	51%
網新新雲聯金融信息服務(浙江)有限公司 (Wangxin Xin Yunlian Financial Information Service (Zhejiang) Company Limited*)#	PRC 28 December 2015	Engaged in financial referral service	RMB100,000,000	–	51%
新雲聯廣告傳媒(浙江)有限公司 (Xin Yunlian Advertising Media (Zhejiang) Company Limited*)#	PRC 4 January 2016	Provision of advertising service	RMB50,000,000	–	31%

Name	Place and date of incorporation	Principal activities	Issued/registered share capital	Percentage of equity attributable to the Target Company Directly	Indirectly
網新新雲聯股權投資（浙江）有限公司^ (Wangxin Xin Yunlian Equity Investment (Zhejiang) Company Limited*)	PRC 9 August 2016	Inactive	RMB50,000,000	–	51%
寧波雲聯小額貸款有限公司 (Ningbo Yunlian Micro-Financing Company Limited*)#	PRC 22 June 2016	Engaged in loan financing services	RMB150,000,000	–	31%
杭州正品正源網絡科技有限公司## (Hangzhou Zheng Pin Zheng Yuan Network Technology Company Limited*)	PRC 30 May 2018	Trading	RMB310,000,000	–	31%

\# The local auditor's reports of these companies for the years ended 31 December 2017, 2018 and 2019 were prepared by the local auditors in accordance with the accounting principles generally accepted in the PRC.

\## The local auditor's reports of Hangzhou Zheng Pin Zheng Yuan Network Technology Company Limited for the year ended 31 December 2018 and 2019 were prepared by the local auditors in accordance with the accounting principles generally accepted in the PRC.

^ As at the date of this report, no local auditor's report have been issued for these companies, as they have not either carried on any business since their respective date of incorporation or not subject to any statutory audit requirements under the relevant rules and regulations in the Hong Kong and PRC.

* The English transliteration of Chinese name is included in this circular for reference only and should not be regarded as its official English name.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with HKFRSs issued by the HKICPA and the principles of merger accounting under Accounting Guideline 5 ‘‘Merger Accounting for Common Control Consolidation’’ (‘‘AG5’’) issued by the HKICPA.

On 15 April 2019, the Target Company was incorporated in the British Virgin Islands with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. Upon incorporation, 50,000 shares were allotted and issued to Chen Zheng (‘‘Vendor guarantor’’) at par. On 22 May 2019, 50,000 shares were transferred to Skill Rich Investment Limited (‘‘Skill Rich’’) at US$1.

On 6 May 2019, Wangxin Xin Yunlian Technology Limited (“Wangxin Technology”) entered into a series of agreements with Vendor guarantor and Skill Rich for the purpose of obtaining control over the Target Company, including Exclusive Option Agreements, Proxy Agreement and Equity Pledge Agreement (the “Agreements”).

Pursuant to the Exclusive Option Agreement entered into among Wangxin Technology, Vendor guarantor and Skill Rich (the “Exclusive Option Agreement”), Wangxin Technology shall have the rights to require Vendor guarantor to transfer any or all their equity interests in Skill Rich to Wangxin Technology, in whole or in part at any time and from time to time, with no considerations.

Pursuant to the Proxy Agreement entered into among Wangxin Technology and Vendor guarantor (the “Proxy Agreement”), pursuant to which, the Vendor guarantor irrevocably and exclusively agreed to act according to Wangxin Technology or any persons designated by the Wangxin Technology or successors and liquidators, as its attorneys-in-fact to exercise on its behalf, any and all right that it has in respect of its equity interests in Skill Rich.

Pursuant to the Equity Pledge Agreement entered into among Wangxin Technology, Vendor guarantor and Skill Rich (the “Equity Pledge Agreement”), the Vendor guarantor agreed to pledge all the respective equity interests in Skill Rich that they own, including any interest or dividend paid for the shares, to Wangxin Technology as a security interest to the Exclusive Option Agreements and the Power of Attorney.

Pursuant to the Agreements entered into among Wangxin Technology and the registered equity owners of Skill Rich, Wangxin Technology has held the entire 100% equity interest in Skill Rich with effect from 6 May 2019.

On 27 July 2015, Xin Yunlian Network (formally known as Yiu Yat International Limited) was incorporated in Hong Kong with limited liability with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1 each. On 22 May 2019, 10,000 shares were transferred to Xin Yunlian Investment at HK$1.

On 29 April 2019, Ningbo WFOE was established in the PRC as a wholly-owned foreign enterprise held by Xin Yunlian Network with a registered capital of USD30,000,000. USD3,190,000 and USD4,473,000 was paid in 31 October 2019 and 7 November 2019 respectively.

On 1 November 2019, Zhejiang Xin Yulian Cloud Technology Company Limited (“Ningbo OPCO I”) was established in the PRC with a registered capital of RMB173,000,000. On 5 November 2019, pursuant to the Acquisition agreement (the “Acquisition Agreement I”), Wangxin Technology agreed to transfer 51% of equity interest in Ningbo OPCO I to Ningbo WFOE with the RMB88,230,000.

On 1 November 2019, Zhejiang Xin Yulian Digital Technology Company Limited (''Ningbo OPCO II'') was established in the PRC with a registered capital of RMB100,000,000. On 5 November 2019, pursuant to the Acquisition agreement (the ''Acquisition Agreement II''), Wangxin Technology agreed to transfer 51% of equity interest in Ningbo OPCO II to Ningbo WFOE with the RMB51,000,000.

The companies now comprising the Target Group are under common control of Wangxin Technology. Pursuant to the Agreements and the Acquisition Agreement I & II, the Target Company became the holding company of the Target Group as the entire interests of the Target Group's subsidiaries were transferred to the Target Company on 5 November 2019.

As the Controlling Shareholder which controlled the Target Group before and after the Acquisition and the effectiveness of the Agreements are the same, the Financial Information has been prepared as a reorganisation of businesses under common control in a manner similar to pooling of interest. The Financial Information presents the Target Group's combined results and financial position as if the current group structure had been in existence throughout the Relevant Period and as if the business of Ningbo OPCO I & II had been transfer to the Target Group at the beginning of the earliest period presented.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Group for the Relevant Period including the results and cash flows of all companies now comprising Target Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of Wangxin Xin Yunlian, where this is a shorter period. The combined statements of financial position of the Target Group as at 31 December 2017, 2018 and 2019 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from Wangxin Xin Yunlian's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than Wangxin Xin Yunlian and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purposes of preparing and presenting the Historical Financial Information for the Track Record Periods, the Target Group has consistently applied the accounting policies which conform with HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("HK(IFRIC) – Int") issued by the HKICPA that are effective for the Target Group's accounting periods beginning on 1 January 2018 consistently throughout the Track Record Period, except that the Target Group adopted HKFRS 9 "*Financial Instruments*" from 1 January 2018 and HKAS 39 "*Financial Instruments Recognition and Measurement*" prior to 1 January 2018, HKFRS 15 "*Revenue from Contracts with Customers*" from 1 January 2018 and HKFRS 16 "*Leases*" from 1 January 2019.

3.1 HKFRS 9 "Financial Instruments"

The Target Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under *HKAS 39*.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 4.

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39 except for the impact of ECL.

Summary of effects arising from initial application of HKFRS 9

The following table and the accompanying notes below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Target Group's financial assets as at 1 January 2018.

	Note	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Original carrying amount under HKAS 39** *HK$'000*	**New carrying amount under HKFRS 9** *HK$'000*
Financial products	*(a)*	Designated as at FVTPL	Mandatorily at FVTPL	4,323	4,323
Trade, other receivables, prepayment and deposit		Loans and receivables	Amortised cost	71,325	71,325
Loans and interest receivables		Loans and receivables	Amortised cost	208,113	208,113
Bank balances and cash		Loans and receivables	Amortised cost	29,782	29,782
Total financial assets				313,543	313,543

Note:

(a) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Target Group no longer applied designation as measured at FVTPL for the portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9.

There was no significant impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

Impairment under ECL model

The Target Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables, loans and interest receivables and financial guarantee. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

ECL for other financial assets at amortised cost, including other receivable and deposit, amount due from related companies, amount due from non-controlling interests, loans to non-controlling interests and amount due from a shareholder restricted bank deposits and bank balances and cash, are assessed on 12-month ECL ("12mECL") basis as there had been no significant increase in credit risk since initial recognition.

The director of the Company reviewed and assessed the Target Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional impairment loss was recognised at 1 January 2018.

3.2 HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Target Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, i.e. 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated loss and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Target Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Target Group recognises revenue from provision of loan referral and consultancy services.

Information about the Target Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Note 4.

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 has no material impact on the Target Group's accumulated loss at 1 January 2018. The following adjustments were made to the amounts recognised in the combined statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Amounts before adoption of HKFRS 15	Adjustment resulted from adoption of HKFRS 15	As reported
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade, other payables and accruals	10,281	(3,336)	6,945
Contract liabilities	–	3,336	3,336
Balance at end of the year	10,281	–	10,281

The following table summaries the impact of applying HKFRS15 on the Target Group's combined statement of financial position as at 31 December 2018 and its combined statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the combined statement of financial position

	Amounts before adoption of HKFRS 15	Adjustment resulted from adoption of HKFRS 15	As reported
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade, other payables and accruals	12,885	(246)	12,639
Contract liabilities	–	246	246
Balance at end of the year	12,885	–	12,885

Impact on the combined statement of cash flows

	Amounts before adoption of HKFRS 15	Adjustment resulted from adoption of HKFRS 15	As reported
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Increase in trade, other payables and accruals	1,207	3,703	4,910
Decrease in contract liabilities	–	(3,703)	(3,703)

3.3 HKFRS 16 "Leases"

HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Target Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Target Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Target Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Target Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Target Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Target Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Target Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by the Target Group at 10.37%.

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	143
Lease liabilities discounted at relevant incremental borrowing rates	139
Less: Practical expedient – lease with lease term ending within 12 months from the date of initial application	(139)
Lease liabilities as at 1 January 2019	–

New and Amendments to HKFRSs in issue but not yet effective

The Target Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]
Amendments to HKFRS 16	COVID-19-Related Rent Concession[5]

[1] Effective for annual periods beginning on or after 1 January 2021.

[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

[3] Effective for annual periods beginning on or after a date to be determined.

[4] Effective for annual periods beginning on or after 1 January 2020.

[5] Effective for annual periods beginning on or after 1 June 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The director of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on the Target Group's Historical Financial Information in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs and on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 ''Share-based Payment'', leasing transactions that are within the scope of HKAS 17/HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 ''Inventories'' or value in use in HKAS 36 ''Impairment of Assets''.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

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

The principal accounting policies adopted are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved when the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target 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 listed above.

Consolidation of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Target Company and to the non-controlling interest even if this results in non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Target Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on combination.

Merger accounting for common control combinations

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or business first case under control of the controlling entity.

The net assets of the combining entities or businesses are consolidated using the existing carrying values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where is a shorter period.

Acquisition of a subsidiary not constituting a business

When the Combined Group acquires a group of assets and liabilities that do not constitute a business, the Combined Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets/financial liabilities at the respective fair value, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Investment in subsidiaries

Investment in subsidiaries are stated in the statement of financial position of the Target Company at cost less accumulated impairment losses.

Investment in associates

An associate is an entity over which the Target Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Target Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Target Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Target Group. When the Target Group's share of losses of an associate exceeds the Target Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Target Group's net investment in the associate), the Target Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Assets and liabilities classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Target Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Target Group will retain a non-controlling interest in the relevant subsidiary after the sale.

When the Target Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Target Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell which continue to be measured in accordance with the accounting policies as set out in respective sections.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transactions in Note 3)

Under HKFRS 15, the Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘‘control’’ of the goods or services underlying the particular performance obligation is transferred to the customers.

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 Target Group's performance as the Target Group performs;
- the Target Group's performance creates and enhances an asset that the customer controls as the Target Group performs; or
- the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

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

A contract asset represents the Target Group's right to consideration in exchange for goods or services that the Target Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Target Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer. Contractual liabilities are recognised as revenue when the Target Group performs under the contract.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations

For contracts that contain more than one performance obligations, the Target Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Target Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Target Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Target Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Target Group's performance in transferring control of goods or services.

As a practical expedient, if the Target Group has a right to consideration in an amount that corresponds directly with the value of the Target Group's performance completed to date, the Target Group recognises revenue in the amount to which the Target Group has the right to invoice.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Target Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Target Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Target Group is an agent).

The Target Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Target Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Target Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Target Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Target Group and when specific criteria have been met for each of the Target Group's activities as described below.

(i) Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have been passed, at which time all the following conditions are satisfied:

- the Target Group has transferred to the buyer the significant risks and rewards of ownership of the goods; and

- the Target Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(ii) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised by reference to the stage of completion of the transaction based on the services performed to date as a percentage of the total services to be performed.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that it is probable be recoverable.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

Plant, property and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Gains or losses arising from the retirement or disposal of an item of equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful life
Furniture and fittings	3 – 10 years

Where parts of an item of equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leases

The Target Group has applied HKFRS 16 using the modified retrospective approach and therefore the Historical Financial Information for the years ended 31 December 2017, 2018 and 2019 have not been restated and continues to be reported under HKAS 17 and HK(IFRIC) Int-4.

Definition of a lease (upon application of HKFRS 16 with transitions in accordance with Note 3)

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 Target 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.

Short-term leases and leases of low-value assets

The Target Group applies the short-term lease recognition exemption to leases of office premises 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.

Lease modifications

The Target 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.

The Target Group as lessee (prior to 1 January 2019)

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Intangible assets (other than goodwill)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Target Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the Relevant Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received 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 financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest is recognised on an effective interest basis.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Target Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, 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). 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.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the ‘‘other gains and losses’’ line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3)

The Target Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Target Group applies the ECL model to the following items:

- financial assets measured at amortised cost (including trade and other receivables, deposits paid, loans and interest receivables, amount due from related companies, amount due from non-controlling interests, loans to non-controlling interests, amount due from a shareholder, cash and cash equivalents and restricted bank deposits); and

- financial guarantee contracts issued.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (''12m ECL'') represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Target Group always recognises lifetime ECL for trade receivables and loans and interest receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively with internal credit ratings.

For all other instruments, the Target Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target 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. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- 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 Target Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Target Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

Irrespective of the above, the Target Group considers that default has occurred when a financial asset is more than 365 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

The Target Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target 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.

(v) Measurement and recognition of ECL

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.

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

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and loans and interest receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are mainly classified into following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL or (iii) contingent consideration that may be received by an acquirer as part of a business combination.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Target Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Target Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 33.

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Target Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Target Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loans receivables, trade and other receivables, deposits, cash held on behalf of clients, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

The criteria that the Target Group uses to determine that there is objective evidence of an impairment include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or other financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties; or
- deterioration in the value of collateral.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Target Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Target Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including borrowings, deferred consideration, trade payables and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Target Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Target Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Target Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Non-substantial modifications of financial liabilities (before application of HKFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

Financial guarantee contracts

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

Financial guarantee contracts issued by the Target Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, contingent liabilities and contingent assets; and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Employee benefits

Short term employee benefits contributions

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined contribution retirement plans

Pursuant to the relevant laws and regulations of the PRC, the Target Group's subsidiaries in the PRC have joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Target Group makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit before tax as reported in the combined statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax

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

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.

Cash and cash equivalents

For the purpose of the consolidated statements 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 Target Group's cash management.

For the purpose of the consolidated statements of financial position, bank balances including term deposits, which are not restricted as to use.

Guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the ''holder'') for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Target Group issues a guarantee, the fair value of the guarantee is initially recognised as deferred income within liabilities from guarantees. The fair value of guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Target Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The guarantee issued and not designated as at fair value through profit or loss is initially recognised at its fair value less transaction costs that are directly attributable to guarantees issued.

Credit losses from financial guarantees issued

Subsequent to initial recognition, the Target Company measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

The Target Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "liabilities from financial guarantees" in respect of the guarantees.

To determine ECLs, the Target Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured.

As the Target Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Target Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

Segment reporting

The Target Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the director for the decisions about resource allocation to the Target Group's business components and for the review of the performance of those components. The business components in the internal financial information reported to the director are determined following the Target Group's major business lines.

Foreign currencies

The Financial Information are presented in Hong Kong dollars, which is the Target Company's functional currency. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target 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 each of the Relevant Period. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

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).

Related parties

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

(i) has control or joint control of the Target Group;

(ii) has significant influence over the Target Group; or

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

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group. If the Target Group is itself such a plan, the sponsoring employers are also related to the Target Group;

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

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

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

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Group's Financial Information 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.

Critical judgements in applying the Target Group's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the director of the Target Company have made in the process of applying the Target Group's accounting policies and that have the most significant effect on the amounts recognised in the Historical Financial Information.

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant 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 loss recognised in respect of trade receivables

The Target Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customers' current credit-worthiness, as determined by review of their current credit information before adoption of HKFRS 9. The Target Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Target Group's expectations and the Target Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Impairment loss recognised in respect of other receivables, and prepayments and deposits

The Target Group estimates the impairment allowances for other receivables, and prepayments and deposits by assessing the recoverability based on credit history and prevailing market conditions before adoption of HKFRS 9. This requires the use of estimates and judgements. Allowances are applied to other receivables, and prepayments and deposits where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of other receivables, and prepayments and deposits and thus the impairment loss in the period in which such estimate is changed. The Target Group reassesses the impairment allowances at the end of the each reporting period.

Impairment allowances on loans and interest receivables

The Target Group reviews its loan portfolios to assess impairment periodically. In determining whether an impairment loss should be recorded in the profit or loss, the Target Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or local economic conditions that correlate with defaults on assets in the Target Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

Provision of ECL

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires significant judgment and estimation, in particular, the assessment of a significant increase in credit risk and credit-impaired financial assets as well as the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. At each reporting date, the Target Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Target Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Fair value measurement of other financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Income taxes

The Target Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the 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.

Provision of guarantee losses

The Target Group makes reasonable estimate on expense required to fulfil the relevant obligation of guarantee contracts when the Target Group computes the provisions of guarantee losses. Such estimation is made based on the available information as at the end of each reporting period and is determined by the Target Group's practical experience, default history of the business, taking into consideration of industry information and market data. It is possible that the practical experience and default history is not indicative of future loss on the guarantees issued. Any increase or decrease in the provision would affect profit or loss in future years.

Impairment loss on interests in associates

The director of the Target Company regularly review the recoverable amount of the associates (including its goodwill). Determining whether impairment is required involves the estimation of the value in use less costs of disposal of the associates which exceed the carrying amount of the associates. The value in use calculation requires the Target Group to estimate the future cash flows expected to arise and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2019, the carrying amount of associates net of accumulated impairment loss amounted to HK$Nil.

Impairment loss on intangible assets

The Target Group assesses whether there are any indications of impairment for intangible assets. If any such indication exists, the recoverable amount of the asset or the cash generating unit to which it belongs is estimated to determine impairment losses on the assets. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amount, which would affect profit or loss in future years. The recoverable amounts are reviewed by the management at least at the end of each reporting period.

6. OPERATING SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Target Company.

Operating segment Information

The Target Group's operations are organised into loan financing and advertising during the Relevant Period. Information reported to the chief operating decision maker ("CODM") for the purpose of resources allocation and assessment of segment performance is prepared on such basis. The Target Group is organised into the following reportable and operating segments:

– Loan financing segment represents loan financing, loan referral and consultancy services in the PRC.

– Advertising segment represents the provision of the e-commerce platform advertising support and carrying out outdoor advertising campaign in the PRC.

Segment revenue and results

The following is an analysis of the Target Group's revenue and results by reportable segments.

For the year ended 31 December 2017

	Loan financing	Advertising	Total
	HK$'000	*HK$'000*	*HK$'000*
SEGMENT REVENUE			
Recognised at a point in time	1,797	–	1,797
Recognised over time	–	11,721	11,721
Recognised from other source	10,424	–	10,424
	12,221	11,721	23,942
SEGMENT RESULTS	(11,701)	(1,168)	(12,869)
Unallocated corporate income			2,197
Unallocated corporate expenses			(27)
Gain on deemed disposal of a subsidiary			5,767
Loss before tax			(4,932)
Taxation			1,260
Loss for the year			(3,672)

For the year ended 31 December 2018

	Loan financing	Advertising	Total
	HK$'000	*HK$'000*	*HK$'000*
SEGMENT REVENUE			
Recognised at a point in time	31,700	–	31,700
Recognised over time	–	8,304	8,304
Recognised from other source	35,138	–	35,138
	66,838	8,304	75,142
SEGMENT RESULTS	5,529	(31,435)	(25,906)
Unallocated revenue			251
Unallocated cost of sales			(232)
Unallocated corporate income			211
Unallocated corporate expenses			(2,231)
Impairment loss, net of reversal			(5)
Loss before tax			(27,912)
Taxation			526
Loss for the year			(27,386)

For the year ended 31 December 2019

	Loan financing *HK$'000*	Advertising *HK$'000*	Total *HK$'000*
SEGMENT REVENUE			
Recognised at a point in time	26,077	–	26,077
Recognised over time	–	6,050	6,050
Recognised from other source	21,624	–	21,624
	47,701	6,050	53,751
SEGMENT RESULTS	(66,218)	(1,547)	(67,765)
Unallocated revenue			257
Unallocated cost of sales			(222)
Unallocated corporate income			459
Unallocated corporate expenses			(3,656)
Unallocated finance cost			(2,741)
Impairment loss on interest in associate			(1,119)
Impairment loss, net of reversal			(5,403)
Loss before tax			(80,190)
Taxation			3,335
Loss for the year			(76,855)

Segment assets and liabilities

The following is an analysis of the Target Group's assets and liabilities by reportable segments.

At 31 December 2017

	Loan financing	**Advertising**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	286,584	23,924	310,508
Unallocated bank balances and cash			2,411
Unallocated financial assets at fair value through profit or loss			4,323
Combined total assets			317,242
LIABILITIES			
Segment liabilities	92,460	983	93,443
Unallocated other payables			5
Unallocated amount due to director			22
Unallocated amount due to related companies			6,832
Unallocated amount due to non-controlling interests			10,868
Combined total liabilities			111,170

At 31 December 2018

	Loan financing	Advertising	Total
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	257,049	2,407	259,456
Unallocated bank balances and cash			2,393
Unallocated property, plant and equipment			9
Unallocated inventories			45
Unallocated trade, other receivables, prepayments and deposits			1,273
Unallocated financial assets at fair value through profit or loss			19,523
Unallocated amount due from non-controlling interest			6,726
Combined total assets			289,425
LIABILITIES			
Segment liabilities	113,962	2,771	116,733
Unallocated trade, other payables and accruals			349
Unallocated amount due to director			29
Unallocated amount due to related companies			143
Combined total liabilities			117,254

At 31 December 2019

	Loan financing	Advertising	Total
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	310,474	3,167	313,641
Unallocated bank balances and cash			769
Unallocated property, plant and equipment			5
Unallocated trade, other receivables, prepayments and deposits			23,503
Unallocated non-current asset held for sale			5,265
Unallocated financial assets at fair value through profit or loss			5,709
Unallocated amount due from non-controlling interest			10,826
Unallocated amount due from shareholders			390
Combined total assets			360,108
LIABILITIES			
Segment liabilities	156,153	2,713	158,866
Unallocated trade, other payables and accruals			95
Unallocated tax payables			1
Unallocated amount due to a director			120
Unallocated amount due to a shareholder			60,010
Unallocated amount due to non-controlling interest			6,264
Unallocated non-current liabilities held for sales			4,099
Combined total liabilities			229,455

Other information

For the year ended 31 December 2017

	Loan financing	Advertising	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Information included in segment results/segment assets:				
Depreciation	346	31	–	377
Finance costs	1,585	–	–	1,585
Impairment loss on trade and other receivables	1,894	762	–	2,656
Impairment loss on loans and interest receivables	4,404	–	–	4,404
Reversal of impairment loss on amount due from related parties	(16)	–	–	(16)
Provision of financial guarantee	2,691	–	–	2,691
Bank interest income	(26)	(2)	–	(28)
Loan interest income	(659)	–	–	(659)
Investment income from financial assets at fair value through profit or loss	–	–	(2,197)	(2,197)
Consultancy fee income	(16,386)	–	–	(16,386)

For the year ended 31 December 2018

	Loan financing	Advertising	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Information included in segment results/segment assets:				
Depreciation	493	134	2	629
Finance costs	7,983	–	–	7,983
Gain on disposal of property, plant and equipment	(62)	(1)	–	(63)
Impairment loss on trade and other receivables	1,208	7,313	5	8,526
Impairment loss on loans and interest receivables	13,661	–	–	13,661
Impairment loss on amount due from related parties	12	15	–	27
Provision of financial guarantee	2,236	–	–	2,236
Bank interest income	(7)	(2)	(7)	(16)
Investment income from financial assets at fair value through profit or loss	–	–	(203)	(203)
Service income	(2,083)	(93)	–	(2,176)

For the year ended 31 December 2019

	Loan financing	Advertising	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Information included in segment results/segment assets:				
Depreciation	552	168	4	724
Finance costs	6,702	99	2,853	9,654
Loss on disposal and written off of property, plant and equipment	–	3	–	3
Impairment loss (reversal of impairment loss) on trade and other receivables	16,815	(40)	–	16,775
Impairment loss on loans and interest receivables	3,586	–	–	3,586
Reversal of impairment loss on amount due from related parties	–	(15)	–	(15)
Impairment loss on intangible assets	52,404	–	–	52,404
Impairment loss on interest in associate	–	–	1,119	1,119
Impairment loss on amount due from non-controlling interest	51	–	5,403	5,454
Provision of financial guarantee	2,206	–	–	2,206
Bank interest income	(27)	(3)	(61)	(91)
Other loan interest income	(1,789)	–	–	(1,789)
Investment income from financial assets at fair value through profit or loss	(149)	–	–	(149)
Service income	(8)	–	–	(8)

Information about major customer

The Target Group has a large number of customers, none of whom contributed 10% or more of the Target Group's revenue during the Relevant Period.

Information about geographical area

The major operating entity of the Target Group is domiciled in the PRC. Accordingly, all of the Target Group's revenue were derived in the PRC during the Relevant Period.

As at 31 December 2017, 2018 and 2019, all of the non-current assets were located in the PRC.

7. REVENUE

Revenue represents income from the provision of trading, loan referral services, advertising services and loan financing.

The amount of each significant category of revenue recognised during the year is as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Trading income	–	251	257
Interest income from loan financing	10,424	35,138	21,624
Service fee from provision of loan referral services	1,797	31,700	26,077
Service fee from provision of advertising services	11,721	8,304	6,050
	23,942	75,393	54,008

8. LOSS FOR THE YEAR

Target Group's loss for the Relevant Period is stated after charging (crediting) the following:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	377	629	724
Depreciation of right-of-use assets	–	–	399
Impairment loss on trade and other receivables, net of reversal	2,656	8,526	16,775
Impairment loss on loans and interest receivables, net of reversal	4,404	13,661	3,586
(Reversal of impairment loss) impairment loss on amount due from related parties	(16)	27	(15)
Impairment loss on interest in an associate	–	–	1,119
Impairment loss on amount due from an associate	–	–	5,454
Impairment loss on intangible assets	–	–	52,404
Provision for financial guarantee	2,691	2,236	2,206
Cost of inventories recognised as expenses	–	232	222
Rents and rates	1,204	2,825	911
Staff costs including director's emoluments	25,302	30,088	22,424

9. DIRECTOR'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Director's emoluments

Director's emoluments paid to the director of the Target Group during the Relevant Period is as follows:

Year ended 31 December 2017

Name of director	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Pension scheme contribution *HK$'000*	Total *HK$'000*
Chen Zheng	–	–	–	–
	–	–	–	–

Year ended 31 December 2018

Name of director	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Pension scheme contribution *HK$'000*	Total *HK$'000*
Chen Zheng	–	–	–	–
	–	–	–	–

Year ended 31 December 2019

Name of director	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Pension scheme contribution *HK$'000*	Total *HK$'000*
Chen Zheng	–	–	–	–
	–	–	–	–

(b) Five highest paid individuals

The emoluments paid/payable to the five individuals whose emoluments were the highest in the Target Group during the Relevant Period are as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other employee benefits	3,047	3,487	2,855

The emoluments paid/payable to the above non-director individuals during the Relevant Period fell within the following band:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Nil to HK$1,000,000	5	5	5

10. TAXATION

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Current income tax expense	29	3,798	2,742
Under provision in prior years	–	–	305
Deferred income tax credit	(1,289)	(4,324)	(6,382)
	(1,260)	(526)	(3,335)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Relevant Period. No provision for Hong Kong Profits Tax has been made as the subsidiary of the Target Company in Hong Kong have no estimated assessable profits for the Relevant Period.

Under the Law of the PRC on Enterprises Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the applicable PRC Enterprise Income Tax rate of the Group's PRC subsidiaries of the Target Company was 25% for the Relevant Period.

Pursuant to the Notice of the Ministry of Finance (the ''MOF'') and the State Taxation Administration (the ''SAT'') on Further Expansion of the Scope of Preferential Income Tax Policies for Small Low-Profit Enterprises (Cai Shui [2018] No. 77)(《財政部 稅務總局關於進一步擴大小型微利企業所得稅優惠政策範圍的通知(財稅[2018]77號)》), Article 28 of the Enterprise Income Tax Law and the relevant provisions of Article 92 of the Rules for the Implementation relating to small low-profit enterprises, from 1 January 2018 to 31 December 2020, any income of the small low-profit enterprises of the Group whose annual taxable income is less than RMB1 million (including RMB1 million) shall be included in their taxable income at the reduced rate of 50%, and their enterprise income tax shall be paid at the rate of 20%.

Pursuant to the Notice of the MOF and the SAT on Implementing the Policy on Inclusive Tax Reliefs for Small and Micro Enterprises (Cai Shui [2019] No.13)(《財政部、稅務總局關於實施小微企業普惠性稅收減免政策的通知(財稅[2019]13號)》), which was promulgated on 17 January 2019, from 1 January 2019 to 31 December 2021, small and micro enterprises meet the standards under the notice can enjoy corresponding tax deductions for taxes. In 2019, the part of taxable income that is not in excess of RMB1 million is reduced to 25% of original total taxable income, and the applicable enterprise income tax rate is 20%. Additionally, the part of taxable income that is between RMB1 million and RMB3 million is reduced to 50% of original total taxable income, and the applicable enterprise income tax rate is 20%.

A reconciliation of income tax expense (credit) applicable to the (loss) profit before tax using applicable rate, is as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Loss before tax	(4,932)	(27,913)	(80,190)
Tax at applicable rate	(1,231)	(6,977)	(20,048)
Tax effect of expenses not deductible for tax purpose	946	3,054	13,944
Tax effect of income not taxable for tax purpose	(1,478)	(760)	(919)
Under provision in respect of prior years	–	–	305
Tax deduction	–	(1)	(12)
Utilisation of tax losses previously not recognised	(903)	(2,133)	–
Tax effect on tax losses not recognised	1,406	6,291	3,356
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	–	39
Income tax credit	(1,260)	(526)	(3,335)

Deferred tax assets in respect of unused tax losses has not been recognised in the financial statements due to the unpredictability of future profit stream against which the tax losses can be utilised in certain subsidiaries of the Target Group. The Target Group has unused tax losses of approximately HK$33,792,000 available to offset against future profits at 31 December 2019. The tax losses of the entities operating in Mainland China can be carried forward for 5 years.

11. DIVIDENDS

No dividend was paid or proposed to the shareholders of Target Company during the Relevant Period.

12. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fittings *HK$'000*
COST	
At 1 January 2017	1,737
Additions	577
Exchange realignment	154
At 31 December 2017 and 1 January 2018	2,468
Additions	2,932
Disposals	(469)
Exchange realignment	(228)
At 31 December 2018 and 1 January 2019	4,703
Additions	439
Disposals	(24)
Exchange realignment	(88)
At 31 December 2019	5,030

	Furniture and fittings
	HK$'000
ACCUMULATED DEPRECIATION	
At 1 January 2017	37
Charge for the year	377
Exchange realignment	18
At 31 December 2017 and 1 January 2018	432
Charge for the year	629
Disposals	(178)
Exchange realignment	(41)
At 31 December 2018 and 1 January 2019	842
Charge for the year	724
Disposals	(15)
Exchange realignment	(25)
At 31 December 2019	1,526
CARRYING AMOUNTS	
At 31 December 2019	3,504
At 31 December 2018	3,861
At 31 December 2017	2,036

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Furniture and fittings 3-10 years

14. RIGHT-OF-USE ASSETS

	Office premises *HK$'000*
As at 1 January 2019	
Carrying amount	–
As at 31 December 2019	
Carrying amount	786
For the year ended 31 December 2019	
Depreciation charge	399
Exchange realignment	(11)
Expense relating to short-term lease and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	911
Total cash outflow for lease	431
Additions to right-of-use asset	1,196

The Target Group leases various offices for its operations. Lease contracts are entered into for fixed term of 1 year to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Target Group applies the definition of a contract and determines the period for which the contract is enforceable.

Restrictions or covenants on leases

In addition, lease liabilities of HK$763,000 are recognised with related right-of-use assets of HK$786,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

15. INTANGIBLE ASSETS

All intangible assets of the Target Group are software and technology know-how during the Relevant Period.

	Software	Technology know-how	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2019	–	–	–
Additions	53,168	4,258	57,426
Exchange realignment	(764)	(61)	(825)
At 31 December 2019	52,404	4,197	56,601
IMPAIRMENT ALLOWANCE			
At 1 January 2019	–	–	–
Impairment loss recognised	52,404	–	52,404
At 31 December 2019	52,404	–	52,404
CARRYING AMOUNT			
At 31 December 2019	–	4,197	4,197

The intangible assets, represented technology know-how on credit assessment system relating to loan referral and loan financing business and software for E-commerce business acquired by the Target Group from its shareholder, Wangxin Technology.

During the year, the management performed impairment assessment on intangible assets of each cash-generating unit with aggregated carrying amount of HK$56,601,000 in accordance with HKAS 36. The management estimated the recoverable amount of those cash-generating units of which these intangible assets have been allocated. The recoverable amounts of those cash-generating units are lower than the carrying amount of these intangible assets and accordingly, an impairment loss of HK$52,404,000 is recognised for software.

16. INTEREST IN AN ASSOCIATE

	2019
	HK$'000
Cost of investment in an associate – unlisted	1,119
Less: Impairment allowance	(1,119)
	–

The following list contains only the particulars of an associate, whose quoted market price is not available:

Name	Place of incorporation and operation	Proportion of nominal ownership interest attributable to the Target Company			Principal activities
		2017	2018	2019 *(Note a)*	
Zhongyan Xin Shangmeng E-commerce Limited ("Zhongyan E-commerce") *(Note b)*	People Republic of China ("PRC")	–	–	25%	Trading of consumable goods and consultancy services

Notes:

(a) On 1 November 2019, 49% equity interest of Zhongyan Group was transferred from Wangxi Technology to the subsidiary of the Target Group, Xin Yunlian Digital, with RMB1,000,000 as part of capital injection.

(b) The recoverable amount of the investment in Zhongyan Group has been determined based on a value in use calculation. To determine the recoverable amount of Zhongyan Group, the Target Group used pre-tax cash flow projection based on the financial budgets approved by management covering a five-year period.

The interest on Zhongyan Group was fully impaired and the Target Group has no obligation to take up further losses. The amounts of the Target Group's unrecognised share of losses of Zhongyan Group for the current year and cumulatively were HK$5,013,000 and HK$5,013,000 respectively. Considering that there is no specific plan to revamp the business of Zhongyan Group, the directors of the Company are of the view that no reversal of the allowance for impairment should be made.

17. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and movement thereon during the Relevant Period.

	Provision for guarantee loss	Impairment loss on trade and other receivables	Impairment loss on loans and interest receivables	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	–	57	242	299
Credited to profit or loss	646	95	548	1,289
Exchange realignment	27	7	41	75
At 31 December 2017	673	159	831	1,663
Credited to profit or loss	583	725	3,016	4,324
Exchange realignment	(59)	(38)	(166)	(263)
At 31 December 2018	1,197	846	3,681	5,724
Credited to profit or loss	560	4,247	1,575	6,382
Exchange realignment	(29)	(75)	(87)	(191)
At 31 December 2019	1,728	5,018	5,169	11,915

18. LOANS AND INTEREST RECEIVABLES

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Unsecured loans	213,557	203,486	162,275
Less: Impairment allowance	(5,444)	(18,822)	(22,081)
	208,113	184,664	140,194

As at 31 December 2017, 2018 and 2019, the unsecured loan receivables are loans to the independent third parties in loan financing business, which are denominated in RMB and bear interests at rates ranging from 12% to 24% per annum, 11% to 24% per annum and 11% to 24% per annum, respectively.

An aging analysis of the loans and interest receivables that are individually not considered to be impaired as at the end of the reporting period, based on the payment due date, is as follows:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor individually impaired	202,644	184,664	140,194
Less than 1 month past due	3,409	–	–
1 to 3 months past due	1,430	–	–
3 to 6 months past due	630	–	–
6 months to less than 1 year past due	–	–	–
	208,113	184,664	140,194

Loans receivables that were neither past due nor individually impaired relate to a number of diversified borrowers for whom there was no recent history of default.

In respect of the loans which have been past due for less than one month, the amounts mainly represent occasional delay in repayment and are not indication of significant deterioration of credit quality of these loans.

The movements in impairment allowance of loans and interest receivables are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year	967	5,444	18,822
Impairment loss recognised	4,404	13,661	3,586
Exchange realignment	73	(283)	(327)
Balance at end of the year	5,444	18,822	22,081

19. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	16,591	27,369	14,359
Less: Impairment allowance	(548)	(8,912)	(7,876)
	16,043	18,457	6,483
Other receivables	43,674	31,845	72,530
Less: Impairment allowance	(2,353)	(2,365)	(19,980)
	41,321	29,480	52,550
Deposits	3,312	5,168	6,046
Prepayments	10,649	1,641	18,149
	71,325	54,746	83,228

As at 31 December 2017, 2018 and 2019, the following trade receivables, net of impairment, were past due but not impaired. These relate to numbers of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as following:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	16,043	18,457	6,483
	16,043	18,457	6,483

The movements in impairment allowance on trade receivables are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year	–	548	8,912
Impairment loss recognised	548	8,393	(881)
Exchange realignment	–	(29)	(155)
Balance at end of the year	548	8,912	7,876

The movements in impairment allowance on other receivables are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year	229	2,353	2,365
Impairment loss recognised	2,108	133	17,656
Exchange realignment	16	(121)	(41)
Balance at end of the year	2,353	2,365	19,980

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Financial products	4,323	19,523	2,572
Trust fund	–	–	3,137
	4,323	19,523	5,709

The balance of financial products represented financial investment products issued by a bank in PRC with variable return.

The balance of HK$3,137,000 in 2019 represents the fair value of a trust fund established in the PRC. The fair value of the trust fund was determined by an independent valuer. The assets of the trust fund primarily represent a portfolio of loan receivables with interest rate ranging from 1.5% to 2.0% per annum.

21. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Bank balances and cash	29,782	3,952	42,086
Restricted bank deposits	–	6,475	21,869
	29,782	10,427	63,955

As at 31 December 2017, 2018 and 2019, bank balances carry interest at prevailing market rates which range from Nil to 0.42%, Nil to 0.35% and Nil to 0.35% per annum, respectively.

Restricted bank deposits represented the deposits paid by the Target Group due to the provision of guarantees pursuant to the tripartite custodian agreements among online lending platforms/banks/loans financing companies/guarantee companies, customers and the Target Group. For the purpose of the combined cash flow statement, the Group's restricted bank deposits have been excluded from cash and cash equivalents.

22. TRADE, OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	–	108	–
Accruals	3,590	8,457	9,113
Other payables	3,355	4,074	4,930
Receipts in advance from customers	3,336	–	–
Deposit received	–	–	1,119
	10,281	12,639	15,162

23. BORROWINGS

		As at 31 December		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Other loans-unsecured	*(a)*	20,412	18,822	95,997
Other loans-secured	*(b)*	–	–	8,949
Bank loan-secured	*(c)*	–	–	30,202
		20,412	18,822	135,148

Notes:

(a) As at 31 December of 2017, 2018 and 2019 the interest-bearing of other loans bear interests at fixed interest rates 10%, ranging from 10% to 12% and 14% respectively, and are unsecured, repayable within 12 months and are carried at amortised cost.

(b) As at 31 December 2019, the interest-bearing other loans bear interests at fixed rate at 13% and are secured, repayable within 12 months and are carried at amortised cost.

The other loan was secured by the pledge of the Target Group's assets as set out in note 32.

(c) As at 31 December 2019, the interest-bearing bank loan bear interests at fixed rate at 7% and was pledged by a property provided by an independent third party, with maximum banking facilities of RMB27,000,000 (approximately to HK$30,202,000), repayable within 12 months and are carried at amortised cost.

24. LEASE LIABILITIES

Lease liabilities payable:

	2019
	HK$'000
Within one year	401
Within a period of more than one year but not more than two years	362
Within a period of more than two years but not more than five years	–
Within a period of more than five years	–
	763
Less: Amount due for settlement with 12 months shown under current liabilities	(401)
Amount due for settlement after 12 months shown under non-current liabilities	362

25. LIABILITIES FROM FINANCIAL GUARANTEES

	As at 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Provision of guarantee losses	2,690	4,787	6,910

Provision of guarantee losses

	As at 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	–	2,690	4,787
Provision for the year	2,691	2,236	2,206
Exchange realignment	(1)	(139)	(83)
	2,690	4,787	6,910

26. COMBINED SHARE CAPITAL

As mentioned in Note 2 above, the Historical Financial Information has been prepared as if the structure after the Reorganisation had been in existence throughout the Relevant Period, or since the respective dates of establishment of the combining companies, or since the date when the combining companies first came under the control of Wangxin Xin Yunlian Technology Limited, whichever is the shorter period. Combined share capital during the Relevant Period represents the combined share capital of Xin Yunlian Investment, Xin Yunlian Network and Xin Yunlian Financial.

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Xin Yunlian Investment	–	–	390
Xin Yunlian Network	10	10	–
Xin Yunlian Financial	60,009	60,009	–
Xin Yunlian Advertising	689	1,738	–
Ningbo WFOE	–	–	–
	60,708	61,757	390

On 16 April 2019, Xin Yunlian Investment issued 50,000 ordinary shares for USD50,000 (approximately HK$390,000) for cash.

On 27 July 2015, Xin Yunlian Network issued 10,000 ordinary shares for HK$10,000 for cash.

At 1 January 2017, the issued share capital of Xin Yunlian Financial was RMB91,520,000 (approximately HK$107,651,000). At 31 December 2017, 31 December 2018 and 2019, the issued share capital of Xin Yunlian Financial were RMB100,000,000 (approximately HK$117,645,000).

At 1 January 2017, the issued share capital of Xin Yunlian Advertising was RMB70,000 (approximately HK$80,000). At 31 December 2017, 31 December 2018 and 2019, the issued share capital of Xin Yunlian Advertising were increased to RMB21,195,000 (approximately HK$24,257,000), RMB23,010,000 (approximately HK$26,355,000) and RMB25,400,000 (approximately HK$29,121,000) respectively.

On 29 April 2019, Ningbo WFOE was established and the register share capital was USD30,000,000 (approximately HK$235,302,000). The share capital has been injected of USD3,190,000 and USD4,473,000 was paid in 31 October 2019 and 7 November 2019 respectively.

27. RELATED PARTY TRANSACTIONS

(a) In addition to those disclosed in other sections of the combined financial statements, the Target Group undertook the following transactions with related parties during the Relevant Period:

		Year ended 31 December		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Interest income	*(i)*			
– Wangxin Technology		309	–	995
– 杭州博野貿易有限公司 (Hangzhou Boye Trading Company Limited*)		–	237	–
– Zhongyan E-commerce		–	–	34
Interest expense	*(ii)*			
– Wangxin Technology		199	6,111	2,173
Other income – Consultancy fee income	*(iii)*			
– Wangxin Technology		9,737	–	–
– 北京華普聯合商業投資有限公司 (Beijing Huapu United Commercial Investment Company Limited*)		2,395	153	–
Consultancy expenses	*(iv)*			
– Wangxin Technology		–	2,788	18
– Zhongyan E-commerce and its subsidiaries		–	89	–
Revenue – Advertising services income	*(v)*			
– 浙江銀潤休閒旅游開發有限公司 (Zhejiang Yinrun Leisure Tourism Development Company Limited*)		673	1,856	–
Rental expense				
– Wangxin Technology	*(vi)*	–	518	–

* The English transliteration of Chinese name is included in this circular for reference only and should not be regarded as its official English name.

Notes:

(i) Interest income charged to Wangxin Technology at interest rate ranging from 8.5% to 10.0% and terms as agreed by both parties involved. Interest income charged to Hangzhou Boye Trading Company Limited, a non-controlling interest of Ningbo Yunlian Micro-Financing, at interest rate at 14.0% and terms as agreed by both parties involved.

(ii) Interest expense was charged by non-controlling interests at interest rate ranging from 7.5% to 10.0% and terms as agreed by both parties involved.

(iii) Consultancy fee income which received from Wangxin Technology and Beijing Huapu United Commercial Investment Company Limited, a non-controlling interest of Zhongyan Group, were carried out on commercial terms and conditions.

(iv) Consultancy fee expenses which paid to related companies were carried out on commercial terms and conditions.

(v) Revenue from the provision of advertising services which received from a related company, a non-controlling interests of Xin Yunlian Advertising, were carried out on commercial terms and conditions.

(vi) Rental expense which paid to Wangxin Technology, a non-controlling interest of the Target Group, were carried out on commercial terms and conditions.

(b) Amounts due from (to) non-controlling interests/a director/a shareholder

As at the end of each of the Relevant Period, the amounts due from/(to) non-controlling interest, Wangxin Technology, amount due to a director and amount due to a shareholder are unsecured, interest-free and repayable on demand.

(c) Amounts due from (to) related companies

As at the end of each of the Relevant Period, the amounts due from/(to) related companies listed as follows were unsecured, interest-free and repayable on demand:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Amount due from related companies *(Note)*			
– Zhejiang Yinrun Leisure Tourism Development Company Limited	–	293	–
	–	293	–

	As at 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Amount due to related companies *(Note)*			
– Zhongyan E-commerce and its subsidiaries	–	20	–
– Beijing Huapu United Commercial Investment Company Limited	6,832	–	–
– 華奧廣源礦業投資有限公司 (Huaao Guangyuan Mining Investment Company Limited*)	–	123	–
	6,832	143	–
Amount due to an associate			
– Zhongyan E-commerce and its subsidiaries	–	–	23
	–	–	23

	As at 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Maximum amount due from related companies during the year			
– Zhejiang Yinrun Leisure Tourism Development Company Limited	–	293	–
	–	293	–

* The English transliteration of Chinese name is included in this circular for reference only and should not be regarded as its official English name.

Note: The amount due from (to) related companies are unsecured, interest free and repayable on demand. Zhejiang Yinrun Leisure Tourism Development Company Limited is non-controlling interests of Xin Yunlian Advertising. Huaao Guangyuan Mining Investment Company Limited is a subsidiary of non-controlling interests of Xin Yunlian Advertising. Beijing Huapu United Commercial Investment Company Limited is non-controlling interests of Zhongyan Group.

(d) Loans to non-controlling interests

At 31 December 2018, the loan to a non-controlling interest, Hangzhou Boye Trading Company Limited, was unsecured, interest bearing at 14% and within one year. The maximum amount of the loan to the non-controlling interest was RMB3,000,000 (approximately HK$3,561,000) during the year of 2018. The loan has been settled during the year of 2019.

During the year ended 31 December 2019, the loan to a non-controlling interest, Wangxin Technology was unsecured, interest bearing at 8.5% to 10.0% and repayable within one year. The maximum amount of the loan to the non-controlling interest was RMB27,000,000 (approximately HK$30,155,000) during the year of 2019.

(e) Loans from non-controlling interests

As at the end of each of the Relevant Period, the loans from a non-controlling interest, Wangxin Technology are unsecured, interest bearing from 7.5% to 10.0% and repayable within one year.

(f) Compensation of key management personnel

The Director of the Target Company is the only key management personnel of the Target Company, neither of whom has received emolument in respect of her service rendered to the Target Group during the Relevant Period.

28. ASSETS AND LIABILITIES OF DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE

Hangzhou Zheng Pin Zheng Yuan Network Technology Company Limited (the ''Disposal Company'') was incorporated on 30 May 2018 and engaged in trading of consumable goods during the Relevant Period. The management of the Target Group considered that trading activities faced intense market competition and the Disposal Company failed to meet the expected business growth, therefore the Director of the Target Group decided to dispose of the Disposal company.

On 23 December 2019, the terms of the sale and purchase agreement were approved by the shareholders in an extraordinary general meeting of the Target Company.

On 30 December 2019, a subsidiary of the Target Group, Wangxin Xin Yunlian Equity Management (Zhejiang) Company Limited, entered into a sale and purchase agreement to dispose of a 60% equity interest of the Disposal company to Hangzhou Songsen Gaozheng Technology Company Limited (the ''Purchaser'') at RMB6,000,000 (the ''Disposal consideration''). On that date, the Purchaser held a 40% interest in the Disposal Company. The Disposal consideration represents the amount of share capital that the Target Group had committed to inject into the Disposal company. As advised by the Company, the Purchaser and its ultimate beneficial owner(s) are independent of the Company, Skill Rich Limited and their respective connected persons.

On 30 December 2019, a supplemental agreement was entered into and signed between Wangxin Xin Yunlian Equity Management (Zhejiang) Company Limited, the Purchaser and the beneficial owner of the Purchaser, to impose a condition that the 60% interest would not be transferred until the beneficial owner of the Purchaser settled a loan due from the Disposal Company to a member of the Target Group, amounting to RMB3,000,000.

Assets and liabilities of the Disposal Company were classified as 'Assets classified as held for sale' and 'Liabilities directly associated with assets classified as held for sale' respectively in accordance with HKFRS 5 as at 31 December 2019.

The major classes of assets and liabilities of the disposal company as at 31 December 2019, which have been presented separately in the combined statement of financial position, are as follows:

	2019
	HK$'000
Assets classified as held for sale	
Inventory	22
Trade and other receivables	190
Prepayment and deposit	4,951
Bank balance and cash	57
Amount due from NCI	45
Total assets of the Disposal company held for sale	5,265
Liabilities directly associated with assets classified as held for sale	
Trade and other payables	(715)
Amount due to a fellow subsidiary	(3,356)
Amount due to a shareholder	(28)
Total liabilities of the Disposal company directly associated with assets classified as held for sale	(4,099)

Cumulative amount of HK$131,000 relating to the disposal company classified as held for sale has been recognised in other comprehensive income and included in equity.

At the date of this report, the disposal has not yet completed.

29. OPERATING LEASE

Target Group as lessee

Target Group recognised minimum lease payments in respect of its office premises amounting to approximately HK$1,204,000 and HK$2,825,000 during the years ended 31 December 2017 and 2018.

At the end of each of the Reporting Period, Target Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Within one year	2,182	150
In the second to fifth year inclusive	26	11
	2,208	161

30. GUARANTEES ISSUED

The total maximum guarantees issued are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Financial guarantees	22,624	98,300	317,541

31. CAPITAL COMMITMENT

As at 31 December 2017, 2018 and 2019, the Target Group had no capital commitment.

32. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general credit facilities granted to the Group:

	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Loan and interest receivables	–	–	17,061

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

33.1 General information of subsidiaries

Details of the major subsidiaries directly and indirectly held by the Target Company at the end of the Relevant Period are set out below:

Name	Place and date of incorporation	Principal activities	Issued/registered share capital	Percentage of equity attributable to the Target Company Directly At 31.12			Indirectly At 31.12		
				2017	2018	2019	2017	2018	2019
Xin Yunlian Network Technology Limited	Hong Kong, 27 July 2015	Inactive	HK$10,000	100%	100%	100%	–	–	–
Ninbo Rinxin Investment Company Limited	PRC, 29 April 2019	Investment holding	US$30,000,000	–	–	–	–	–	100%
Zhejiang Xin Yunlian Digital Technology Company Limited	PRC, 1 November 2019	Investment holding	RMB100,000,000	–	–	–	–	–	51%
Zhejiang Xin Yunlian Cloud Technology Company Limited	PRC, 1 November 2019	Investment holding	RMB173,000,000	–	–	–	–	–	51%
Wangxin Xin Yunlian Financial Information Service (Zhejiang) Company Limited	PRC, 28 December 2015	Engaged in financial referral service	RMB100,000,000	–	–	–	51%	51%	51%
Xin Yunlian Advertising Media (Zhejiang) Company Limited	PRC, 4 January 2016	Provision of advertising service	RMB50,000,000	–	–	–	31%	31%	31%
Wangxin Xin Yunlian Equity Management (Zhejiang) Company Limited	PRC, 9 August 2016	Investment holding	RMB50,000,000	–	–	–	51%	51%	51%
Ninbo Yunlian Micro-Financing Company Limited	PRC, 22 June 2016	Engaged in loan financing services	RMB150,000,000	–	–	–	31%	31%	31%
Hangzhou Zhengpin Zhengyuan Network Technology Company Limited	PRC, 30 May 2018	Trading	RMB1,000,000	–	–	–	–	31%	31%

33.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of major non-wholly-owned subsidiaries of the Target Group that have material non-controlling interests in Relevant Period:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests			(Loss) profit allocated to non-controlling interests			Accumulated non-controlling interests		
		31.12.2017	31.12.2018	31.12.2019	31.12.2017	31.12.2018	31.12.2019	31.12.2017	31.12.2018	31.12.2019
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Zhejiang Xin Yunlian Digital Technology Company Limited	PRC	–	–	49%	–	–	(4,269)	–	–	50,505
Zhejiang Xin Yunlian Cloud Technology Company Limited	PRC	–	–	49%	–	–	(25,233)	–	–	69,005
Wangxin Xin Yunlian Financial Information Service (Zhejiang) Company Limited	PRC	49%	49%	49%	(4,627)	884	(3,401)	52,990	53,874	(7,190)
Ninbo Yunlian Micro-Financing Company Limited	PRC	69%	69%	69%	8,936	(3,606)	2,623	68,282	64,675	67,208
Xin Yunlian Advertising Media (Zhejiang) Company Limited	PRC	69%	69%	69%	4,744	(21,536)	2,824	28,271	7,743	8,897
Wangxin Xin Yunlian Equity Management (Zhejiang) Company Limited	PRC	49%	49%	49%	22	(47)	7	23	(24)	(18)
Hangzhou Zhengpin Zhengyuan Network Technology Company Limited	PRC	–	69%	69%	–	(591)	(2,292)	–	1,402	2,648
Xiwang Culture Communication (Shanghai) Company Limited^*	PRC	–	69%	69%	–	(939)	(62)	–	(939)	(1,000)

* The English transliteration of Chinese name is included in this circular for reference only and should not be regarded as its official English name.

Summarised financial information in respect of each of the Target Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Wangxin Xin Yunlian Financial Information Service (Zhejiang) Company Limited

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Current assets	114,141	111,208	95,972
Non-current assets	109,205	110,085	115,283
Current liabilities	115,203	111,359	118,277
Non-current liabilities	–	–	–
Equity attributable to owners of the Target Company	55,153	56,060	42,512
Non-controlling interests	52,990	53,874	50,466

	For the year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	1,797	37,490	26,076
Expenses	11,560	33,237	49,979
(Loss) profit for the year	(9,294)	1,848	(16,902)
(Loss) profit attributable to owners of the Target Company	(4,740)	943	(8,620)
(Loss) profit attributable to non-controlling interests	(4,554)	905	(8,282)
(Loss) profit for the year	(9,294)	1,848	(16,902)

	For the year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Other comprehensive income (expense) attributable to owners of the Target Company	(77)	(23)	(5,080)
Other comprehensive income (expense) to non-controlling interests	(73)	(21)	(4,880)
Other comprehensive income (expense) for the year	(150)	(44)	(9,960)
Total comprehensive (expense) income attributable to owners of the Target Company	(4,817)	920	(3,541)
Total comprehensive (expense) income to non-controlling interests	(4,627)	884	(3,401)
Total comprehensive (expense) income for the year	(9,444)	1,804	(6,942)
Net cash outflow from operating activities	(40,061)	(55,456)	(3,461)
Net cash inflow (outflow) from investing activities	(4,889)	(9,648)	11,514
Net cash inflow from financing activities	67,445	42,175	324
Net cash inflow (outflow)	22,495	(22,929)	8,377

Summarised financial information in respect of each of the Target Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Ninbo Yunlian Micro-Financing Company Limited

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Current assets	226,691	207,249	211,379
Non-current assets	2,558	7,543	7,994
Current liabilities	56,034	46,904	47,704
Non-current liabilities	–	–	–
Equity attributable to owners of the Target Company	104,933	103,213	104,461
Non-controlling interests	68,282	64,675	67,208

	For the year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	11,404	35,138	21,825
Expenses	29,847	34,363	13,834
Profit for the year	618	4,396	6,852
Profit attributable to owners of the Target Company	190	1,345	2,096
Profit attributable to non-controlling interests	428	3,051	4,756
Profit for the year	618	4,396	6,852

	For the year ended 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Other comprehensive (expense) income attributable to owners of the Target Company	3,749	(2,935)	(940)
Other comprehensive (expense) income to non-controlling interests	8,508	(6,657)	(2,132)
Other comprehensive (expense) income for the year	12,257	(9,592)	(3,072)
Total comprehensive income (expense) attributable to owners of the Target Company	3,939	(1,590)	1,157
Total comprehensive income (expense) to non-controlling interests	8,936	(3,606)	2,623
Total comprehensive income (expense) for the year	12,875	(5,196)	3,780
Net cash (outflow) inflow from operating activities	6,701	4,659	(13,204)
Net cash inflow (outflow) from investing activities	(4,319)	(7,111)	4,296
Net cash inflow from financing activities	–	–	39,722
Net cash inflow (outflow)	2,382	(2,452)	30,814

Summarised financial information in respect of each of the Target Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Xin Yunlian Advertising Media (Zhejiang) Company Limited

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Current assets	31,378	2,122	1,749
Non-current assets	430	444	1,419
Current liabilities	983	2,771	2,350
Non-current liabilities	–	–	362
Equity (capital deficiency) attributable to owners of the Target Company	2,554	(7,948)	(9,441)
Non-controlling interests	28,271	7,743	8,897

	For the year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	11,721	8,034	6,050
Expenses	8,157	23,828	5,867
Loss for the year	(519)	(31,881)	(1,547)
Loss attributable to owners of the Target Company	(388)	(9,755)	(473)
Loss attributable to non-controlling interests	(131)	(22,126)	(1,074)
Loss for the year	(519)	(31,881)	(1,547)

	For the year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Other comprehensive income attributable to owners of the Target Company	2,296	260	1,718
Other comprehensive income to non-controlling interests	4,875	590	3,898
Other comprehensive income for the year	7,171	850	5,616
Total comprehensive income (expense) attributable to owners of the Target Company	1,908	(9,495)	1,205
Total comprehensive income (expense) to non-controlling interests	4,744	(21,536)	2,864
Total comprehensive income (expense) for the year	6,652	(31,031)	4,069
Net cash outflow from operating activities	(22,026)	(8,510)	(1,179)
Net cash (outflow) inflow from investing activities	(6,084)	6,305	(690)
Net cash inflow from financing activities	30,130	2,154	2,767
Net cash inflow (outflow)	405	(1,713)	1,202

34. CONTINGENT LIABILITIES

As at the end of the Relevant Period, Target Group did not have any significant contingent liabilities.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Group's combined statement of cash flows as cash flows from financing activities.

	Loan from a non-controlling interest	**Borrowings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2017	–	3,350	3,350
Financing cash flows	57,665	42,672	100,337
Exchange realignment	2,370	916	3,286
Financing cash outflows	–	(26,526)	(26,526)
At 31 December 2017 and 1 January 2018	60,035	20,412	80,447
Financing cash flows	183,970	26,620	210,590
Exchange realignment	(4,036)	(1,059)	(5,095)
Financing cash outflows	(161,419)	(27,151)	(188,570)
At 31 December 2018 and 1 January 2019	78,550	18,822	97,372
Financing cash flows	–	128,760	128,760
Exchange realignment	(242)	(2,027)	(2,269)
Financing cash outflows	(78,308)	(10,407)	(88,715)
At 31 December 2019	–	135,148	135,148

36. EVENTS AFTER THE REPORTING PERIODS

Impact of Novel Coronavirus Outbreak to the Target Group

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has impact on the global business environment. Up to the date of these financial results, COVID-19 has not resulted in material impact to the Target Group. Pending on the development and spread of COVID-19 subsequent to the date of these financial results, further changes in economic conditions for the Target Group arising thereof may have impact on the financial results of the Target Group, the extent of which could not be estimated as at the date of these financial results. The Target Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Target Group.

37. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged throughout the Relevant Period.

The capital structure of the Target Group consists of debts (mainly including borrowings, amount due to related companies, amount due to non-controlling interests, amount due to a director and loans from non-controlling interests), net of bank balances and cash, and equity attributable to owners of the Target Company, comprising registered capital and reserves.

The management of the Target Group reviews the capital structure from time to time. As part of this review, the management of the Target Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director of the Target Company, the Target Group will balance its overall capital structure through issue of capital as well as the issue of new debt or the redemption of existing debts.

38. FINANCIAL INSTRUMENTS

Categorise of Financial Instruments

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
The Target Group			
Financial assets			
Financial assets at amortised cost (including cash and cash equivalents)	–	255,214	310,662
Loans and receivables (including cash and cash equivalents)	298,571	–	–
Financial assets at fair value through profit or loss	4,323	19,523	5,709
	302,894	274,737	316,371
Financial liabilities			
Amortised costs	100,608	100,717	207,998
	100,608	100,717	207,998

Financial Risk Management Objectives and Policies

The Target Group's major financial instruments include bank balances, restricted bank deposits, amount due from (to) non-controlling interests, amount due from (to) related companies, financial assets at fair value through profit or loss, trade and other receivables, deposits, loans and interest receivables, loans from non-controlling interests, borrowings, trade and other payables, and financial guarantee contracts. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (i.e. interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Target Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Target Group's operations were all carried out in the PRC during the Relevant Period and it mainly earned revenue and incurred costs and expenses in RMB, the management of the Target Group assessed that currency risk is insignificant. The Target Group is exposed to other financial risks, including principally interest rate risk, credit risk and liquidity risk. Continuous monitoring of these risks ensures that the Target Group is protected against any adverse effects of such risks so far as it is possible and foreseeable.

Interest rate risk

The Target Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings disclosed in Notes 23 and 27(b) to the financial statement. The Target Group is also exposed to cash flow interest rate risk in relation to floating-rate bank balances and restricted bank deposits. The Target Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk and impairment assessment

The Target Group's maximum exposure to credit risk in relation to each class of recognised financial assets is the carrying amount of those assets. Other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk as stated in the consolidated statements of financial position, the Target Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period which will cause a financial loss to the Target Group arising from the amount of financial guarantees provided by the Target Group is disclosed in Note 25 to the financial statement. The Target Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and financial guarantee contracts.

The Target Group's credit risk is primarily attributable to its restricted bank balance, trade and other receivables, deposits, loans and interest receivables and financial guarantee contracts. In order to minimise the credit risk, the Target Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts, and reviews ECL/provision of financial guarantee contracts to ensure financial guarantee contracts are correctly measured to reflect the credit risk. In this regard, the director of the Target Group considers that the Target Group's credit risk is significantly reduced.

The director of the Target Group has assessed that the expected credit risk and credit loss for amount due from a related company. The director of the Target Group has assessed that the expected credit risk and credit loss for amount due from non-controlling interests is insignificant considering that there is a balance of loans from non-controlling interests. Thus, no loss allowance provision for amount due from non-controlling interests was recognised during the Relevant Period.

Trade receivables

For trade receivables, the Target Group has applied the simplified approach in HKFRS 9 with reference to the assessment from independent professional qualified valuer to measure the loss allowance at lifetime ECL. The Target Group determines the ECL on these items on individual basis, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Other receivables, deposits, and loans and interest receivables

For other receivables and deposits and loans and interest receivables, the Target Group has applied the general approach in HKFRS 9 with reference to the assessment from independent professional qualified valuer to measure the loss allowance approximate to such at 12m ECL when the Directors did not expect any significant increase in credit risk. The Target Group determines the ECL on these items by assessed individually for certain debtors with disputes, estimated based on historical credit loss experience on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Restricted bank deposits and bank balances

The restricted bank deposits and bank balances are determined to have low risk at the end of the Relevant Period. The credit risk on restricted bank deposits and bank balances is limited because the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

Financial guarantee contracts

For financial guarantee contracts, the maximum amount that the Target Group has guaranteed under the respective contracts was disclosed in Note 29 to the financial statement. At the end of the reporting period, the director of the Target Group has performed impairment assessment with reference to the assessment from independent professional qualified valuer. The provision of guarantee losses has been disclosed in Note 25 to the financial statement.

Liquidity risk

Management aims to maintain sufficient cash to meet funding requirement for operations and monitor rolling forecasts of Target Group's cash on the basis of expected cash flows.

The table below analyses Target Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Liquidity table

As at 31 December 2017

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2017
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	–	2,439	–	–	–	2,439	2,439
Borrowings – fixed rate	10%	15,649	80	5,163	–	20,892	20,412
Amount due to a director	–	22	–	–	–	22	22
Amount due to related companies	–	6,832	–	–	–	6,832	6,832
Amount due to non-controlling interests	–	10,868	–	–	–	10,868	10,868
Loans from non-controlling interests	8.5%	425	850	61,011	–	62,286	60,035
		36,235	930	66,174	–	103,339	100,608

As at 31 December 2018

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2018
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	–	3,173	–	–	–	3,173	3,173
Borrowings – fixed rate	10.37%	3,638	4,347	11,496	–	19,481	18,822
Amount due to related companies	–	143	–	–	–	143	143
Amount due to a director	–	29	–	–	–	29	29
Loans from non-controlling interests	8.91%	583	1,167	80,385	–	82,135	78,550
		7,566	5,514	91,881	–	104,961	100,717

As at 31 December 2019

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2019
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	–	5,669	–	–	–	5,669	5,669
Borrowings – fixed rate	20.24%	27,052	2,439	111,407	–	140,898	135,148
Amount due to a shareholder	–	60,010	–	–	–	60,010	60,010
Amount due to non-controlling interest	–	6,264	–	–	–	6,264	6,264
Amount due to a director	–	120	–	–	–	120	120
Amount due to associate		23	–	–	–	23	23
Lease liabilities	10.37%	38	75	311	350	774	764
		99,176	2,514	111,718	350	213,758	207,998

39. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Target Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets is determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 31/12/2017	31/12/2018	31/12/2019	Fair value hierarchy	Valuation technique and key input(s)
	HK$'000	*HK$'000*	*HK$'000*		
Investment in low risk bank financial products	4,323	19,523	2,572	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio
Trust fund	–	–	3,137	Level 3	Adjusted net assets approach the book value of assets and liabilities of the investee are adjusted to their fair value

The following table represents the changes in Level 3 financial assets at FVTPL during the Relevant Period.

	As at 31 December 2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	20,436	4,323	19,523
Addition	253,784	350,610	309,181
Disposal	(273,000)	(334,325)	(322,927)
Total gain recognised in profit or loss	(2,197)	(203)	76
Exchange realignment	5,300	(882)	(144)
At end of the year	4,323	19,523	5,709

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

The following management discussion and analysis is based on the combined financial information included in the accountants' report on historical financial information of the Target Group as set out in Appendix II to this circular for the three years ended 31 December 2017, 2018 and 2019 (the "**Track Record Period**").

BUSINESS REVIEW

The principal activities of the Target Group comprised e-commerce business in respect of non-cigarette products (financial information of which is included in appendix IV to this circular), financial services (including micro-financing and financing referral operations) and advertising business. All operations are targeted to the 5.6 million tobacco retailers with tobacco monopoly qualification authorized by the State Tobacco Monopoly Administration by leveraging tobacco channels, with the purpose of enabling such tobacco retailers to develop their business and extending its operations to cover smokers and their families which are customers of such tobacco retailers. As at present, the Target Group has approximately 4.4 million registered tobacco retailers on its platform.

FINANCIAL RESULTS

The extracts of combined financial results of the Target Group for the Track Record Period is illustrated as below:

(HK$'000)	**2017**	**2018**	**2019**
Revenue	**23,942**	**75,393**	**54,008**
Cost of sales	(4,687)	(16,604)	(1,935)
Gross profit	**19,255**	**58,789**	**52,073**
Administrative expenses	**(38,132)**	**(58,194)**	**(42,929)**
Loss for the year	**(3,672)**	**(27,386)**	**(76,801)**

The segment results of the Target Group for the Track Record Period is illustrated as below:

Segment revenue (HK$'000)	**2017**	**%**	**2018**	**%**	**2019**	**%**
Interest from micro-financing	10,424	43%	35,138	47%	21,624	40%
Financing referral service income	1,797	8%	31,700	42%	26,077	49%
Total revenue from Loan Financing	***12,221***	***51%***	***66,838***	***89%***	***47,701***	***89%***
Advertising service income	11,721	49%	8,304	11%	6,050	11%
Total revenue	**23,942**	**100%**	**75,142**	**100%**	**53,751**	**100%**

Segment profit (loss) (HK$'000)	**2017**	**2018**	**2019**
Segment (loss) profit from Loan Financing	(11,701)	5,529	(66,218)
Segment loss from Advertising	(1,168)	(31,435)	(1,547)
Total segment loss for the year	**(12,869)**	**(25,906)**	**(67,765)**

Financial results review for the Track Record Period

(i) Advertising and related service

The Target Group recorded an increase in the impairment loss in its advertising business in the Track Record Period. In 2017, the Target Group was committed to a fixed-term agreement for the use of billboards at bus terminals in Shanghai for its outdoor advertising service offering. The Target Group provided billboard advertising services to its clients. In 2018, a major client defaulted in its payment of advertising fee. This client accounted for over 50% of the total advertising revenue. As a result, a significant impairment in the trade receivable was recorded in 2018.

From 2019 onwards, the advertising operation has been maintained on a limited scale to the provision of advertising consultancy services, with no further significant capital or lease commitment incurred, and the Target Group has shifted its focus to the loan financing services, in particular the loan referral operation. As such, the proportion of segment revenue from the loan referral operation has increased from 8% in 2017 to 49% of total revenue of the Target Group in 2019, while the proportion of segment revenue from advertising segment has continued to drop from 49% to 11% of the total revenue from 2017 to 2019. Going forward, the loan financing service segment will continue to expand and the advertising operation will serve to support the development and expansion of the loan financing service segment.

(ii) Loan financing service

In 2017, for its micro-financing business, the Target Group charged an interest rate ranging from 12% to 24% per annum based on the credit assessment of each individual borrower. The Target Group also co-operated with certain P2P platforms to which it referred potential borrowers and acted as a guarantor of such borrowers. The Directors considered that the rates charged by the Target Group were in line with the market.

In 2018, the Target Group started to enter into more co-operative agreements with local and regional banks where the banks would provide financing to the borrowers referred by the Target Group. As a result, loan referral income and loan interest income rose significantly in 2018 to almost triple the total revenue of loan financing operation in 2017. The Directors considered that the referral fee from 3% to 6% charged by the Target Group were in line with the market.

The business slowed down in the second and third quarter of 2019 as the Target Group underwent some internal restructuring in order to reduce the overall cost and improve the profitability.

In 2019, there was an increase in bad debts as a result of the meltdown of the PRC sector in the PRC since 2018 and certain debtors refused to pay the loans they obtained via the P2P platform. As a result, Target Group had to repay the loans obtained by the borrowers via the P2P platform which it had committed to the repayment of these loans defaulted on the repayment.

During the course of its operation prior to 2019, the Target Group appointed certain financing referral agents in various locations to refer borrowers which are not limited to tobacco retailers as the customers of the Target Group for the loan financing services operation, resulting in loans having been granted, and financing referral services having been rendered, to customers other than tobacco retailers. Certain customers sourced in this way failed to repay the loans directly granted by the micro-financing operation of the Target Group or loans granted by financial institutions for which the Target Group had committed to the repayment of the same defaulted on the repayment. Accordingly, impairment loss were incurred in both 2018 and 2019 which in turn contributed to the overall loss.

It is noted that the losses in the micro-financing operation in 2019 was due to an impairment of intangible assets amounting to HK$52.4 million which is non-cash in nature and resulted from incidents that are non-recurring. This is further mitigated by the fact that the loan referral operation would benefit from the cooperation between the Target Group and more reputable banks in the fourth quarter of 2019. Additionally, with the significant impairment recorded in 2019, such impairment is expected to return to normal in the future years especially due to the strengthening of credit control and risk assessment.

In furtherance of cost control, it is noted that for each of 2017, 2018 and 2019, around 50% of the total administrative expenses are staff and staff related costs. The high staff related cost as compared to the revenue has partially contributed to the relatively low profitability of the Target Group as a whole. Since 2019, cost control measures, including but not limited to an internal staff restructuring plan, have been implemented to streamline the manpower and efficiency of the team and it is expected that there is further room for reduction in cost and improvement in the overall profitability of the Target Group.

FINANCIAL POSITION

Set out below is the financial position of the Target Group for the Track Record Period as extracted from the accountant's report set out in Appendix II to this circular:

(HK$'000)	**2017**	**2018**	**2019**
Non-current assets	3,699	9,585	20,402
Current assets	313,543	279,840	334,441
Assets held for sale	–	–	5,265
Total assets	**317,242**	**289,425**	**360,108**
Non-current liabilities	–	–	(362)
Current liabilities	(111,170)	(117,254)	(224,994)
Liabilities directly associated with assets classified as held for sale	–	–	(4,099)
Total liabilities	**(111,170)**	**(117,254)**	**(229,455)**
Net assets	206,072	172,171	130,653

Assets

The non-current assets of the Target Group represented mainly furniture and fittings of the offices and deferred tax assets derived from the impairment loss on the receivables in 2017 and the increase in 2018 was mainly due to the increase in the deferred tax assets as the impairment loss in receivables increased due to the increase in non-collectible debt of the financing operation as mentioned in the financial review above. In 2019, the amount further increased as the impairment loss in receivables increased and an intangible assets of a software for data management with the carrying amount of approximately HK$4 million was noted.

During the Track Record Period, the total current assets increased as the Target Group had undergone a restructuring which resulted in an aggregate amount of approximately HK$46 million being amount due from or loan to certain related parties of the Target Group. The bank balances and cash of the Target Group at the same time improved in 2019.

Liabilities

The increase in current liabilities is mainly due to the increase in borrowings in 2019.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Capital structure

The primary objectives of the Target Group's capital management are to safeguard the Target 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 Target 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 Target Group may adjust the dividend payment to owners, return capital to owners or request additional capital from owners. The Target 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 Track Record Period.

Funding and treasury policy

The Target Group has adopted a prudent funding and treasury policy towards its overall business operations with an aim to minimise its financial risks.

Cash resources

The Target Group financed working capital and capital expenditures principally through the capital injection, the utilisation of short term bank borrowings, loans from non-controlling entity and other loans.

Bank borrowings and facilities

The Target Group has obtained interest-bearing other loans as at 31 December 2017, 2018 and 2019 for its operation. Interest rate of other loans ranged from 10%-12% per annum and were repayable within 12 months and carried at amortised cost.

As at 31 December 2019, the interest-bearing bank loan bear interests at fixed interest rate at 7%, and was pledged by a property provided by an independent third party and secured by the management of Ningbo Yunlian Micro-Financing, with maximum banking facilities of RMB27,000,000 approximately to HK$30,202,000, repayable within 12 months and were carried at amortised cost.

Gearing ratio

As at 31 December 2017, 31 December 2018, 31 December 2019, the gearing ratio of the Target Group (calculated as a percentage of net debts (being the sum of current liabilities less cash and bank balances) to total equity of the Target Group) was approximately 39.49%, 65.8% and 62.3%, respectively. The increase in gearing ratios was primarily attributable to the decrease in the amount of cash and bank balances of the Target Group for the year ended 31 December 2018.

EMPLOYEES AND REMUNERATION POLICIES

The Target Group employed a total of 227, 194 and 200 full-time employees as at 31 December 2017, 31 December 2018 and 31 December 2019, respectively. Staff costs for the years ended 2017 and 2018 and 2019 were HK$25.3 million, HK$30.1 million, HK$22.4 million respectively. The Target Group provides its employees with competitive remuneration and contributes to the necessary defined benefit or contribution pension plans in complying with relevant regulatory requirements.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2017, 31 December 2018, and 31 December 2019, the bank balances and cash and borrowings of the Target Group were mainly held in Renminbi and therefore the Target Group had no foreign exchange exposure.

PLEDGE OF ASSETS

As at 31 December 2017 and 2018 the Target Group had no pledge of assets. As at 31 December 2019, the Target Group had pledged loans and interest receivables of approximately HK$17.6 million. For details, please refer to note 32 in Appendix II to this circular.

CAPITAL COMMITMENTS

As at 31 December 2017, 31 December 2018, and 31 December 2019, the Target Group had no capital commitments.

Contingent liabilities

The Target Group did not have any contingent liabilities as at 31 December 2019.

ACQUISITION AND DISPOSAL AND SIGNIFICANT INVESTMENTS

Saved as acquisitions in relation to the group reorganisation for the purpose of the Acquisition (including the acquisition of Xin Yunlian Digital) and as disclosed in ''Appendix II-Financial Information of the Target Group – 2. Group reorganization and basis of preparation of the historical financial information'', the Target Group did not have any significant investment, material acquisition or disposal during each of the years ended 31 December 2017, 2018 and 2019.

DIVIDEND

No dividend was paid or declared by the Target Company during the Track Record Period.

PROSPECTS AND OUTLOOK

Following Completion, the business of the Target Group will be combined and integrated with the Group's existing loan financing in Hong Kong and the PRC. For further discussions, please refer to ''Letter from the Board – Reasons for and Benefits of the Acquisition''.

The following is the text of a report set out on pages IV-1 to IV-3, received from the Company's reporting accountant, HLM CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Rooms 1501-8, 15th Floor, Tai Yau Building,
181 Johnston Road, Wanchai, Hong Kong.
香港灣仔莊士敦道181號大有大廈15樓1501-8室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: info@hlm.com.hk

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF ZHONGYAN XIN SHANGMENG E-COMMERCE LIMITED TO THE DIRECTORS OF GREATER CHINA FINANCIAL HOLDINGS LIMITED

Introduction

We report on the historical financial information of 中煙新商盟電子商務有限公司 (transliterated as Zhongyan Xin Shangmeng E-commerce Limited) (the ''Zhongyan E-commerce'') and its subsidiaries (together, the ''Zhongyan Group'') set out on pages IV-5 to IV-85, which comprises the consolidated statements of financial position as at 31 December 2017, 2018 and 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the ''Relevant Period'') and a summary of significant accounting policies and other explanatory information (together, the ''Historical Financial Information''). The Historical Financial Information of the Zhongyan Group set out on pages IV-5 to IV-85 forms an integral part of this report, which has been prepared for inclusion in the circular of Greater China Financial Holdings Limited (the ''Company'') dated 30 June 2020 (the ''Circular'').

Director's responsibilities for the Historical Financial Information of the Zhongyan Group

The director of the Zhongyan Group are responsible for the preparation of Historical Financial Information of the Zhongyan Group that gives a true and fair view in accordance with the basis of preparation set out in Note 3 to the Historical Financial Information of the Zhongyan Group, and for such internal control as the director of the Zhongyan Group determines is necessary to enable the preparation of Historical Financial Information of the Zhongyan Group that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information of the Zhongyan Group is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of the Zhongyan Group, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information of the Zhongyan Group gives, for the purposes of the accountants' report, a true and fair view of the Zhongyan Group's financial position as at 31 December 2017, 2018 and 2019 and of the Zhongyan Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation set out in Note 3 to the Historical Financial Information of the Zhongyan Group.

Material uncertainty related to going concern

We draw attention to Note 3 to the Historical Financial Information which indicates that the Zhongyan Group incurred a loss of approximately HK$91,528,000 for year ended 31 December 2019 and as of that date, the Zhongyan Group's current liabilities exceeded its current assets by approximately HK$368,121,000 and the capital deficiency attributable to the owners of Zhongyan E-commerce by approximately HK$345,579,000. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Zhongyan Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements, as defined on page IV-4, have been made.

Dividends

We refer to Note 10 to the Historical Financial Information of the Zhongyan Group which states that no dividends have been paid by the Zhongyan Group in respect of the Relevant Period.

HLM CPA Limited
Certified Public Accountants
Hong Kong
30 June 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE ZHONGYAN GROUP

Preparation of Historical Financial Information of the Zhongyan Group

Set out below is the Historical Financial Information of the Zhongyan Group which forms an integral part of this accountants' report.

The consolidated financial statements of the Zhongyan Group of the Relevant Period, on which the Historical Financial Information of the Zhongyan Group is based, were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the ''Underlying Financial Statement'').

The Historical Financial Information of the Zhongyan Group is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*6*	27,529	38,118	13,763
Cost of sales		(22,686)	(32,101)	(8,174)
Gross profits		4,843	6,017	5,589
Other income, gains or losses		3,792	3,649	(3,853)
Gain on disposal of a subsidiary		–	–	5,619
Administrative and other operating expenses		(89,633)	(68,167)	(62,832)
Impairment loss, net of reversal		(4,135)	(7,083)	(8,933)
		(85,133)	(65,584)	(64,410)
Finance cost		(12,998)	(25,762)	(27,118)
Loss before tax		(98,131)	(91,346)	(91,528)
Income tax expense	*9*	–	–	–
Loss for the year	*7*	(98,131)	(91,346)	(91,528)
Other comprehensive (expense) income for the year that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations		(11,146)	13,978	6,107
Total comprehensive expense for the year		(109,277)	(77,368)	(85,421)

	Year ended 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Loss for the year attributable to:			
– Owners of Zhongyan E-commerce	(90,464)	(84,261)	(88,363)
– Non-controlling interests	(7,667)	(7,085)	(3,165)
Loss for the year	(98,131)	(91,346)	(91,528)
Total comprehensive expense for the year attributable to:			
– Owners of Zhongyan E-commerce	(100,872)	(71,133)	(82,433)
– Non-controlling interests	(8,405)	(6,235)	(2,988)
	(109,277)	(77,368)	(85,421)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		Year ended 31 December		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*12*	7,094	3,049	1,363
Current assets				
Inventory	*13*	509	579	343
Loans and interest receivables	*14*	5,188	2,430	931
Trade, other receivables, prepayment and deposits	*15*	5,407	7,473	13,627
Financial assets at fair value through profit or loss	*16*	–	353	1,119
Amount due from related companies	*21*	1,408	1,354	1,150
Loans and interest receivables from related company/party	*21*	9,547	5,957	253
Bank balances and cash	*17*	7,375	3,792	1,651
		29,434	21,938	19,074
Current liabilities				
Trade, other payables and accruals	*18*	12,842	12,686	22,155
Contract liabilities	*23*	–	1,139	10,150
Borrowings	*19*	–	–	827
Amount due to a related company	*21*	–	31	–
Loans from shareholders	*21*	229,787	292,311	354,063
		242,629	306,167	387,195

		Year ended 31 December		
		2017	2018	2019
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Net current liabilities		(213,195)	(284,229)	(368,121)
Total assets less current liabilities		(206,101)	(281,180)	(366,758)
Net liabilities		(206,101)	(281,180)	(366,758)
Capital and reserves				
Share capital	*20*	253,520	253,520	253,520
Reserves		(445,533)	(516,666)	(599,099)
Capital deficiency attributable to				
– Owners of Zhongyan E-commerce		(192,013)	(263,146)	(345,579)
– Non-controlling interests		(14,088)	(18,034)	(21,179)
Capital deficiency		(206,101)	(281,180)	(366,758)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity owners of Zhongyan E-commerce					
	Share capital	Other reserve	Accumulated loss	Sub-total	Non-controlling Interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	253,520	(4,376)	(340,285)	(91,141)	(5,683)	(96,824)
Loss for the year	–	–	(90,464)	(90,464)	(7,667)	(98,131)
Other comprehensive expense						
Exchange difference on translation of foreign operation	–	(10,408)	–	(10,408)	(738)	(11,146)
Total comprehensive expense for the year	–	(10,408)	(90,464)	(100,872)	(8,405)	(109,277)
At 31 December 2017 and 1 January 2018	253,520	(14,784)	(430,749)	(192,013)	(14,088)	(206,101)
Loss for the year	–	–	(84,261)	(84,261)	(7,085)	(91,346)
Other comprehensive income						
Exchange difference on translation of foreign operations	–	13,128	–	13,128	850	13,978
Total comprehensive income (expense)	–	13,128	(84,261)	(71,133)	(6,235)	(77,368)
Increase in share capital	–	–	–	–	2,289	2,289
At 31 December 2018 and 1 January 2019	253,520	(1,656)	(515,010)	(263,146)	(18,034)	(281,180)
Loss for the year	–	–	(88,363)	(88,363)	(3,165)	(91,528)
Other comprehensive expense						
Exchange difference on translation of foreign operations	–	5,930	–	5,930	177	6,107
Total comprehensive income (expense)	–	5,930	(88,363)	(82,433)	(2,988)	(85,421)
Disposal of subsidiary	–	–	–	–	(1,835)	(1,835)
Increase in share capital	–	–	–	–	1,678	1,678
At 31 December 2019	253,520	4,274	(603,373)	(345,579)	(21,179)	(366,758)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Loss before tax	(98,131)	(91,346)	(91,528)
Adjustments for:			
Interest income	(4,071)	(7,830)	(1,278)
Depreciation	4,594	3,927	1,721
Finance cost	12,998	25,762	27,118
Loss on disposal of property, plant and equipment	19	14	15
Gain on disposal of subsidiary	–	–	(5,619)
Impairment loss on trade and other receivables, net of reversal (reversal of impairment loss)	(495)	323	1,590
Impairment loss on loans and interest receivables, net of reversal	273	677	1,202
Impairment loss on amount due from related companies, net of reversal	4,357	6,083	6,141
Operating cash flows before movements in working capital	(80,456)	(62,390)	(60,638)
Decrease (increase) in inventories	2,425	(100)	239
Decrease (increase) in trade receivables	332	(1,009)	(740)
Decrease (increase) in prepayments, deposits and other receivables	500	(2,132)	(7,175)
(Increase) decrease in loans and interest receivables	(5,246)	2,258	259
(Decrease) increase in trade and other payables	(9,590)	1,494	9,831
Increase in contract liabilities	–	225	9,163
Decrease in amount due to shareholders	(234)	–	–
Increase (decrease) in amount due to related companies	–	32	(31)
Increase in loans and interest receivables from related company/ party	(1,440)	(3,114)	(362)
Cash used in operations	(93,709)	(64,736)	(49,454)
Interest paid	(1,240)	(2,374)	(244)
Net cash used in operating activities	(94,949)	(67,110)	(49,698)

	Note	2017	2018	2019
		Year ended 31 December		
		HK$'000	HK$'000	HK$'000
Investing activities				
Purchase of property plant and equipment		(390)	(447)	(613)
Interest received		4,071	7,830	777
Proceeds from disposal of property, plant and equipment		–	–	351
Purchase of financial assets at fair value through profit or loss		–	(7,964)	(8,092)
Proceeds from disposal of financial assets at fair value through profit or loss		–	7,596	7,093
Proceeds from disposal of subsidiary		–	–	5,619
Net cash generated from investing activities		3,681	7,015	5,135
Financing activities				
Interest paid		–	–	(53,008)
Proceeds from other loans		–	–	796
Repayment of loan from shareholder		(23,066)	–	(234,792)
Proceeds loan from shareholder		116,819	52,733	329,296
Net cashflow from disposal of subsidiary		–	–	(1,835)
Capital injection		–	2,289	1,678
Net cash generated from financing activities		93,753	55,022	42,135
Net increase (decrease) in cash and cash equivalents		2,485	(5,073)	(2,428)
Cash and cash equivalents at beginning of the year		4,638	7,375	3,792
Effect of foreign exchange rate changes		252	1,490	287
Cash and cash equivalent at end of the year		7,375	3,792	1,651
Analysis of balances of cash and cash equivalent:				
Bank balances and cash	*17*	7,375	3,792	1,651

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE ZHONGYAN E-COMMERCE

1. GENERAL INFORMATION

The Zhongyan E-commerce is a limited liability company established in the People Republic of China on 21 November 2014. The registered office of the Zhongyan E-commerce is located at Rm 207 Pharse11 No.22, 689 Nong, Changxing Road, Jiangbei District, Ningbo City, Zhejiang Providence, Mainland China.

The Zhongyan E-commerce is an investment holding company. During the Relevant Period, the Zhongyan Group was principally engaged in involved in trading of consumable goods and consultancy service.

As at the date of this report, the Zhongyan E-commerce has direct or indirect interests in the following subsidiaries, and the particulars of which are set out below:

Name	Place and date of incorporation	Principal activities	Issued/registered share capital	Percentage of equity attributable to the Zhongyan Company Directly	Indirectly
寧波鄰售通貿易有限公司^ (Ningbo Linshoutong Commerce Company Limited*)	PRC, 16 March 2016	Inactive	RMB10,000,000	100%	–
北京誠至商貿有限公司#^^ (Beijing Chengzhi Commerce Company Limited*)	PRC, 5 February 2016	Inactive	RMB5,000,000	–	–
中煙新商盟(陝西)電子商務有限公司^ (Zhongyan Xin Shangmeng (Shanxi) E-commerce Limited*)	PRC, 18 May 2016	Trading of consumable goods and provision of service	RMB5,000,000	65%	–
陝西壹雲商業管理有限公司^ (Shanxi Yiyun Commercial Management Company Limited*)	PRC, 14 November 2018	Provision of service	RMB2,000,000	–	46%
陝西玖鑒物流有限公司^ (Shanxi Jiujian Logistic Company Limited*)	PRC, 1 March 2019	Provision of service	RMB2,000,000	–	33%
西安南博萬行銷策劃有限公司^ (Xian Nanbowan Marketing and Planning Company Limited*)	PRC, 4 December 2018	Provision of service	RMB2,000,000	–	33%

Name	Place and date of incorporation	Principal activities	Issued/registered share capital	Percentage of equity attributable to the Zhongyan Company	
				Directly	Indirectly
寧波新商域電子商務有限公司^ (Ningbo Xinshangyu E-commerce Company Limited*)	PRC, 18 March 2016	Inactive	RMB100,000,000	51%	–
中煙新商盟供應鏈管理有限公司^ (Zhongyan Xin Shangmeng Supply Chain Management Company Limited*)	PRC, 12 December 2018	Inactive	RMB50,000,000	40%	–
中煙新商盟(四川)電子商務有限公司^ (Zhongyan Xin Shangmeng (Sichuan) E-commerce Limited*)	PRC, 29 October 2018	Inactive	RMB22,500,000	53%	–
中煙新商盟科泰(貴州)電子商務有限公司^(Zhongyan Xin Shangmeng Ketai (Guizhou) E-commerce Limited*)	PRC, 21 March 2019	Inactive	RMB10,000,000	50%	–
中煙新商盟酒直達(黑龍江)電子商務有限公司^(Zhongyan Xin Shangmeng Jiu Zhida (Heilongjiang) E-commerce Limited*)	PRC, 26 March 2019	Inactive	RMB10,000,000	51%	–

The local auditor's reports of these companies for the years ended 31 December 2017, 2018 and 2019 were prepared by the local auditors in accordance with the accounting principles generally accepted in the PRC.

^ As at the date of this report, no local auditor's report have been issued for these companies, as they have not either carried on any business since their respective date of incorporation or not subject to any statutory audit requirements under the relevant rules and regulations in the Hong Kong and PRC.

^^ The company was disposed on 27 May 2019.

* The English transliteration of Chinese name is included in this circular for reference only and should not be regarded as its official English name.

The Historical Financial Information of the Zhongyan Group is presented in Hong Kong dollars and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purposes of preparing and presenting the Historical Financial Information for the Track Record Periods, the Zhongyan Group has consistently applied the accounting policies which conform with HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("HK(IFRIC) – Int") issued by the HKICPA that are effective for the Zhongyan Group's accounting periods beginning on 1 January 2018 consistently throughout the Track Record Period, except that the Zhongyan Group adopted HKFRS 9 "*Financial Instruments*" from 1 January 2018 and HKAS 39 "*Financial Instruments Recognition and Measurement*" prior to 1 January 2018, HKFRS 15 "*Revenue from Contracts with Customers*" from 1 January 2018 and HKFRS 16 "*Leases*" from 1 January 2019.

2.1 HKFRS 9 "Financial Instruments"

The Zhongyan Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under *HKAS 39*.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39 except for the impact of ECL.

Summary of effects arising from initial application of HKFRS 9

The following table and the accompanying notes below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Zhongyan Group's financial assets as at 1 January 2018.

	Original classification under HKAS 39	**New classification under HKFRS 9**	**Original carrying amount under HKAS 39**	**New carrying amount under HKFRS 9**
			HK$'000	*HK$'000*
Trade, other receivables, prepayment and deposit	Loans and receivables	Amortised cost	3,971	3,971
Loans and interest receivables	Loans and receivables	Amortised cost	5,188	5,188
Bank balances and cash	Loans and receivables	Amortised cost	7,375	7,375
Amount due from related companies	Loans and receivables	Amortised cost	1,408	1,408
Loans and interest receivables from related company/party	Loans and receivables	Amortised cost	9,547	9,547
Total financial assets			27,489	27,489

At the date of initial application, the Zhongyan Group no longer applied designation as measured at FVTPL for the portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9.

There was no significant impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

Impairment under ECL model

The Zhongyan Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables, loans and interest receivables and deposits. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively based on the Zhongyan Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

ECL for other financial assets at amortised cost, including other receivables and deposits and bank balances and cash, are assessed on 12-month ECL ("12mECL") basis as there had been no significant increase in credit risk since initial recognition.

The director of the Zhongyan E-commerce reviewed and assessed the Zhongyan Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No impairment allowance was recognised at 1 January 2018.

2.2 HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations

The Zhongyan Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, i.e. 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated loss and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Zhongyan Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Zhongyan Group recognises revenue from provision of loan referral and consultancy services.

Information about the Zhongyan Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 4.

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 has no material impact on the Zhongyan Group's accumulated loss at 1 January 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Amounts before adoption of HKFRS 15	**Adjustment resulted from adoption of HKFRS 15**	**As reported**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade, other payables and accruals	12,842	(973)	11,869
Contract liabilities	–	973	973
Balance at end of the year	12,842	–	12,842

The following table summaries the impact of applying HKFRS 15 on the Zhongyan Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Amounts before adoption of HKFRS 15	Adjustment resulted from adoption of HKFRS 15	As reported
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade, other payables and accruals	13,825	(1,139)	12,686
Contract liabilities	–	1,139	1,139
Balance at end of the year	13,825	–	13,825

Impact on the consolidated statement of cash flows

	Amounts before adoption of HKFRS 15	Adjustment resulted from adoption of HKFRS 15	As reported
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Increase in trade, other payables and accruals	1,719	(225)	1,494
Increase in contract liabilities	–	255	255

2.3 HKFRS 16 "Leases"

HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Zhongyan Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Zhongyan Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Zhongyan Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Zhongyan Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Zhongyan Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Zhongyan Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Zhongyan Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by the Zhongyan Group at 10.37%.

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	1,590
Lease liabilities discounted at relevant incremental borrowing rates	1,048
Less: Practical expedient – lease with lease term ending within 12 months from the date of initial application	(1,048)
Lease liabilities as at 1 January 2019	–

New and revised HKFRSs in issue but not yet effective

The Zhongyan Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 16	COVID-19 – Related Rent Concession[5]

[1] *Effective for annual periods beginning on or after 1 January 2020.*

[2] *Effective for annual periods beginning on or after 1 January 2021.*

[3] *Effective date to be determined.*

[4] *Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.*

[5] *Effective for annual periods beginning on or after 1 June 2020.*

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to references to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The director of the Zhongyan E-commerce anticipate that application of the new and amendments to HKFRSs will have no material impact on the Zhongyan Group's Historical Financial Information in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

Going concern basis

The Zhongyan Group incurred a loss of approximately HK$91,528,000 for the year ended 31 December 2019, and as of that date, the Zhongyan Group's current liabilities exceeded its current assets by approximately HK$368,121,000 and the capital deficiency attributable to the owners of Zhongyan E-commerce by approximately HK$345,579,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Zhongyan Group's and the Zhongyan E-commerce's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the Target Company's director are of the opinion that the Target Group and the Target Company will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period given that:

(i) The shareholders of the Zhongyan E-commerce have sufficient financial capability and will actively provide financial support to the Zhongyan Group and the Zhongyan E-commerce to meet the Zhongyan Group's and Zhongyan E-commerce's liabilities and commitments as and when they fall due;

(ii) The shareholder, Wangxin Technology, will not demand Zhongyan Group for repayment of the amount due to shareholder and loans from shareholders until all other liabilities of Zhongyan Group have been satisfied; and

(iii) The Target Company and the Vendor have sufficient financial capability and will actively provide financial support to the Zhongyan Group and the Zhongyan E-commerce to meet its liabilities when they fall due after the Acquisition.

Basis of preparation

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs and on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Zhongyan Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17/HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

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

The principal accounting policies adopted are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Zhongyan E-commerce and entities controlled by the Zhongyan E-commerce and its subsidiaries. Control is achieved when the Zhongyan E-commerce:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Zhongyan 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 listed above.

Consolidation of a subsidiary begins when the Zhongyan Group obtains control over the subsidiary and ceases when the Zhongyan Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Zhongyan Group gains control until the date when the Zhongyan Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Zhongyan E-commerce and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Zhongyan E-commerce and to the non-controlling interest even if this results in non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Zhongyan Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Zhongyan Group are eliminated in full on combination.

Investment in subsidiaries

Investment in subsidiaries are stated in the statement of financial position of the Zhongyan E-commerce at cost less accumulated impairment losses.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transactions in Note 2)

Under HKFRS 15, the Zhongyan Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customers.

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 Zhongyan Group's performance as the Zhongyan Group performs;
- the Zhongyan Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Zhongyan Group's performance does not create an asset with an alternative use to the Zhongyan Group and the Zhongyan Group has an enforceable right to payment for performance completed to date.

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

A contract asset represents the Zhongyan Group's right to consideration in exchange for goods or services that the Zhongyan Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Zhongyan Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Zhongyan Group's obligation to transfer goods or services to a customer for which the Zhongyan Group has received consideration (or an amount of consideration is due) from the customer. Contractual liabilities are recognised as revenue when the Zhongyan Group performs under the contract.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations

For contracts that contain more than one performance obligations, the Zhongyan Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Zhongyan Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Zhongyan Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Zhongyan Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Zhongyan Group's performance in transferring control of goods or services.

As a practical expedient, if the Zhongyan Group has a right to consideration in an amount that corresponds directly with the value of the Zhongyan Group's performance completed to date, the Zhongyan Group recognises revenue in the amount to which the Zhongyan Group has the right to invoice.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Zhongyan Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Zhongyan Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Zhongyan Group is an agent).

The Zhongyan Group is a principal if it controls the specified good or service before that good or service is transferred to a customer. The Zhongyan Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Zhongyan Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Zhongyan Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Zhongyan Group and when specific criteria have been met for each of the Zhongyan Group's activities as described below.

(i) Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have been passed, at which time all the following conditions are satisfied:

- the Zhongyan Group has transferred to the buyer the significant risks and rewards of ownership of the goods; and
- the Zhongyan Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(ii) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised by reference to the stage of completion of the transaction based on the services performed to date as a percentage of the total services to be performed.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that it is probable be recoverable.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

Inventory

Inventories are stated at the lower of cost and net realisable value. Costs of inventories, including an appropriate portion of fixed and variable overhead expenses, are determined on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Gains or losses arising from the retirement or disposal of an item of equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful life
Machineries	5 years
Motor vehicles	5 years
Furniture and fittings	3 – 5 years
Leasehold improvement	5 years

Where parts of an item of equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leases

The Zhongyan Group has applied HKFRS 16 using the modified retrospective approach and therefore the Historical Financial Information for the years ended 31 December 2017, 2018 and 2019 have not been restated and continues to be reported under HKAS 17 and HK(IFRIC) Int-4.

Definition of a lease (upon application of HKFRS 16 with transitions in accordance with Note 3)

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 Zhongyan 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.

Short-term leases and leases of low-value assets

The Zhongyan Group applies the short-term lease recognition exemption to leases of office premises 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.

Lease modifications

The Zhongyan 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.

The Zhongyan Group as lessee (prior to 1 January 2019)

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Intangible assets (other than goodwill)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Zhongyan Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Zhongyan Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the Relevant Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received 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 financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest is recognised on an effective interest basis.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Zhongyan Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, 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). 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.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)

The Zhongyan Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Zhongyan Group applies the ECL model to the following items:

- financial assets measured at amortised cost (including trade and other receivables, deposits, amount due from related companies, loans and interest receivables from related company/party and cash and cash equivalents).

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Zhongyan Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Zhongyan Group always recognises lifetime ECL for trade receivables, other receivables and loans and interest receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively with internal credit ratings.

For all other instruments, the Zhongyan Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Zhongyan Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Zhongyan 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. In making this assessment, the Zhongyan Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- 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 Zhongyan Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Zhongyan Group has reasonable and supportable information that demonstrates otherwise.

The Zhongyan Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Zhongyan Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Zhongyan Group, in full (without taking into account any collaterals held by the Zhongyan Group).

Irrespective of the above, the Zhongyan Group considers that default has occurred when a financial asset is more than 90 days past due unless the Zhongyan Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

The Zhongyan Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Zhongyan 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.

(v) Measurement and recognition of ECL

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.

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

The Zhongyan Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and loans and interest receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are mainly classified into following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL or (iii) contingent consideration that may be received by an acquirer as part of a business combination.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Zhongyan Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Zhongyan Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 16.

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Zhongyan Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Zhongyan Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loans receivables, trade and other receivables, deposits, cash held on behalf of clients, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

The criteria that the Zhongyan Group uses to determine that there is objective evidence of an impairment include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or other financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties; or
- deterioration in the value of collateral.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Zhongyan Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Zhongyan Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Zhongyan Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Zhongyan Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Zhongyan Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Zhongyan Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Zhongyan E-commerce's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Zhongyan E-commerce's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including borrowings, deferred consideration, trade payables and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition of financial liabilities

The Zhongyan Group derecognises financial liabilities when, and only when, the Zhongyan Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Zhongyan Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Zhongyan Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Zhongyan Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

The Zhongyan Group derecognises financial liabilities when, and only when, the Zhongyan Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Non-substantial modifications of financial liabilities (before application of HKFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

Employee benefits

Short term employee benefits contributions

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined contribution retirement plans

Pursuant to the relevant laws and regulations of the PRC, the Zhongyan Group's subsidiaries in the PRC have joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Zhongyan Group makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Zhongyan Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax

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

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.

Cash and cash equivalents

For the purpose of the consolidated statements 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 Zhongyan Group's cash management.

For the purpose of the consolidated statements of financial position, bank balances including term deposits, which are not restricted as to use.

Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Zhongyan Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

Segment reporting

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

Foreign currencies

The Financial Information are presented in Hong Kong dollars, which is Zhongyan E-commerce's functional currency. Each entity in the Zhongyan Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Zhongyan 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 each of the Relevant Period. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

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).

Related parties

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

(i) has control or joint control of the Zhongyan Group;

(ii) has significant influence over the Zhongyan Group; or

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

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Zhongyan Group or an entity related to the Zhongyan Group. If the Zhongyan Group is itself such a plan, the sponsoring employers are also related to the Zhongyan Group;

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

(vii) A person identified in (i)(a) 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 company of which it is a part, provides key management personnel services to the Zhongyan Group or to the Zhongyan Group's parent.

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Zhongyan Group's Financial Information 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.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant 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 loss recognised in respect of trade receivables

The Zhongyan Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customers' current credit-worthiness, as determined by review of their current credit information under before the adoption of HKFRS 9. The Zhongyan Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Zhongyan Group's expectations and the Zhongyan Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Impairment loss recognised in respect of other receivables, and prepayments and deposits

The Zhongyan Group estimates the impairment allowances for other receivables, and prepayments and deposits by assessing the recoverability based on credit history and prevailing market conditions before the adoption of HKFRS 9. This requires the use of estimates and judgements. Allowances are applied to other receivables, and prepayments and deposits where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of other receivables, and prepayments and deposits and thus the impairment loss in the period in which such estimate is changed. The Zhongyan Group reassesses the impairment allowances at the end of the each reporting period.

Impairment allowances on loans and interests receivables

The Zhongyan Group reviews its loan portfolios to assess impairment periodically. In determining whether an impairment loss should be recorded in the profit or loss, the Zhongyan Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or local economic conditions that correlate with defaults on assets in the Zhongyan Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

Provision of ECL

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires significant judgment and estimation, in particular, the assessment of a significant increase in credit risk and credit-impaired financial assets as well as the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. At each reporting date, the Zhongyan Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Zhongyan Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Fair value measurement of other financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Income taxes

The Zhongyan Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Zhongyan Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax

No deferred tax asset has been recognised on the tax losses in Relevant Period due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the estimated future assessable profits or taxable temporary differences are more than those previously estimated, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which the revised estimate takes place.

5. OPERATING SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Zhongyan E-commerce.

Information about major customer

The Zhongyan Group has a large number of customers, none of whom contributed 10% or more of the Zhongyan Group's revenue during the Relevant Period.

Operating segment Information

The Zhongyan Group's operations are organised into trading of consumable goods and provision of service during the Relevant Period. Information reported to the chief operating decision maker ("CODM") for the purpose of resources allocation and assessment of segment performance is prepared on such basis. The Zhongyan Group is organised into the following reportable and operating segments:

– Trading of consumable goods represents selling non-cigarette products through e-commerce platform in the PRC

– Service income represents the provision of the installation of software and technical supports in the PRC

Segment revenue and results

The following is an analysis of the Zhongyan Group's revenue and results by reportable segments.

For the year ended 31 December 2017

	Trading of consumable goods *HK$'000*	Service income *HK$'000*	Total *HK$'000*
SEGMENT REVENUE			
Recognised at a point in time	21,826	564	22,390
Recognised over time	–	5,139	5,139
	21,826	5,703	27,529
SEGMENT RESULTS	(42,401)	(39,664)	(82,065)
Unallocated corporate income			24
Unallocated corporate expenses			(16,090)
Loss before tax			(98,131)
Income tax expense			–
Loss for the year			(98,131)

For the year ended 31 December 2018

	Trading of consumable goods	Service income	Total
	HK$'000	*HK$'000*	*HK$'000*
SEGMENT REVENUE			
Recognised at a point in time	29,654	–	29,654
Recognised over time	–	8,464	8,464
	29,654	8,464	38,118
SEGMENT RESULTS	(40,915)	(43,056)	(83,971)
Unallocated corporate income			35
Unallocated corporate expenses			(6,163)
Unallocated finance costs			(480)
Unallocated impairment loss, net of reversal			(767)
Loss before tax			(91,346)
Income tax expense			–
Loss for the year			(91,346)

For the year ended 31 December 2019

	Trading of consumable goods *HK$'000*	Service income *HK$'000*	Total *HK$'000*
SEGMENT REVENUE			
Recognised at a point in time	4,287	–	4,287
Recognised over time	–	9,476	9,476
	4,287	9,476	13,763
SEGMENT RESULTS	(29,425)	(55,393)	(84,818)
Unallocated corporate income			4,173
Unallocated corporate expenses			(1,704)
Unallocated finance costs			(246)
Unallocated impairment loss, net of reversal			(8,933)
Loss before tax			(91,528)
Income tax expense			–
Loss for the year			(91,528)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments.

At 31 December 2017

	Trading of consumable goods	Service income	Total
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	772	–	772
Unallocated bank balances and cash			7,375
Unallocated property, plant and equipment			7,094
Unallocated other receivables, prepayments and deposits			5,143
Unallocated loans and interests receivables			5,188
Unallocated amount due from related companies			1,408
Unallocated loans and interests receivables from related company/party			9,548
Consolidated total assets			36,528
LIABILITIES			
Segment liabilities	3,867	220,193	224,060
Unallocated other payables			18,569
Consolidated total liabilities			242,629

At 31 December 2018

	Trading of consumable goods *HK$'000*	Service income *HK$'000*	Total *HK$'000*
ASSETS			
Segment assets	1,726	–	1,726
Unallocated bank balances and cash			3,792
Unallocated property, plant and equipment			3,049
Unallocated other receivables, prepayments and deposits			6,325
Unallocated loans and interests receivables			2,430
Unallocated amount due from related companies			1,355
Unallocated loans and interests receivables from related company/party			5,957
Unallocated financial assets at fair value through profit or loss			353
Consolidated total assets			24,987
LIABILITIES			
Segment liabilities	3,474	292,312	295,786
Unallocated other payables			10,350
Unallocated amount due to related parties			31
Consolidated total liabilities			306,167

At 31 December 2019

	Trading of consumable goods	Service income	Total
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	1,883	–	1,883
Unallocated bank balances and cash			1,651
Unallocated property, plant and equipment			1,363
Unallocated other receivables, prepayments and deposits			12,087
Unallocated loans and interests receivables			930
Unallocated amount due from related companies			1,150
Unallocated loans and interests receivables from related company/party			254
Unallocated financial assets at fair value through profit or loss			1,119
Consolidated total assets			20,437
LIABILITIES			
Segment liabilities	17,794	349,123	366,917
Unallocated other payables			20,278
Consolidated total liabilities			387,195

Other information

For the year ended 31 December 2017

	Trading of consumable goods HK$'000	Service income HK$'000	Unallocated HK$'000	Total HK$'000
Information included in segment results/ segment assets:				
Depreciation	–	–	4,594	4,594
Finance costs	18	12,980	–	12,998
Loss on disposal and written off of property, plant and equipment	–	–	19	19
Reversal of impairment loss on trade and other receivables	–	(22)	(473)	(495)
Impairment loss on loan and interest receivables	273	–	–	273
Impairment loss on loans and interests receivables from related company/ party	–	–	4,357	4,357
Interest income	–	–	(4,071)	(4,071)

For the year ended 31 December 2018

	Trading of consumable goods HK$'000	Service income HK$'000	Unallocated HK$'000	Total HK$'000
Information included in segment results/ segment assets:				
Depreciation	–	–	3,927	3,927
Finance costs	–	25,282	480	25,762
Loss on disposal and written off of property, plant and equipment	–	–	14	14
Impairment loss on trade and other receivables	–	80	597	677
Impairment loss on loan and interest receivables	323	–	–	323
Impairment loss on loans and interests receivables from related company/ party	–	–	6,083	6,083
Interest income	–	–	(7,830)	(7,830)

For the year ended 31 December 2019

	Trading of consumable goods *HK$'000*	**Service income** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Information included in segment results/ segment assets:				
Depreciation	–	–	1,721	1,721
Finance costs	380	26,488	250	27,118
Loss on disposal and written off of property, plant and equipment	–	–	15	15
Impairment loss on trade and other receivables	–	1,250	340	1,590
Impairment loss on loan and interest receivables	1,202	–	–	1,202
Impairment loss on amount due from related company/party	–	–	6,141	6,141
Interest income	–	–	(1,278)	(1,278)

Information about geographical area

The major operating entity of the Zhongyan Group is domiciled in the PRC. Accordingly, all of the Zhongyan Group's revenue were derived in the PRC during the Relevant Period.

As at 31 December 2017, 2018 and 2019, all of the non-current assets were located in the PRC.

6. REVENUE

Revenue represents income from the trading of consumable goods, providing E-commerce platform to customers and providing the installation of software and technical supportings during the Relevant Period.

The amounts of each significant category of revenue recognised during the Relevant Period are as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Trading income	21,826	29,654	4,287
Commission fee	564	344	394
Service fee	5,139	7,438	8,114
Software development fee	–	682	968
	27,529	38,118	13,763
Timing of revenue recognition			
At point of time	22,390	29,654	4,287
Over time	5,139	8,464	9,476
	27,529	38,118	13,763

7. LOSS FOR THE YEAR

Zhongyan Group's loss for the Relevant Period is stated after charging (crediting) the following:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	4,594	3,927	1,721
Impairment loss an trade and other receivables, net of reversal (reversal of impairment loss)	(495)	677	1,590
Impairment loss on loans and interest receivables, net of reversal	273	323	1,202
Impairment loss on amount due from related Companies, net of reversal	4,357	6,083	6,141
Cost of inventories recognised as expense	18,426	24,050	3,521
Rents and rates	3,989	3,186	2,433
Staff costs (including director's emoluments)	63,396	47,064	44,075

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Directors' emoluments paid to each of the directors of the Zhongyan Group during the Relevant Period is as follows:

Year ended 31 December 2017

Name of director	Fees	Salaries and other benefits	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Chen Zheng	–	–	–	–
	–	–	–	–

Year ended 31 December 2018

Name of director	Fees	Salaries and other benefits	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Chen Zheng	–	–	–	–
	–	–	–	–

Year ended 31 December 2019

Name of director	Fees	Salaries and other benefits	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Chen Zheng	–	–	–	–
	–	–	–	–

(b) Five highest paid individuals

The emoluments paid/payable to the five individuals whose emoluments were the highest in the Zhongyan Group during the Relevant Period are as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other employee benefits	4,377	4,335	3,752

The emoluments paid/payable to the above non-director individuals during the Relevant Period fell within the following band:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Nil to HK$1,000,000	5	5	5

9. INCOME TAX EXPENSE

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Current income tax	–	–	–

The PRC income tax for the Relevant Period was calculated at 25% of the estimated assessable profits arising from the PRC.

A reconciliation of income tax expense applicable to loss before tax using the PRC statutory tax rate to the tax expense, is as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Loss before tax	(98,131)	(91,346)	(91,528)
Tax at the PRC enterprise income tax rate of 25%	(24,533)	(22,836)	(22,882)
Tax effect of expenses not deductible for tax purpose	498	453	669
Tax effect of income not taxable for tax purpose	(934)	–	(1,673)
Tax effect on temporary differences not recognised	64	259	26
Tax effect on tax losses not recognised	24,905	22,124	23,860
Income tax expense	–	–	–

Deferred tax assets in respect of unused tax losses has not been recognised in the financial statements due to the unpredictability of future profit stream against which the tax losses can be utilised. The Zhongyan Group has unused tax losses of approximately HK$447,373,000 available to offset against future profits at 31 December 2019. The tax losses of the entities operating in Mainland China can be carried forward for 5 years.

10. DIVIDENDS

No dividend was paid or proposed to the shareholders of Zhongyan E-commerce during the Relevant Period.

11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

12. PROPERTY, PLANT AND EQUIPMENT

	Machineries	Motor vehicles	Furniture and fittings	Leasehold improvement	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 January 2017	420	463	3,459	13,677	18,019
Additions	–	–	390	–	390
Disposals	–	–	(28)	–	(28)
Exchange realignment	31	35	321	1,029	1,416
At 31 December 2017 and 1 January 2018	451	498	4,142	14,706	19,797
Additions	6	–	441	–	447
Disposals	–	(415)	(323)	–	(738)
Exchange realignment	(24)	(83)	(278)	(763)	(1,148)
At 31 December 2018 and 1 January 2019	433	–	3,982	13,943	18,358
Additions	60	–	298	255	613
Disposals	(37)	–	(778)	–	(815)
Elimination on disposal of a subsidiary	–	–	(32)	–	(32)
Exchange realignment	(8)	–	(62)	(736)	(806)
At 31 December 2019	448	–	3,408	13,462	17,318

	Machineries *HK$'000*	Motor vehicles *HK$'000*	Furniture and fittings *HK$'000*	Leasehold improvement *HK$'000*	Total *HK$'000*
ACCUMULATED DEPRECIATION					
At 1 January 2017	28	156	672	6,516	7,372
Charge for the year	84	93	732	3,685	4,594
Disposals	–	–	(6)	–	(6)
Exchange realignment	6	16	80	641	743
At 31 December 2017 and 1 January 2018	118	265	1,478	10,842	12,703
Charge for the year	87	32	873	2,935	3,927
Disposals	–	(294)	(229)	–	(523)
Exchange realignment	(10)	(3)	(103)	(682)	(798)
At 31 December 2018 and 1 January 2019	195	–	2,019	13,095	15,309
Charge for the year	84	–	816	821	1,721
Disposals	(24)	–	(444)	–	(468)
Elimination on disposal of a subsidiary	–	–	(13)	–	(13)
Exchange realignment	(4)	–	(41)	(549)	(594)
At 31 December 2019	251	–	2,337	13,367	15,955
CARRYING AMOUNTS					
At 31 December 2019	197	–	1,071	95	1,363
At 31 December 2018	238	–	1,963	848	3,049
At 31 December 2017	333	233	2,664	3,864	7,094

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Machineries	5 years
Motor vehicles	5 years
Furniture and fittings	3-5 years
Leasehold improvement	5 years

13. INVENTORY

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Finished goods	509	579	343

14. LOANS AND INTERESTS RECEIVABLES

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Unsecured loans	5,461	3,012	2,705
Less: impairment allowance	(273)	(582)	(1,774)
	5,188	2,430	931

As at 31 December 2017, 2018 and 2019, the unsecured loan receivables are loans to the independent third parties in loan financing business, which are denominated in RMB and bear interests at rates 10% per annum.

Before granting loans, the Zhongyan Group uses internal credit assessment process to assess the potential borrower's credit quality and defines its credit limits granted to the borrowers. The credit limits attributed to the borrowers are reviewed by the management regularly.

The Zhongyan Group has a policy for assessing the impairment on the loan receivables on an individual basis. The assessment also includes evaluation of collectability and on management's judgment, including the current creditworthiness, collateral and past collection history of each borrower.

In determining the recoverability of the loan receivables, the Zhongyan Group considers any change in the credit quality of the loan receivables from the date of credit was initially granted up to the reporting date. This includes assessing the credit history of the borrowers, such as financial difficulties or default in payments, and current market conditions. Besides, the Zhongyan Group considers that the amounts are considered recoverable given the fair values of the pledged collateral or guarantees received are sufficient to cover the entire balance on individual basis.

An ageing analysis of the loans and interests receivables that are individually not considered to be impaired as at the end of the reporting period, based on the payment due date, is as follows:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor individually impaired	5,188	–	43
Less than 1 month past due	–	–	–
1 to 3 months past due	–	2,430	–
3 to 6 months past due	–	–	60
6 months to less than 1 year past due	–	–	828
	5,188	2,430	931

Loans receivables that were neither past due nor individually impaired relate to a number of diversified borrowers for whom there was no recent history of default.

In respect of the loans which have been past due for less than one month, the amounts mainly represent occasional delay in repayment and are not indication of significant deterioration of credit quality of these loans.

The movements in impairment allowance of loans and interests receivables are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year	–	273	582
Impairment allowance recognised	273	323	1,202
Amounts written off during the year as uncollectible	–	–	–
Exchange realignment	–	(14)	(10)
Balance at end of the year	273	582	1,774

The impaired loans receivables relate to borrowers that were in default and the loans and interests receivables were not expected to be recoverable.

15. TRADE, OTHER RECEIVABLES, PREPAYMENT AND DEPOSITS

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	277	1,241	1,970
Less: impairment allowance	(14)	(93)	(430)
	263	1,148	1,540
Other receivables	3,940	3,663	3,261
Less: impairment allowance	(231)	(816)	(1,969)
	3,709	2,847	1,292
Deposits	406	543	10,572
Prepayments	1,029	2,935	307
Less: impairment allowance	–	–	(84)
	1,435	3,478	10,795
	5,407	7,473	13,627

As at 31 December 2017, 2018 and 2019, the following trade receivables, net of impairment, were past due but not impaired. These relate to numbers of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as following:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	263	1,148	1,389
Between 1 and 2 years	–	–	151
Between 2 and 3 years	–	–	–
Over 3 years	–	–	–
	263	1,148	1,540

The movements in impairment allowance on trade receivables are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year	34	14	93
(Reversal of) Impairment loss recognised	(22)	80	339
Exchange realignment	2	(1)	(2)
Balance at end of the year	14	93	430

The movements in impairment allowance on other receivables are as follows:

	As at 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year	655	231	816
(Reversal of) Impairment loss recognised	(473)	597	1,167
Exchange realignment	49	(12)	(14)
Balance at end of the year	231	816	1,969

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Financial products	–	353	1,119

The balance represented financial investment products issued by a bank in PRC with variable return.

17. BANK BALANCES AND CASH

	As at 31 December		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
Bank balances and cash	7,375	3,792	1,651

As at 31 December 2017, 2018 and 2019, bank balances carry interest at prevailing market rates which range from Nil to 0.30%, Nil to 0.30% and Nil to 0.30% per annum, respectively.

18. TRADE, OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	3,799	2,336	2,704
Accruals	4,607	5,291	7,356
Other payables	3,463	5,059	12,095
Receipts in advance from customers	973	–	–
	12,842	12,686	22,155

19. BORROWINGS

	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Loan from independent third parties, unsecured *(Note)*	–	–	796
Interest payable	–	–	31
Balance at end of the year	–	–	827

Note:

It was consisted of two loans denominated in Renminbi. Loan amounts approximately HK$124,579 (RMB114,000) and approximately HK$670,980 (RMB600,000) bear interest at 18.25% and 12% per annum respectively.

20. SHARE CAPITAL

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Registered issued and paid up capital	253,520	253,520	253,520

The Zhongyan E-commerce was incorporated on 21 November 2014 with registered capital of RMB200,000,000 (approximately HK$253,520,000).

21. RELATED PARTY TRANSACTIONS

(a) In addition to those disclosed in other sections of the consolidated financial statements, the Zhongyan Group undertook the following transactions with related parties during the years:

		Year ended 31 December		
		2017	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Interest expenses	*(i)*			
– Wangxin Technology		(11,740)	(23,317)	(24,537)
– 中煙新商盟商務物流控股有限公司 (Zhongyan Xin Shangmeng Commercial Logistic Holdings Limited*)		(1,240)	(2,374)	(2,270)
– Xin Yunlian Digital		–	–	(34)
Interest income	*(ii)*			
– 北京華普聯合商業投資有限公司 (Beijing Huapu United Commercial Investment Company Limited*)		1,568	1,666	–
– Related Party A		507	523	501
Revenue – Service income	*(iii)*	–	89	–

* The English transliteration of Chinese name is included in this circular for reference only and should not be regarded as its official English name.

Notes:

(i) Interest expense was charged by Wangxin Technology at interest rate ranging at 10% to 15% and terms as agreed by both parties involved. Interest expense was charged by Zhongyan Xin Shangmeng Commercial Logistic Holdings Limited at interest rate ranging from 8% to 10% and terms as agreed by both parties involved.

(ii) Interest expense charged to Beijing Huapu United Commercial Investment Company Limited at interest rate 4.35% and terms as agreed by both parties involved. Interest income charged to Related Party A at interest rate 4.35% and terms as agreed by both parties involved.

(iii) Service income which received from related companies were carried out on commercial terms and conditions.

(b) Amounts due from/(to) related companies/party

As at the end of each of the Relevant Period, the amounts due from/(to) related companies/related party listed as follows were unsecured, interest-free and repayable on demand:

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Amount due from related companies			
– 陝西易雲網絡科技有限公司 (Shanxi Yiyun Network Technology Company Limited*)	1,408	1,334	1,127
– Wangxin Xin Yunlian Financial Information Service (Zhejiang) Company Limited ("Xin Yunlian Financial") *(Note ii)*	–	20	23
	1,408	1,354	1,150

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Amount due to a related company			
– Beijing Huapu United Commercial Investment Company Limited	–	31	–
	–	31	–

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Maximum amount due from related companies during the year			
– 陝西易雲網絡科技有限公司 (Shanxi Yiyun Network Technology Company Limited*)	1,408	1,334	1,311
– Xin Yunlian Financial *(Note ii)*	–	20	77
	1,408	1,354	1,388

Note i: The amount due from/(to) related companies/related party are unsecured, interest free and repayable on demand. Shanxi Yiyun Network Technology Company Limited is holding by the related party A. Related Party A is the non-controlling interests of Zhongyan Xin Shangmeng (Shanxi) E-commerce Limited.

Note ii: Zhongyan E-commerce has become an associate companies of the Target Group on 1 November 2019. And Xin Yunlian Financial is a subsidiary of the Target Group.

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Loans and interests receivables from related company/party

The loans and interests receivables from related party, Related Party A, of HK$12,000,000, HK$11,880,000 and HK$12,042,000 at 31 December 2017, 2018 and 2019 respectively are unsecured, interest bearing at 4.35% and repayable within one year. The loans and interests receivables from related company, Beijing Huapu United Commercial Investment Company Limited which is the non-controlling interests of Zhongyan Group, of HK$37,854,000, HK$38,394,000 and HK$37,715,000 at 31 December 2017, 2018 and 2019 respectively are unsecured, interest bearing at 4.35% and repayable within one year. The accumulated impairment loss on the loans and interests receivables from related company, The accumulated impairment loss on the loans and interests receivables from related company, Beijing Huapu United Commercial Investment Company Limited, is HK$37,854,000, HK$38,394,000 and HK$37,715,000 at 31 December 2017, 2018 and 2019 respectively.

Loans from shareholders

The loans from Wangxin Technology of amount HK$195,274,000, HK$237,224,000 and HK$326,245,000 at 31 December 2017, 2018 and 2019 respectively are unsecured, interest bearing from 7.5% to 10.0% and repayable within one year. The interest payable to Wangxin Technology were 10,499,000, HK$32,319,000, and HK$3,209,000 at 31 December 2017, 2018 and 2019 respectively. The loans from shareholder, Zhongyan Xin Shangmeng Commercial Logistic Holdings Limited, of amount HK$24,014,000, HK$22,768,000 and HK$22,372,000 at 31 December 2017, 2018 and 2019 respectively are unsecured interests bearing from 8% to 10% and repayable within one year. The interest payable to Zhongyan Xin Shangmeng Commercial Logistic Holdings Limited were HK$2,237,000 at 31 December 2019.

(c) Compensation of key management personnel

The director of the Zhongyan E-commerce is the only key management personnel of the Zhongyan E-commerce, neither of whom has received emolument in respect of her service rendered to the Zhongyan Group during the Relevant Period.

22. OPERATING LEASE

Zhongyan Group as lessee

Zhongyan Group recognised minimum lease payments in respect of its fitness premises amounting to approximately HK$3,989,000 and HK$3,186,000 during the years ended 31 December 2017 and 2018, respectively.

At the end of each of the Relevant Period, Zhongyan Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Within one year	3,096	1,590
In the second to fifth year inclusive	–	–
	3,096	1,590

23. CONTINGENT LIABILITIES

As at the end of the Relevant Period, Zhongyan Group did not have any significant contingent liabilities.

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Zhongyan Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Zhongyan Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Loans from shareholders	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2017	–	111,724	111,724
Proceeds from financing cashflow	–	116,819	116,819
Financing cash outflows	–	(23,066)	(23,066)
Finance cost	–	11,758	11,758
Exchange realignment	–	12,552	12,552
At 31 December 2017 and 1 January 2018	–	229,787	229,787
Proceeds from financing cashflow	–	52,733	52,733
Finance cost	–	23,388	23,388
Exchange realignment	–	(13,597)	(13,597)
At 31 December 2018 and 1 January 2019	–	292,311	292,311
Proceeds from financing cashflow	796	329,296	330,092
Financing cash outflows	–	(234,792)	(234,792)
Finance cost	32	27,086	27,118
Exchange realignment	(1)	(59,838)	(59,839)
At 31 December 2019	827	354,063	354,890

25. EVENTS AFTER THE REPORTING PERIODS

Impact of Novel Coronavirus Outbreak to Zhongyan Group

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has impact on the global business environment. Up to the date of these financial results, COVID-19 has not resulted in material impact to Zhongyan Group. Pending on the development and spread of COVID-19 subsequent to the date of these financial results, further changes in economic conditions for Zhongyan Group arising thereof may have impact on the financial results of Zhongyan Group, the extent of which could not be estimated as at the date of these financial results. Zhongyan Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of Zhongyan Group.

26. CAPITAL RISK MANAGEMENT

The Zhongyan Group manages its capital to ensure that entities in the Zhongyan Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Zhongyan Group's overall strategy remains unchanged throughout the Relevant Period.

The capital structure of the Zhongyan Group consists of debts (mainly including borrowings, amount due to related companies, amount due to a non-controlling interests, amount due to a director and loans from a non-controlling interests), net of bank balances and cash, and equity attributable to owners of the Zhongyan E-commerce, comprising registered capital and reserves.

The management of the Zhongyan Group reviews the capital structure from time to time. As part of this review, the management of the Zhongyan Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director of the Zhongyan Group, the Zhongyan Group will balance its overall capital structure through issue of capital as well as the issue of new debt or the redemption of existing debts.

27. FINANCIAL INSTRUMENTS

Categorise of Financial Instruments

	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
The Zhongyan Group			
Financial assets			
Financial assets at amortised cost (including cash and cash equivalents)	–	17,527	8,019
Loans and receivables (including cash and cash equivalents)	27,489	–	–
Financial assets at fair value through profit or loss	–	353	1,119
	27,489	17,880	9,138
Financial liabilities			
Amortised costs	237,083	299,566	369,430
	237,083	299,566	369,430

Financial Risk Management Objectives and Policies

The Zhongyan Group's major financial instruments include bank balances, amount due from/(to) related companies, financial assets at fair value through profit or loss, trade and other receivables, deposits, loans and interests receivables, trade and other payables, and amount due to non-controlling interests. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (i.e. interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Zhongyan Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Zhongyan Group's operations were all carried out in the PRC during the Relevant Period and it mainly earned revenue and incurred costs and expenses in RMB, the management of the Zhongyan Group assessed that currency risk is insignificant. The Zhongyan Group is exposed to other financial risks, including principally interest rate risk, credit risk and liquidity risk. Continuous monitoring of these risks ensures that the Zhongyan Group is protected against any adverse effects of such risks so far as it is possible and foreseeable.

Interest rate risk

The Zhongyan Group is exposed to cash flow interest rate risk in relation to floating-rate bank balances. The Zhongyan Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk and impairment assessment

The Zhongyan Group's maximum exposure to credit risk in relation to each class of recognised financial assets is the carrying amount of those assets. The Zhongyan Group's credit risk is primarily attributable to its trade and other receivables, deposits, loans and interests receivables and amount due from related companies. In order to minimise the credit risk, the Zhongyan Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Zhongyan Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts, and reviews ECL to ensure financial assets are correctly measured to reflect the credit risk. In this regard, the director of the Zhongyan Group considers that the Zhongyan Group's credit risk is significantly reduced.

Trade receivables

For trade receivables, the Zhongyan Group has applied the simplified approach in HKFRS 9 with reference to the assessment from independent professional qualified valuer to measure the loss allowance at lifetime ECL. The Zhongyan Group determines the ECL on these items on individual basis, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Other receivables, deposits, and loans and interests receivables

For other receivables and deposits and loans and interests receivables, the Zhongyan Group has applied the general approach in HKFRS 9 with reference to the assessment from independent professional qualified valuer to measure the loss allowance approximate to such at 12m ECL when the Directors did not expect any significant increase in credit risk. The Zhongyan Group determines the ECL on these items by assessed individually for certain debtors with disputes, estimated based on historical credit loss experience on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Bank balances

The restricted bank balance and bank balances are determined to have low risk at the end of the Relevant Period. The credit risk on restricted bank balance and bank balances is limited because the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

Liquidity risk

Management aims to maintain sufficient cash to meet funding requirement for operations and monitor rolling forecasts of Zhongyan Group's cash on the basis of expected cash flows.

The table below analyses Zhongyan Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Liquidity table

As at 31 December 2017

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2017
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	–	7,296	–	–	–	7,296	7,296
Loan from shareholders	10%	12,327	48,803	180,346	–	241,476	229,787
		19,623	48,803	180,346	–	248,772	237,083

As at 31 December 2018

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2018
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	–	7,224	–	–	–	7,224	7,224
Amount due to related party	–	31	–	–	–	31	31
Loan from shareholders	10%	64,582	42,243	214,425	–	321,250	292,311
		71,837	42,243	214,425	–	328,505	299,566

As at 31 December 2019

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2019
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	–	14,540	–	–	–	14,540	14,540
Borrowings	12%	461	255	114	–	830	827
Loans from shareholders	10%	8,351	5,810	370,898	–	385,059	354,063
		23,352	6,065	371,012	–	400,429	369,430

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Zhongyan Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets is determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 31/12/2017	31/12/2018	31/12/2019	Fair value hiarachy	Valuation technique and key input(s)
	HK$'000	*HK$'000*	*HK$'000*		
Investment in low risk bank financial products	–	353	1,119	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio

The following table represents the changes in Level 3 financial assets at FVTPL during the Relevant Period.

	As at 31 December 2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	–	–	353
Addition	–	7,964	8,092
Disposal	–	(7,596)	(7,093)
Total gain recognised in profit or loss	–	(105)	26
Exchange realignment	–	90	(259)
At end of the year	–	353	1,119

The following management discussion and analysis is based on the consolidated financial information included in the accountants' report on historical financial information of Zhongyan E-commerce as set out in Appendix IV to this circular for the three years ended 31 December 2017, 2018 and 2019 (the "**Track Record Period**").

BUSINESS REVIEW

Zhongyan E-commerce is the sole operator of an internet platform which enables 5.6 million tobacco retailers across the nation to conduct non-cigarette business. Leveraging substantial channel resources of more than 5.6 million off-line tobacco retail terminals across the nation, and benefited from the strong research, development and application capabilities in technologies of Zhejiang University, Zhongyan E-commerce has provided business to business e-commerce solutions to tobacco retailers.

FINANCIAL RESULTS

The extracts of combined financial results of the Zhongyan E-Commerce for the Track Record Period is illustrated as below:

(HK$'000)	**2017**	**2018**	**2019**
Revenue	**27,529**	**38,118**	**13,763**
Cost of sales	(22,686)	(32,101)	(8,174)
Gross profit	**4,843**	**6,017**	**5,589**
Administrative expenses	**(89,633)**	**(68,167)**	**(62,832)**
Loss for the year	**(98,131)**	**(91,346)**	**(91,528)**

The segment results of the Zhongyan E-Commerce for the Track Record Period is illustrated as below:

Segment revenue (HK$'000)	**2017**	**%**	**2018**	**%**	**2019**	**%**
Trading of consumable goods	21,826	79%	29,654	78%	4,287	31%
Service income	5,703	21%	8,464	22%	9,476	69%
Total revenue	**27,529**	**100%**	**38,118**	**100%**	**13,763**	**100%**

Segment profit (loss) (HK$'000)	**2017**	**2018**	**2019**
Segment (loss) profit from trading of consumable goods	(42,401)	(40,915)	(29,425)
Segment loss from service income	(39,664)	(43,056)	(55,393)
Total segment loss for the year	**(82,065)**	**(83,971)**	**(84,818)**

Zhongyan E-commerce recorded revenue of approximately HK$27.5 million, HK$38.1 million and HK$13.8 million for each of the years ended 31 December 2017, 2018 and 2019, respectively. The revenue picked up in 2018 and recorded an increase of HK$10.6 million, which was mainly contributed by the improvement in trading revenue and increase in service fee which is service income for provision of the installation of software and technical support service. During the year ended 31 December 2019, the revenue mainly comprised of the service fee which increased by approximately 12% compared to the year ended 2018 as a result of the continued provision of such software support service. Also, starting in 2019, Zhonggyan E-commerce started to charge product suppliers commission on each trading transaction took place on its platform which also further contributed to the growth. By the end of 2018, the management decided to scale down the trading of consumable goods as the competition was keen and the costs involved in operating the business was substantial. As a result, revenue from trading of consumable goods dropped greatly in 2019.

The segment loss from the service income increased from 2018 to 2019, as Zhongyan E-commerce changed the operation from conducting trading transactions on the e-commerce platform to provide the platform for suppliers to trade with the registered users and receiving service income, the majority of administrative expenses were allocated to the service segment instead of the trading of consumable goods segment, thus resulting in an increase in segment loss of service segment. The management will continue to implement cost control measures in 2020 and the overall administrative expenses are expected to be reduced.

Zhongyan E-commerce incurred costs of sales of approximately HK$22.7 million, HK$32.1 million and HK$8.2 million for the years ended 31 December 2017, 2018 and 2019, respectively. The cost of sales mainly comprised of the cost of trading. The decrease in cost of sales in the relevant period under review are generally due to the downsizing of the trading operation on the platform.

Administrative and other operating expenses amounted to approximately HK$89.6 million, HK$68.1 million and HK$62.8 million for each of the years ended 31 December 2017, 2018 and 2019, respectively. Administrative and other operating expenses mainly comprised of staff cost, logistics cost and cost of advertisement. The Group is undergoing a restructuring and the number of staff will be reduced in order to minimize cost and improve the overall efficiency starting in late 2019.

Finance cost

Finance cost mainly represents interest expense charged by the related parties at interest rate ranging from 8% – 15% during the periods under review.

Overall speaking, the loss incurred during the Track Record Period is due to the significant expenses incurred in heavy staffing costs in developing the E-commerce platform operation. Such expenses are expected to greatly reduce in near future as the restructuring commenced in late 2019.

FINANCIAL POSITION

Set out below is the financial position of Zhongyan E-commerce for the Track Record as extracted from the accountants' report set out in Appendix IV to this circular:

	For the year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	7,094	3,049	1,363
Current assets	29,434	21,938	19,074
Total assets	36,528	24,987	20,437
Current liabilities	(242,629)	(306,167)	(387,195)
Total liabilities	(242,629)	(306,167)	(387,195)
Net liabilities	(206,101)	(281,180)	(366,758)
Capital deficiency attributable to owners of Zhongyan E-commerce	(192,013)	(263,146)	(345,579)
Non-controlling interests	(14,088)	(18,034)	(21,179)

Assets

The decrease in total asset from HK$36.5 million in 31 December 2017 to HK$25.0 million in 31 December 2018 was mainly due to the decrease in bank balances and cash and amount due from related companies.

Liabilities

The further increase in total liabilities of Zhongyan E-commerce from 31 December 2017 to 31 December 2018 was primarily attributable to the increase in amount due to related companies.

Total liabilities continue to increase as at 31 December 2019, which was mainly attributable to the further increase in amount due to related companies.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Capital structure

The primary objectives of Zhongyan E-commerce's capital management are to safeguard Zhongyan E-commerce's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

Zhongyan E-commerce 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, Zhongyan E-commerce may adjust the dividend payment to owners, return capital to owners or request additional capital from owners. Zhongyan E-commerce is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

Funding and treasury policy

Zhongyan E-commerce has adopted a prudent funding and treasury policy towards its overall business operations with an aim to minimise its financial risks.

Cash resources

Zhongyan E-commerce financed working capital and capital expenditures principally through the utilisation of short term bank borrowings and loans from related parties.

Borrowings and facilities

Zhongyan E-commerce did not had any borrowings saved as amount due to non-controlling interest and amount due to related companies.

Gearing ratio

As at 31 December 2017, 31 December 2018 and 31 December 2019, the equity of Zhongyan E-commerce is in a net deficit position due to accumulated losses. Presentation of the gearing ratio of Zhongyan E-commerce is therefore not meaningful.

EMPLOYEES AND REMUNERATION POLICIES

Zhongyan E-commerce employed a total of 193, 218 and 151 full-time employees as at 31 December 2017, 2018 and 2019, respectively. Staff costs for the years ended 2017, 2018 and 2019 were HK$66.5 million, HK$63.4 million and HK$35.2 million respectively. Zhongyan E-commerce provides its employees with competitive remuneration and contributes to the necessary defined benefit or contribution pension plans in complying with relevant regulatory requirements.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2017, 31 December 2018 and 31 December 2019, the bank balances and cash of Zhongyan E-commerce were mainly held in Renminbi and therefore Zhongyan E-commerce had no foreign exchange exposure.

PLEDGE OF ASSETS

As at 31 December 2017, 2018 and 2019 the Target Group had no pledge of assets.

CAPITAL COMMITMENTS

As at 31 December 2017, 31 December 2018 and 31 December 2019, the Target Group had no capital commitments.

Contingent liabilities

The Target Group did not have any contingent liabilities as at 31 December 2019.

ACQUISITION AND DISPOSAL AND SIGNIFICANT INVESTMENTS

Zhongyan E-commerce did not have any significant investment, material acquisition or disposal during each of the years ended 31 December 2017, 2018 and 2019.

DIVIDEND

No dividend was paid or declared by Zhongyan E-commerce during the Track Record Period.

PROSPECTS AND OUTLOOK

Zhongyan E-commerce will become an associate of the Group, and will continue to develop its online platform in the view to provide more value added services to the registered cigarette retailers and further explore potential opportunity to improve the operation position.

The information set out in this appendix does not form part of the accountants' report prepared by the reporting accountants of our Company, HLM CPA Limited, Certified Public Accountants, Hong Kong, set out in Appendix II "Financial Information of the Target Group" to this Circular and is included herein for information only.

BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma consolidated statement of financial position (the "Unaudited Pro Forma Financial Information") of Greater China Financial Holdings Limited (the "Company", and together with its subsidiaries, the "Group"), as enlarged by the proposed acquisition of the 100% equity interest in Xin Yunlian Investment Limited (the "Target Company", and together with its subsidiaries and associates, the "Target Group") (the "Proposed Acquisition"). The Group as enlarged by the Proposed Acquisition upon completion of the Proposed Acquisition is hereafter collectively referred to as the "Enlarged Group". The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the "Directors") in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and on the basis of the notes set forth below for the purpose of illustrating the effects of the Proposed Acquisition as if the Acquisitions had been completed at 31 December 2019.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with those of the Group as set out in the annual report of the Group for the year ended 31 December 2019.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purpose only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed as at 31 December 2019 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Audited consolidated statement of assets and liabilities of the Group	Combined statement of assets and liabilities of the Target Group	Pro forma Adjustments	Notes	Unaudited pro forma consolidated statements of assets and liabilities of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	Note 1	*Note 2*			
Non-current assets					
Goodwill	32,722	–	364,959	*(6)*	397,681
Property, plant and equipment	86,351	3,504			89,855
Intangible assets	2,277	4,197			6,474
Right-of-use assets	43,075	786			43,861
Financial assets at fair value through other comprehensive income	6,369	–			6,369
Financial assets at fair value through profit or loss	28,664	–			28,664
Contingent consideration receivables	–	–	1,643	*(4)*	1,643
Deferred tax assets	22,555	11,915			34,470
Deposits	3,505	–			3,505
Interests in associates	–	–		*(9)*	–
	225,518	20,402			612,522
Current assets					
Loans and interests receivables	152,449	140,194			292,643
Trade and other receivables	24,895	59,033			83,928
Prepayments and deposits	81,487	24,195			105,682
Financial assets at fair value through profit or loss	1,596	5,709	233	*(3)(a)*	7,538
Contingent consideration receivables	39,136	–			39,136
Tax receivables	517	–			517
Amount due from non-controlling interests	–	10,810			10,810
Loan to non-controlling interests	–	30,155			30,155
Amount due from a shareholder	–	390			390
Cash held on behalf of clients	843	–			843
Restricted bank deposits	54,056	21,869			75,925
Bank balances and cash	205,530	42,086	(5,000)	*(8)*	242,616
	560,509	334,441			890,183
Assets held for sale	–	5,265			5,265
	560,509	339,706			895,448

	Audited consolidated statement of assets and liabilities of the Group *HK$'000* *Note 1*	Combined statement of assets and liabilities of the Target Group *HK$'000* *Note 2*	Pro forma Adjustments *HK$'000*	*Notes*	Unaudited pro forma consolidated statements of assets and liabilities of the Enlarged Group *HK$'000*
Current liabilities					
Trade payables, other payables and accruals	133,564	15,162			148,726
Lease liabilities	14,536	401			14,937
Contract liabilities	52	595			647
Liabilities from financial guarantees	94,594	6,910			101,504
Deferred consideration	5,853	–			5,853
Borrowings	11,186	135,148			146,334
Tax payables	100	361			461
Amount due to a shareholder/Vendor	–	60,010	(60,000)	*(6)*	10
Amount due to an associate	–	23			23
Amount due to a director	–	120			120
Amount due to non-controlling interests	–	6,264			6,264
	259,885	224,994			424,879
Liabilities directly associated with assets classified as held for sale	–	4,099			4,099
	259,885	229,093			428,978
Net current assets	300,624	110,613			466,470
Total assets less current liabilities	526,142	131,015			1,078,992
Non-current liabilities					
Lease liabilities	7,289	362			7,651
Borrowings	67,116	–			67,116
Convertible notes	–	–	191,995	*(3)(a)*	191,995
	74,405	362			266,762
Net assets	451,737	130,653			812,230
Equity					
Share capital	6,924	390	460	*(5), (6), (7)*	7,774
Reserve	444,813	(59,792)	229,380	*(3)(a), (5), (6), (7), (8)*	614,401
	451,737	(59,402)			622,175
Non-controlling interest	–	190,055			190,055
Total equity	451,737	130,653			812,230

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) The amounts have been extracted from the audited consolidated statement of financial position of the Group as at 31 December 2019, as set out in the published annual report of the Company for the year ended 31 December 2019.

(2) The amounts have been extracted from the audited consolidated statement of financial position of the Target Group as at 31 December 2019 in the accountants' report as set out in Appendix II to this circular.

(3) Pursuant to the Acquisition Agreement, the Company has conditionally agreed to acquire the entire equity interest of Target Company for a total consideration of HK$360 million payable to Skill Rich Limited (the "Vendor"). HK$360 million will be settled by issuance of Convertible Notes and New Shares to the Vendor.

(a) A portion of the Consideration of HK$200 million will be settled by the issuance of the convertible notes (the "Convertible Notes") by the Company to the Vendor at an initial conversion price of HK$1.00 per conversion share. The fair values of the liability component and equity component of approximately HK$191,995,000 and HK$8,238,000 respectively were valued by CHFT Advisory and Appraisal Limited as if the Acquisition had taken place on 31 December 2019. The fair value of the liability component of the Convertible Notes is estimated by using discount cash flow method, at the discount rate of 4.16%. The equity component of the Convertible Notes is estimated using Binomial Pricing Model. The key assumptions used are as follows:

Conversion period start date	31/12/2022
Conversion period end date	31/12/2024
Maturity date	31/12/2024
Time to maturity	5 years
Underlying stock price	HK$0.2
Conversion price	HK$1.0
Expected volatility	63%
Expected dividend yield	Nil
Risk-free rate	1.7%
Percentage of principal amount to be repaid at redemption	100%

The Company shall have a right to redeem the Convertible Notes at any time after the Issue Date, prior to the fourth anniversary of the Issue Date. The fair value of the derivative financial instruments of approximately HK$233,000 was valued by CHFT Advisory and Appraisal Limited as if the Acquisition had taken place on 31 December 2019.

(b) A portion of the Consideration of HK$160 million will be settled by the allotment and issue of 800,000,000 ordinary shares (the ''New Shares'') by the Company to the Vendor at an issue price of HK$0.2 per share.

Upon completion, the fair value of the Convertible Notes will be re-assessed and may be different from the estimated amounts as presented above.

(4) The acquisition of Target Company is accounted for using the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) ''Business Combinations'' (''HKFRS 3 (Revised)'') issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of preparing the unaudited pro forma consolidated assets and liabilities of the Enlarged Group, the pro forma fair values of the identifiable assets and liabilities (other than goodwill) of the Target Group as at 31 December 2019 approximate their carrying amounts as at 31 December 2019 as if the Transaction had been completed as at 31 December 2019.

Pursuant to the Acquisition Agreement, the Vendor and Vendor Guarantor jointly undertook that the aggregate audited consolidated net profit of the Target Group (excluding extraordinary gain on acquisition or disposal) attributable to 51% interest to the Company for the five years ending 31 December 2024 shall be not less than RMB153,000,000 (equivalent to approximately HK$167,841,000) (the ''Guarantee Profit'').

If the aggregate actual audited consolidated net profit of the Target Group (excluding extraordinary gain on acquisition or disposal) for the five years ending 31 December 2024 (the ''Actual Profit'') falls short of RMB153,000,000(equivalent to approximately HK$167,841,000), the principal amount of the Convertible Notes shall be reduced in the manner set out below:

Reduction Amount = (A-B) x 1.2
A equals to Guaranteed Profit
B equals to Actual Profit

For avoidance of doubt, if Actual Profit is less than or equals to zero, i.e. the Target Group will be not making profit or making a loss, B will equal to zero. The principal amount of the Convertible Notes shall be reduced by an amount equals to the Reduction Amount within 90 days from the date when the parties confirm such Reduction Amount or any other time as the parties may mutually agree.

The Purchaser has agreed to appoint an escrow agent to hold the Convertible Notes in the principal amount equal to the Guarantee Profit in escrow until the due settlement of the Reduction Amount.

Pursuant to the Acquisition Agreement, the Company has agreed to issue the Vendor the Incentive Notes or pay by cash in the event that the Actual Profit excess the Guarantee Profit for the amount equals to a percentage of the difference between the Guarantee Profit and the Actual Profit, subjected to a cap of RMB612 million of the Actual Profit.

The fair value of contingent consideration receivables of approximately HK$1,643,000 was valued by CHFT Advisory and Appraisal Limited as if the Proposed Acquisition had taken place on 31 December 2019. The fair value was estimated by using discounted cash flow method, at the risk-free rate and discount rate of 1.74% and 4.16% respectively. Upon completion, the fair value of contingent consideration receivables will be re-assessed and may be different from the estimated amounts as presented above.

(5) 800 million of ordinary shares of the Company will be issued at the issue price of HK$0.209 per share as if the Proposed Acquisition had taken place on 31 December 2019 as settlement for part of the consideration. The nominal amount of the Consideration Shares is HK$800,000 will be recorded as share capital and the amount to be recognised as share premium of the Consideration Shares, being the excess of the fair value of the Consideration Shares over their nominal amount, is HK$166,400,000. As the closing market price of the Company's shares at the completion date of the Proposed Acquisition may be substantially different from the issue price of HK$0.209 per share as stipulated in the SPA of the Proposed Acquisition and the fair value of 800 million ordinary shares to be issued may be different. The fair value of the 800 million ordinary shares to be issued by the Company will have to be reassessed on the completion date of the Acquisition.

(6) The adjustments represent the recognition of goodwill arising from the Proposed Acquisition of Target Group. Upon completion of the Proposed Acquisition, the identifiable assets and liabilities of Target Group were accounted for in the consolidated financial statements of the Enlarged Group at fair value using the acquisition method in accordance with HKFRS 3 (Revised).

The difference in the fair value of the net identifiable assets of Target Group over the consideration is recognised as a goodwill. Assuming the acquisition is completed on 31 December 2019, the goodwill from the Proposed Acquisition of Target Group is calculated as follows:

	Notes	*HK$'000*
Considerations comprised:		
– Convertible Notes	*(3(a))*	200,233
– Derivative financial instruments, at fair value	*(3(a))*	(233)
– New Shares	*(5)*	167,200
– Contingent consideration receivables	*(4)*	(1,643)
Total consideration		365,557
Less: Shareholder's loan assigned to the Group		(60,000)
The aggregate amount of the fair value of the consideration		305,557
Add: Pro forma fair value of non-controlling interest		190,055
Less: Pro forma fair value of identifiable net assets acquired	*(i)*	(130,653)
Goodwill arising from the acquisition	*(ii)*	364,959

(i) For the purpose of the Unaudited Pro Forma Financial Information and for illustrative purpose only, it is assumed that the fair values of the Target Group' identifiable assets and liabilities approximate to their respective carrying amounts and the allocation of the purchase price is determined based on the carrying amount of the Target Group' identifiable assets and liabilities as at 31 December 2019.

Since the fair values of the identifiable assets and liabilities of the Target Group on the date of completion of the Proposed Acquisition may be substantially different from the amounts used in the preparation of this Unaudited Pro Forma Financial Information, the actual amounts of assets and liabilities of the Target Group could be different. Accordingly, it could be different from the estimated amounts stated herein and could have different deprecation or amortisation for subsequent periods.

(ii) For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assessed whether there is any impairment in respect of the goodwill expected to arise from the Acquisition with reference to the principles set out in Hong Kong Accounting Standard 36, ''Impairment of Assets''. Based on the Directors' assessment, the Directors consider that there is no impairment indicator on the goodwill with assumed value set out in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2019. The Company will adopt consistent accounting policies and valuation method (as used in the Unaudited Pro Forma Financial Information and which are consistent with relevant Hong Kong Accounting Standard) to assess the impairment of the Enlarged Group's goodwill in the future. The reporting accountants, which is also the auditor of the Company, will audit the annual consolidated financial statements (including the goodwill impairment assessment) in accordance with the Hong Kong Standards of Auditing issued by the Hong Kong Institute of Certified Public Accountants.

(7) The consultancy fee agreement entered between the Purchaser, the Company and the Consultant. The consultancy fee shall be HK$10 million charged to profit and loss which shall be settled by the Company by way of issuing the Consideration Share of 50,000,000 ordinary shares. 50 million of ordinary shares of the Company will be issued at the issue price of HK$0.209 per share as settlement for the consultancy fee of approximately HK$10,450,000 as if the Proposed Acquisition had taken placed on 31 December 2019. The nominal amount of the ordinary shares is HK$50,000 will be recorded as share capital and the amount to be recognised as share premium of the ordinary shares, being the excess of the fair value of the ordinary shares over their nominal amount, is HK$10,400,000. As the closing market price of the Company's shares at the completion date of the Proposed Acquisition may be substantially different from the issue price of HK$0.209 per share as stipulated in the SPA of the Proposed Acquisition and the fair value of 50 million ordinary shares to be issued may be different. The fair value of the 50 million ordinary shares to be issued by the Company will have to be reassessed on the completion date of the Acquisition.

(8) The adjustment represents the estimated professional fees and transaction costs of approximately HK$5,000,000 charged to profit and loss. The amounts are assumed to be paid after the completion of the Proposed Acquisition.

(9) The carrying amount of interests in associates of the Target Group as at 31 December 2019 has been included interests in Zhongyan E-commerce with cost of HK$1,119,000 and accumulated impairment allowance of HK$1,119,000.

(10) No adjustment has been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2019.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, HLM CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Rooms 1501-8, 15th Floor, Tai Yau Building,
181 Johnston Road, Wanchai, Hong Kong.
香港灣仔莊士敦道181號大有大廈15樓1501-8室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: info@hlm.com.hk

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Greater China Financial Holdings Limited (the "Company")

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information (the ''Unaudited Pro Forma Financial Information'') of Greater China Financial Holdings Limited (the ''Company'') and its subsidiaries (collectively the ''Group'') by the directors of the Company (the ''Directors'') for illustrative purposes only. The Unaudited Pro Forma Financial Information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2019 and related notes as set out in Appendix VI of the circular dated 30 June 2020 issued by the Company (the ''Circular''). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix VI of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire issued share capital of the Xin Yunlian Investment Limited (the ''Target Company'') and its subsidiaries (collectively referred to as the ''Target Group'') on the Group's financial position as at 31 December 2019 as if the transaction had taken place at 31 December 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's consolidated financial statements as included in the annual report for the year ended 31 December 2019, which was published on 14 April 2020.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules'') and with reference to Accounting Guideline 7 ''Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars'' (''AG 7'') issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA'').

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by Paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

HLM CPA Limited
Certified Public Accountants
Hong Kong
30 June 2020

華坊諮詢評估有限公司
CHFT Advisory and Appraisal Ltd.

華坊諮詢評估有限公司
CHFT ADVISORY AND APPRAISAL LTD.
香港上環文咸東街 40 號 15 樓 1502 室
1502, 15/F, 40 Bonham Strand, Sheung Wan, HK
電話 Main +852 2301 4080
傳真 Fax +852 2301 4988

Our Ref. : VC/CXU/30452/2020

Date : 30 June 2020

Greater China Financial Holdings Limited
Suites 3001-11, Tower Two,
Times Square,
1 Matheson Street,
Causeway Bay, Hong Kong

Dear Sirs,

RE: Valuation of 100% Equity Interest of Zhejiang Xin Yunlian Digital Technology Company Limited (浙江新雲聯數字科技有限公司) and Zhejiang Xin Yunlian Cloud Technology Company Limited (浙江新雲聯雲科技有限公司)

In accordance with an instruction from Greater China Financial Holdings Limited (the "Instructing Party"), we hereby provide this valuation report on the market value of 100% equity interest (the "Equity Interest") of Zhejiang Xin Yunlian Digital Technology Company Limited (浙江新雲聯數字科技有限公司) ("Xin Yunlian Digital") (together with its associated company, together the "E-Commerce Group") and Zhejiang Xin Yunlian Cloud Technology Company Limited (浙江新雲聯雲科技有限公司) ("Xin Yunlian Cloud" together with its subsidiaries, together the "Finance Group"), as at 31 December 2019 (the "Valuation Date").

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Equity Interest of the E-commerce Group and the Finance Group. This valuation has complied with the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors ("RICS") and the International Valuation Standards ("IVS") published by the International Valuation Standards Council.

The purpose of this report is to express an independent opinion on the market value of the Equity Interest of the E-commerce Group and the Finance Group in connection with the Instructing Party's acquisition as disclosed in its announcement dated 16 November 2019.

1 SCOPE OF WORK

In conducting this valuation exercise, our scope of work includes:

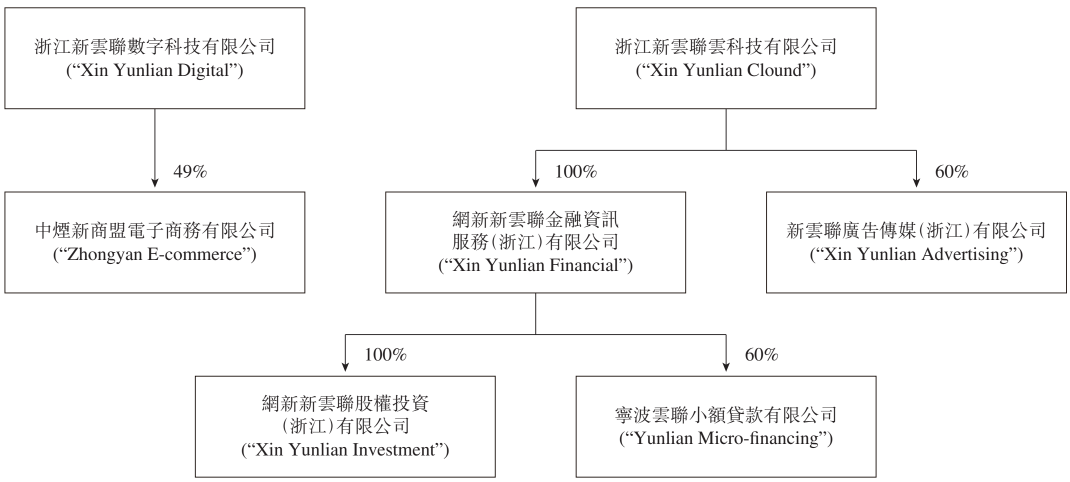
- Co-ordinated with the representatives of the E-commerce Group and the Finance Group to obtain the required information and documents for our valuation;
- Gathered the relevant information of the E-commerce Group and the Finance Group, including the legal documents, licenses, and financial statements;
- Discussed with the management of the Instructing Party, the E-commerce Group and the Finance Group to understand the history, business model, operations, customer base, business development plan of the business enterprises for valuation purpose;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;
- Investigated into the information on the E-commerce Group and the Finance Group made available to us and considered the bases and assumptions of our conclusion of value;
- Designed an appropriate valuation model to analyze the market data and derived the estimated fair value of the E-commerce Group and the Finance Group; and
- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party, the E-commerce Group, the Finance Group and their respective authorized representatives.

2 BACKGROUND INFORMATION OF THE E-COMMERCE GROUP AND THE FINANCE GROUP

The Group Chart

The chart below illustrates the group structure of the E-commerce Group and the Finance Group:



The E-commerce Group

The E-commerce Group was established in 2014. The E-commerce Group operates e-commerce business through Zhongyan E-commerce, an associated company of Xin Yunlian Digital. Under the Strategic Cooperation Framework Agreement on Developing an E-commerce System of Non-cigarette Products (《關於建立非煙商品的電子商務系統戰略合作框架協議》), Zhongyan E-commerce was authorised by China National Tobacco Corporation (''CNTC'') to be the sole operator of an Internet platform (the ''E-commerce Platform''). Retailers that are licensed to sell tobacco products (the ''Licensed Retailers'') across the country can register as a user of the E-commerce Platform and source their inventory in consumer products (other than tobacco products) by placing their orders at the E-commerce Platform. As at the Valuation Date, there were 5.6 million Licensed Retailers and 4.4 million of them have registered as user on the E-commerce Platform.

The Finance Group

The Finance Group was established in 2017. It has the following businesses:

(1) the provision of comprehensive Internet-based financial services through Xin Yunlian Financial, a wholly-owned subsidiary of Xin Yunlian Cloud. Xin Yunlian Financial is the exclusive financial service partner of Zhongyan E-commerce in providing comprehensive Internet financial services for the Licensed Retailers that have registered with the E-commerce Platform by applying ''blockchain + big data analysis + artificial intelligence'' technology. Such service includes loan facilitation and supply chain financing. Xin Yunlian Financial is authorized to access the trading information kept by the E-commerce Platform on the Licensed Retailers that have registered as user on the platform and that apply for the services provided by Xin Yunlian Financial for the evaluation of their credit risk.

(2) the offering of financial products through Yunlian Micro-financing, a subsidiary of Xin Yunlian Financial. Yunlian Micro-financing holds an Internet Micro-Financing License in the PRC and is permitted to offer financial products to individuals and small and micro enterprises (such as the Licensed Retailers). Yunlian Micro-financing is authorized to access the trading information kept by the E-commerce Platform on the Licensed Retailers that have registered as user on the platform and that apply for the services provided by Yunlian Micro-financing for the evaluation of their credit risk.

(3) the provision of advertising and relevant supporting services through Xin Yunlian Advertising.

3 MARKET ANALYSIS

Small and Micro Finance Market

Xin Yunlian Financial and Yunlian Micro-financing operate in the small and micro finance market in the PRC. The small and micro finance market refers to the credit service market of small and micro enterprises (the ''SMEs''), that is, the unincorporated but registered urban businesses such as the Licensed Retailers. In the PRC, the SMEs usually face difficulties to get loans from the major banks since the credit assessment process for the SMEs is complicated and inefficient, eventually leading to a higher interest rate.

The outstanding loans to the SMEs in the PRC reached an amount of RMB 8 trillion by the end of 2018, up 18% year on year growth and 8.2% faster than the growth at the end of the previous year according to the white paper released by authorities including the People's Banks of China (the ''PBOC'') and the China Banking and Insurance Regulatory Commission (the ''CBIRC''). The loan amount is expected to increase continuously since the Chinese government has announced to boost the availability of capital to the SMEs. In April 2019, the State Council set a goal that the five stated-owned banks should boost the outstanding loans to the SMEs by 30% in 2019. As at the Valuation Date, according to the CBIRC, the outstanding loans due from the SMEs to the five stated-owned banks reached RMB 2.5 trillion in 2019, representing a growth of 48.5% from that of the end of 2018, exceeding the whole year target of 30% ahead of schedule.

The favorable government policies and measures provided the advantages for the SMEs loans' development. The State Council and the CBIRC have announced more than 30 sets of measures related to different perspectives of loans to the SMEs, including but not limited to the application process and the interest rate. In April 2019, the Chinese government unveiled a guideline to facilitate the sound development of the SMEs, under which more measures will be launched to relieve SMEs' financing difficulties, including cutting targeted reserve requirement ratio for inclusive financing, creating more financing channels and encouraging SMEs to receive financing on the ''new third board''. In June 2019, the PBOC set up a national credit score database to improve the information asymmetries of commercial banks and expand loan availability for the SMEs with qualified credit scores.

As at the Valuation Date, there were around 5.6 million Licensed Retailers. This group of potential borrowers represents a loan market size of RMB 11.2 billion, assuming that the average loan amount for each borrower is RMB 200,000.

Internet Finance Market

In recent years, the Chinese government has continuously set up rigorous policies and capital requirements to regulate the Internet-based finance market, especially the Peer to Peer (the ''P2P'') lending market. As a result, this market has shrunk in terms of the number of platforms, the business scale and the number of investors. The previous Internet-based finance companies are orderly exiting their P2P business and transiting to facilitate or finance loans through their Internet platforms.

Xin Yunlian Financial and Yunlian Micro-financing are Internet-based finance companies in the PRC.

We analyzed the financial and operational figures of four Chinese Internet-based finance companies listed in the US and observed the following market development features:

– **High revenue growth rate.** The revenue related to loan facilitation service of these four companies (which is similar to the service provided by Xin Yunlian Financial) all experienced high growth rate in the past three years. Among four companies, Lexinfintech Holdings Ltd. ("Lexin") experienced the fast revenue growth with a 3-year compounded growth rate (the "CAGR") of 260.3% from 2016 to 2019. FinVolution Group ("FinVolution") comes the second with a 3-year CAGR of 53.7%. The other two companies Qudian Inc. ("Qudian") and 360 Finance, Inc. also had a double-digit growth in revenue.

– **Increasing number of users and loan origination volumes.** The table below illustrates the number of users and loan origination amount of the three companies as at 30 September 2019 and the month-on-month growth rate.

Exhibit 1.

Company	Total Number of Registered Users	Growth Rate	Loan Origination Amount (RMB)	Growth Rate
FinVolution	102,847,000	22.66%	24,579,000,000	66.40%
Lexin	62,600,000	92.20%	37,000,000,000	170%
360 Finance, Inc.	126,000,000	90%	55,965,000,000	108%

Source: FactSet

– **More collaboration between online lending companies and financial institutions.** Financial institutions such as banks have the capital. However, it is difficult for them to design and manage the different small loan products. The financial intermediaries such as Xin Yunlian Financial and lenders such as Yunlian Micro-financing usually have a better understanding about the requirements of the SMEs. Such collaboration between the financial institutions and the intermediaries such as Xin Yunlian Financial would increase the lending efficiency. It is observed that the proportion of the amount of loans granted by financial institutional partners is increasing in the case of the four companies listed in the US mentioned above.

4 VALUATION METHODOLOGY

There are three generally accepted valuation approaches in the valuation of the Equity Interest of the E-commerce Group and the Finance Group.

4.1 Cost Approach

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

The cost approach should be used as the primary basis for a valuation under the following circumstances:

– market participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a market participant would not be willing to pay a significant premium for the ability to use the subject asset immediately;

– the asset is not income-generating (directly or indirectly) and the unique nature of the asset makes using an income approach or market approach unfeasible, and

– the basis of value being used is fundamentally based on replacement cost, such as reinstatement value.

4.2 Market Approach

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. When reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach.

The market approach should be used as the primary basis for a valuation under the following circumstances:

– the asset has recently been sold in a transaction appropriate for consideration under the basis of value;

– the asset or substantially similar assets are actively publicly traded; and

– there are frequent or recent observable transactions in substantially similar assets.

4.3 Income Approach

The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

The income approach should be used as the primary basis for a valuation under the following circumstances:

– the income-producing ability of the asset is the critical element affecting value from a market participant perspective; and

– reliable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.

4.4 Selection of Assessment Methodology

In this valuation, we have separately assessed the Equity Interest of the E-commerce Group and the Finance Group.

E-commerce Group

We noticed that the entities in the E-commerce Group either have recorded net loss through the years or have no actual business. Therefore, we adopted the cost approach in valuation of the E-commerce Group since we did not observe significant change in the future operation according to the management's business plan.

Finance Group

After a discussion with the management of the Finance Group, we understand that the primary operating entities in that group are Xin Yunlian Financial and Yunlian Micro-financing.

For Xin Yunlian Financial and Yunlian Micro-financing, we considered the market approach not applicable for the valuation. As the companies are expected to expand in the next few years, their current financial indicators, such as earnings and book value, would not be a good base to determine their market value.

We also considered the cost approach not an adequate approach for the valuation of Xin Yunlian Financial and Yunlian Micro-financing, as this approach also does not take future growth potential into consideration.

Thus, we determined that the income approach was the most appropriate valuation approach to value the Equity Interest of Xin Yunlian Financial and Yunlian Micro-financing.

For other entities in the Finance Group (Xin Yunlian Advertising and Xin Yunlian Investment), it is observed that they either have recorded net loss through the years or have no actual business. Therefore, we adopted the cost approach in valuation of these entities in the Finance Group since we did not observe significant change in the future operation according to the management's business plan.

4.5 Discounted Cash-flow Method (the "DCF Method")

When adopting income approach to value the Equity Interest of Xin Yunlian Financial and Yunlian Micro-financing, discounted cash-flow method was used.

Under the DCF method the forecasted cash flow is discounted back to the valuation date, resulting in a present value of the asset. In some circumstances for long-lived or perpetual-lived assets, the DCF method may include a terminal value which represents the value of the asset at the end of the explicit projection period. In other circumstances, the value of an asset can be calculated solely using a terminal value with no explicit projection period. This is sometimes referred to as an income capitalisation method.

The key steps in the DCF method are to:

– choose the most appropriate type of cash flow for the nature of the subject asset (ie, gross or net, pre-tax or post-tax, total cash flows or cash flows to equity, real or nominal);

– determine the most appropriate explicit period, if any, over which the cash flow will be forecast;

– prepare cash flow forecasts for that period;

– determine whether a terminal value is appropriate for the subject asset at the end of explicit forecast period and then determine the appropriate terminal value for the nature of the asset;

– determine the appropriate discount rate; and

– apply the discount rate to the forecasted future cash flow, including the terminal value, if any.

5 VALUATION OF E-COMMERCE GROUP

Zhongyan E-commerce

Zhongyan E-commerce, established in November 2014, operates the E-commerce Platform. The Licensed Retailers can register as user with the E-commerce Platform and through the E-commerce Platform, source their inventory in consumer products (other than tobacco products). Their orders are consolidated and placed with the suppliers. Zhongyan E-commerce charges the registered users of the E-commerce Platform a fee that is linked to the transaction amount. Zhongyan E-commerce recorded net loss of RMB 123 million, RMB 85 million and RMB 77 million from 2016 to 2018 respectively.

We reviewed the balance sheet as at the Valuation Date and the income statement for the period from January 2019 to December 2019 of Zhongyan E-commerce. It had a negative net asset value of RMB 309 million and an accumulated loss of RMB 508 million. The total revenue from the E-commerce Platform was RMB 12 million for the year ended 31 December 2019. Based on the business plan provided by the management of Zhongyan E-commerce, we did not observe significant change in the future operation and the loss is expected to continue in FY2020 to FY2024.

Therefore, we considered that the market value of 100% Equity Interest of Zhongyan E-commerce was close to 0 as at the Valuation Date.

6. VALUATION OF THE FINANCE GROUP – XIN YUNLIAN ADVERTISING AND XIN YUNLIAN INVESTMENT

Xin Yunlian Advertising

Xin Yunlian Advertising, established in January 2016, engages in the provision of advertising services to the E-commerce Platform and the Finance Group. It has generated RMB 10 million and RMB 7 million in revenue in 2017 and 2018 respectively and recorded losses in 2017 and 2018 respectively.

Based on the business plan provided by the management of the Finance Group and the Instructing Party, we did not observe significant change in the future operation and the loss is expected to continue in FY2020 to FY2024.

Therefore, we considered that the market value of 100% Equity Interest of Xin Yunlian Advertising was close to 0 as at the Valuation Date.

Xin Yunlian Investment

Since there is no actual business operated under this business entity, we considered that the market value of 100% Equity Interest of Xin Yunlian Investment was close to 0 as at the Valuation Date.

7 VALUATION OF THE FINANCE GROUP – XIN YUNLIAN FINANCIAL AND YUNLIAN MICRO-FINANCING

Financial Statements

The financial statements of Xin Yunlian Financial and Yunlian Micro-financing as at the Valuation Date are shown below:

Exhibit 2.

31 December 2019 Asset Items	Xin Yunlian Financial *RMB*	Yunlian Micro-financing *RMB*
Bank balances and cash	27,891,697	27,536,200
Trade receivables	5,780,864	–
Loans and interests receivables	–	125,329,889
Other receivables	15,710,483	9,859,236
Prepayment and deposits	7,393,869	14,144,234
Financial asset	–	3,103,952
Amount due from fellow subsidiaries	2,061,614	58,645
Amount due from non-controlling interest	–	8,935,385
Loan and interest receivables from NCI	26,958,133	–
Total Current Assets	85,796,660	188,967,541
Long-term equity investment	92,000,000	–
Properties, plants and equipment	82,504	2,479,318
Deferred tax assets	5,984,907	4,666,712
Total Noncurrent Assets	98,067,411	7,146,030
Total Assets	183,864,071	196,113,571

31 December 2019 **Liability Items**	**Xin Yunlian Financial** *RMB*	**Yunlian Micro-financing** *RMB*
Other payables and accruals	(6,466,828)	(5,259,587)
Contract liabilities/Receipt in advance	(532,028)	–
Tax payables	–	(321,819)
Borrowings	(85,819,250)	(35,000,000)
Amount due to fellow subsidiaries	(69,296)	(2,064,716)
Amount due to associate	(20,854)	–
Amount due to non-controlling interest	(6,651,567)	–
Liabilities from financial guarantees	(6,177,070)	–
Total Current Liabilities	(105,736,893)	(42,646,122)
Long term borrowing	–	–
Total Liabilities	(105,736,893)	(42,646,122)
Paid-in capital	(100,000,000)	(150,000,000)
Retained earnings	21,872,822	(3,467,449)
Total Shareholders' Equity	(78,127,178)	(153,467,449)
Total Liabilities and Shareholders' Equity	(183,864,071)	(196,113,571)

8 VALUATION OF THE FINANCE GROUP – XIN YUNLIAN FINANCIAL AND YUNLIAN MICRO-FINANCING – DISCUSSION OF FINANCIAL FORECAST

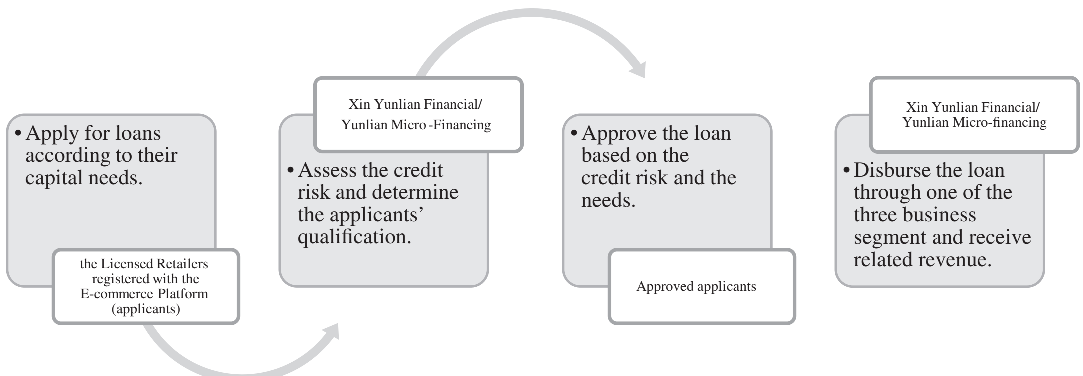
8.1 Forecast Period

We have performed our valuation based on the financial forecast provided by the management of the Xin Yunlian Financial and Yunlian Micro-financing. In this valuation, financial forecast is prepared based on management's understanding of the future business prospect. The forecasted period is from 1 January 2020 to 31 December 2024 (the "Forecast Period"). The fiscal year of Xin Yunlian Financial and Yunlian Micro-financing is from 1 January to 31 December.

8.2 Business Model

Based on our discussion with the management of the Finance Group, the flow chart below illustrates the business model of Xin Yunlian Financial and Yunlian Micro-financing:

Exhibit 3.



Three business segments involved in the financing business of Xin Yunlian Financial and Yunlian Micro-financing are listed as follows:

- Facilitating loan transaction with referral by cooperating with financial institutions. Under this business segment, Xin Yunlian Financial acts as an intermediary service provider and refers potential borrowers to financial institutions. The financial institutions bear the credit risk of the borrowers:

  - Under this business segment, Xin Yunlian Financial receives handling fee paid by the borrowers as its revenue.

- Facilitating loan transaction with referral and guarantee by cooperating with financial institutions and financial guarantee companies. Under this business segment, Xin Yunlian Financial acts as an intermediary service provider and refers potential borrowers to financial institutions. Also, Xin Yunlian Financial enters into contracts with the financial institutions and financial guarantee companies committed to buy back the loans in the event of default by the borrowers. To carry out this type of business, Xin Yunlian Financial is obliged to pay the financial guarantee companies a service fee for each loan guaranteed. Xin Yunlian Financial bears the credit risk of the borrowers.

  - Under this business segment, Xin Yunlian Financial receives two types of revenue: 1) handling fee paid by the borrowers; and 2) premium fee paid by the financial institutions.

- Financing loan transaction with its own funds by Yunlian Micro-financing. Under this business segment, Yunlian Micro-financing provides loans to borrowers using its own funds and bears the credit risk of the borrowers.

  - Under this business segment, Yunlian Micro-financing receives the interest paid by the borrowers as its revenue.

The loans offered by Xin Yunlian Financial and Yunlian Micro-financing are usually short-term loans within 1 year.

8.3 Projected Number of Disbursed Borrowers

Pool of potential borrowers

Based on the above, one of the key parameters to value Xin Yunlian Financial and Yunlian Micro-financing is the number of Licensed Retailers that are registered on the E-commerce Platform and that are willing to apply for the loans through the E-commerce Platform. As at the Valuation Date, there were 5.6 million Licensed Retailers across 28 provinces in the PRC, and 4.4 million of them have registered with the E-commerce Platform.

Xin Yunlian Financial and Yunlian Micro-financing started to explore the financing business in 2017. Xin Yunlian Financial facilitated 6,774 loan transactions and Yunlian Micro-financing financed 4,519 loan transactions in 2018. Guangdong, Henan, Shanxi provinces achieved the top three loan transaction amount. These loan transactions involved more than 4,000 Licensed Retailers that are registered with the E-commerce Platform.

According to the management of the Instructing Party, they have conducted the first-hand investigation about the business model in Guangdong province in the first half year of 2019. They approached 5,931 Licensed Retailers that were registered with the E-commerce Platform in Guangdong province, and 2,750 of them showed interest in applying for loans and 569 of them signed the loan contracts eventually. The observed conversion rate (i.e. the percentage of applicants out of the approached Licensed Retailers) is 46.4%. We have further assessed the effectiveness and the reliability of such investigation. Some comparisons between the findings of the first-hand investigation carried out by the Instructing Party in Guangdong province and the business model of the Finance Group are set out below:

1) The loan products covered by the Instructing Party in the investigation are similar to those provided by the Finance Group. Both loan products are short-term loans with the maturity of around 1 year. The average granted loan amount in the investigation is approximately RMB 100,000.

2) The Instructing Party advertised its loan products in the same way as the Finance Group is expected to advertise its loan products in the PRC. The Instructing Party approached the Licensed Retailers primarily by distributing advertising leaflets through offline marketing campaign.

3) The Registered Retailers in the PRC have a similar business model. It is observed that most of the Registered Retailers are owners of small retail stores selling tobacco products together with beverages and snacks. Since the price of the tobacco products is regulated by the CNTC, the operation status and net profit margin of the Registered Retailers are similar under their business model. Besides, the business scale of the Licensed Retailers is usually too small to satisfy the strict credit requirements of local banks and large financial institutions. It is relatively difficult for the Licensed Retailers to borrow loans from these financial institutions in the PRC, especially for those in less developed cities. They share similar funding needs.

In practice, the Instructing Party is limited in its ability to conduct investigation across the PRC. Nevertheless, based on the above observation, it is concluded that the potential target customer group (i.e. the Licensed Retailers) has shown significant interest in short-term loan products and the potential to convert them into applicants for loan products offered by the Finance Group is substantial. Meanwhile, it is effective to conduct the offline marketing campaign to attract the Licensed Retailers.

Therefore, we considered the observed conversion rate concluded from the first-hand investigation in Guangdong province as the best estimation in this valuation. Such rate is applied to the potential borrower pool of Licensed Retailers that are registered with the E-commerce Platform and we concluded that more than 2 million Licensed Retailers that are registered with the E-commerce Platform are expected to initiate enquires to apply for loans.

Marketing campaign

In the Forecast Period, Xin Yunlian Financial and Yunlian Micro-financing are expected to conduct marketing campaign to promote their financial services by posting relative banners on the E-commerce Platform and by distributing advertising leaflets offline. The two companies are also expected to enhance the offline-marketing force to promote their services province by province. In FY2020, the marketing campaign, especially the offline activities, is expected to reach 4% of the Licensed Retailers that are registered with the E-commerce Platform in Tier 1 provinces.

The following chart illustrates the detailed business plan of Xin Yunlian Financial and Yunlian Micro-financing in the Forecast Period:

Exhibit 4.

Market Penetration Percentage	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Tier 1 Provinces	4%	5%	6%	7%	8%
Tier 2 Provinces	0%	0%	5%	6%	6%
Tier 3 Provinces	0%	0%	0%	0%	0%

Notes:

- Tier 1 provinces include Guangdong, Shandong, Henan and other 4 provinces with 1.9 million Licensed Retailers that are registered with the E-commerce Platform.
- Tier 2 provinces include Guangxi, Hebei, Hunan and other 8 provinces with 1.9 million Licensed Retailers that are registered with the E-commerce Platform.
- Tier 3 provinces include Hainan, Heilongjiang, Jilin and other 7 provinces with 0.7 million Licensed Retailers that are registered with the E-commerce Platform.
- The Finance Group planned first to explore the potential market in Tier 1 and Tier 2 provinces in the Forecast Period, as the potential market size of Tier 1 and Tier 2 provinces is relatively larger than that of the Tier 3 provinces.

Based on the proposed marketing campaign, the number of Licensed Retailers that Finance Group is expected to approach in the Forecast Period is set out as below:

Exhibit 5.

Number of Approached Licensed Retailers	FY2020	FY2021	FY2022	FY2023	FY2024
Tier 1 Provinces	75,545	94,431	113,317	132,203	151,090
Tier 2 Provinces	–	–	94,341	113,209	113,209
Tier 3 Provinces	–	–	–	–	–
Total number of approached Licensed Retailers	**75,545**	**94,431**	**207,658**	**245,412**	**264,299**

Loan applicants

The loan applicants are divided into two categories: 1) new applicants and 2) repeated applicants.

Based on the Finance Group's business plan illustrated in Exhibit 5 and the observed conversion rate of 46.4%, the number of new applicants is expected to increase from 35,027 in FY2020 to 122,546 in FY2024, representing a 5-year CAGR of 36.6%. Such growth is driven by the marketing campaign of the Finance Group.

We are of the opinion that such high growth is feasible for the following reasons:

1) The potential borrower pool is large and undeveloped. As mentioned in Section 8.3 "Pool of Potential Borrowers", the E-Commerce Platform has a base of 4.4 million Licensed Retailers as potential registered users. There are few companies that focus on money lending business to the tobacco retailers in the market.

2) The Instructing Party has conducted first-hand investigation about the business model in Guangdong province in the first half year of 2019 with a sample pool of over 5000 Licensed Retailers and concluded with the observed conversion rate of 46.4%.

3) The Finance Group has the exclusive access to information about the Licensed Retailers and is expected to approach them efficiently.

Therefore, once the Finance Group rolls out the marketing campaign, the number of the potential applicants is expected to experience a significant high growth, resulting in the increase in the revenue of the Finance Group. Such growth potential is considered as one of the most attractive features of the Finance Group to its investors.

The number of repeated applicants is projected based on a 20% re-application rate (i.e. in each year 20% of the cumulative applicants is expected to re-apply for borrowing). The Finance Group has a two-year operation period and limited track record to provide data for the actual re-application rate. Such rate is determined by the management of the Finance Group as an operating target in the Forecast Period based on the following reasons:

1) The chances of the Licensed Retailers re-applying for the loans are high. Most of the Licensed Retailers apply for the loans to increase their operating capital and accelerate the inventory turnover. The demand for the operating capital is recurring. The term of loans granted by the Finance Group is usually 6 months to 1 year. The Licensed Retailers are more likely to re-apply for the loans once it matures. In addition, the approval rate for the repeated applicants on the same platform is higher than that for the new applicants on other platforms.

2) The Finance Group is able to enhance the re-application rate through targeted advertising as it has access to the information of the applicants.

3) It was observed that the repeat borrowing rate (i.e. the percentage of loan volume generated by repeated applicants who have successfully borrowed on the same platform before) for 360 Finance, Inc. and FinVolution in 2019 was 71.80% and 78.10% respectively as stated in their 2019 fourth-quarter earnings releases. The repeat borrowing rate of these two companies is considered because they also engage in providing short-term loan products to customers. The disclosable market information proves that borrowers of short-term loans prefers to re-apply for the loan on the same platform to maintain their capital liquidity. As the pool of applicants maintained by the Finance Group grows, the percentage of revenue contributed by the repeated applicants is expected to increase in the Forecast Period.

The management of the Finance Group has adopted a more conservative approach and set a 20% re-application rate as its operating target and we are of the view that such re-application rate is achievable in the Forecast Period.

Assuming that the market campaign is conducted as projected, the Finance Group is expected to reach 75,545 Licensed Retailers as shown in Exhibit 5. The observed conversion rate of 46.4% is then applied and results in the number of new applicants of 35,027. Meanwhile, the Finance Group has accumulated 69,769 applicants at the end of 2019, according to its operation record. The 20% re-application rate is then applied and results in the number of repeated applicants of 13,954 accordingly.

Thus, the total number of applicants is expected to increase from 48,981 in FY2020 to 194,277 in FY2024, representing a 5-year CAGR of 49.8%. Detailed schedule is set out as below:

Exhibit 6.

Items	FY2020	FY2021	FY2022	FY2023	FY2024
Number of new applicants	35,027	43,784	96,284	113,789	122,546
Number of repeated applicants	13,954	20,959	29,716	48,973	71,731
Total number of applicants	**48,981**	**64,744**	**126,000**	**162,762**	**194,277**

Approval rate

The approval rate for new applicants recorded by the Finance Group, for the period from January 2018 to December 2019, amounted to 38.8%. In the Forecast Period, the adopted approval rate for new applicants is 37.3%. As the Finance Group is expected to implement a borrower credit improvement plan, a slight decrease in approval rate is projected to reflect a more stringent application criteria.

The estimated approval rate for repeated applicants is expected to be 5% higher than that for the new applicants in FY2020 and increase by 1% each year from FY2021 to FY2024. Such improvement is projected due to the fact that more stringent application criteria will filter out more unqualified applicant in the first place and the overall credit quality of repeated applicants is expected to increase.

Disbursed borrowers

The final disbursement rate (i.e. the rate at which the approved applicants actually drew down the loans) recorded by the Finance Group, from the period from January 2018 to December 2019, amounted to 69.3%. Such rate is adopted as the projected final disbursement rate in the Forecast Period.

Based on the above information, the following table illustrates the change of the disbursed borrowers in the Forecast Period:

Exhibit 7.

Item	FY2020	FY2021	FY2022	FY2023	FY2024
Number of disbursed borrowers	13,272	17,780	34,119	44,970	54,966

8.4 Projected Proportion of Each Business Segment

As described in the previous section of Business Model, the following table shows the projected proportion of each business segment in the Forecast Period.

Exhibit 8.

Projected Proportion	FY2020	FY2021	FY2022	FY2023	FY2024
Facilitating loan transaction with referral	10%	10%	10%	10%	5%
Facilitating loan transaction with referral and guarantee	70%	75%	80%	85%	90%
Financing loan transaction with its own funds	20%	15%	10%	5%	5%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

The above proportion is projected after considering the following factors:

1. The proportion of financing loan transaction with its own funds is limited by the capital amount of the micro-financing operation in the PRC and the group has no plan to increase capital injection at the moment, so the proportion will eventually decrease and the focus will be shifted to the facilitating loan transaction with referral and guarantee.

2. The proportion of facilitating loan transaction with referral and guarantee will be the major focus of the expansion as the banks prefer to co-operate with the Finance Group subsequent to the acquisition by the Instructing Party, and the Finance Group can leverage with the existing financing guarantee operation with the group of the Instructing Party.

Considering the aforesaid projected proportion of each business segment and the total disbursed borrowers, the number of disbursed borrowers under each business segment in the Forecast Period is set as below:

Exhibit 9.

Number of Disbursed Borrowers	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Facilitating loan transaction with referral	1,327	1,778	3,412	4,497	2,748
Facilitating loan transaction with referral and guarantee	9,290	13,335	27,295	38,225	49,470
Financing loan transaction with its own funds	2,654	2,667	3,412	2,249	2,748
Total	**13,271**	**17,780**	**34,119**	**44,970**	**54,966**

8.5 Projected Revenue of Xin Yunlian Financial

The revenue of Xin Yunlian Financial comes from two segments: 1) Facilitating loan transaction with referral; and 2) Facilitating loan transaction with referral and guarantee. The revenue constitutes handling fee paid by the borrowers and the premium fee paid by the financial institutions.

The revenue is determined by 1) number of disbursed borrowers, 2) projected loan size; and 3) fee rate.

Number of disbursed borrowers

Based on the Finance Group's business plan, the number of disbursed borrowers receiving the facilitating loan with referral is expected to increase from 1,327 in FY2020 to 4,497 in FY2023 and then decrease to 2,748 in FY2024 The number of disbursed borrowers receiving the facilitating loan with referral and guarantee, is expected to increase from 9,290 in FY2020 to 49,470 in FY2024. Please refer to Exhibit 8 of this report for detailed discussion.

Projected loan size

The loan size represents the amount of loan that each individual applicant borrowed from Xin Yunlian Financial. The actual average loan size recorded by Xin Yunlian Financial for the period from January 2018 to December 2019 amounted to RMB609,482. Such loan size is expected by the management of the Finance Group to increase by 5% each year in the Forecast Period taking into account the inflation rate and a growth rate of 2%.

Base on the above two parameters, the projected facilitating loan amount in the Forecast Period is set out as below:

Exhibit 10.

Projected Facilitating Loan Amount	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Facilitating loan transaction with referral	84.3	118.6	238.9	330.6	212.1
Facilitating loan transaction with referral and guarantee	590.0	889.2	1,911.1	2,810.2	3,818.7

Unit: million RMB

Fee rate

Xin Yunlian Financial charges two types of fee: 1) handling fee paid by the borrowers; and 2) premium fee paid by the financial institutions.

The projected handling fee paid by the borrowers to Xin Yunlian Financial is 3.0% of the facilitating loan amount in the Forecast Period. Such rate is determined by Xin Yunlian Financial. The average historical handling fee charged by Xin Yunlian Financial for past loans in 2018 and 2019 is 3%. We are of the view that Xin Yunlian Financial is expected to maintain this handling fee rate in the Forecast Period.

The projected premium fee paid by the financial institutions to Xin Yunlian Financial is 5.0% of the facilitated loan amount per annum in the Forecast Period. Such rate is determined by Xin Yunlian Financial and the financial institutions. The historical average premium fee rate is 5% from 2018 to 2019. Thus, we are of the view that Xin Yunlian Financial is expected to maintain this premium fee rate in the Forecast Period.

Thus, the revenue generated by facilitating loan transactions is expected to grow from RMB 22.9 million in 2019 to RMB 311.8 million in FY2024, with a 5-year CAGR of 68.6%. Such CAGR is mainly driven by three factors stated in the previous section:

1) the number of new loan applicants is expected to increase at a 5-year CAGR of 36.6% in the Forecast Period;

2) there is expected to be a cumulative effect on the revenue since 20% of the cumulative loan applicants are expected to re-apply for the loans; and

3) the average loan amount is expected to increase at 5% annually.

Exhibit 11.

Revenue	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Handling fee	20.2	30.2	64.5	94.2	120.9
Premium fee	29.5	44.4	95.5	140.5	190.9
Total Revenue	49.7	74.6	160.0	234.7	311.8
Business tax and surcharges	(0.3)	(0.4)	(0.9)	(1.4)	(1.8)
Net Revenue	**49.4**	**74.2**	**159.1**	**233.3**	**310.0**

Unit: million RMB

Note: Projected business tax and surcharges represents the business tax, consumption tax, city maintenance and construction tax, resource tax and education surcharges paid by the Xin Yunlian Financial when carrying out the business operation. It is observed that average business tax and surcharges for the period from 1 January 2018 to 31 December 2019 is 0.6%. Such rate is adopted in the Forecast Period.

8.6 Projected Revenue of Yunlian Micro financing

The revenue of Xin Yunlian Micro-financing comes from financing loans with its own funds. The revenue constitutes the interest paid by the borrowers.

The revenue is determined by 1) number of disbursed borrowers; 2) projected loan size; and 3) interest rate.

Number of disbursed borrowers

Based on the Finance Group's business plan, the number of disbursed borrowers receiving the self-financing loans is expected to increase from 2,654 in FY2020 to 3,412 in FY2022 and then decrease to 2,748 in FY2024. Please refer to Exhibit 8 of this report for detailed discussion.

Projected loan size

The loan size represents the amount of loan that each individual applicant borrowed from Xin Yunlian Financial. The actual average loan size recorded by Xin Yunlian Financial for the period from January 2018 to December 2019 amounted to RMB 60,482. Such loan size is expected by the management of the Finance Group to increase by 5% each year in the Forecast Period, taking into account the inflation rate and a growth rate of 2%.

Interest rate

The projected interest paid by the borrowers is 15.0% per annum of the self-financing loan amount in the Forecast Period. Such interest rate is determined by the average interest rate of the actual loan products granted by Yunlian Micro-financing. It is observed that the Yunlian Micro-financing mainly operates three types of loan products. The actual monthly interest rate of the loan products varies from 1.25% to 2.00% with the tenor changing from 6 months to 12 months.

The Chinese government limit the annual interest rate of internet financing within 36%. We noticed that ''Jiebei'', an Internet-based finance product of Alibaba, and ''Weilidai'', an Internet-based finance product of Tencent, have an annualized interest rate range of 14.60% and 18.25%. Thus, we consider the projected annual interest rate is fair and reasonable.

The revenue generated by self-financing loan transactions is expected to increase from RMB 19.3 million in 2019 to RMB 28.5 million in FY2024, representing a 5-year CAGR of 8.1%. The detailed schedule is set out as below:

Exhibit 12.

Revenue	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Interest	31.3	26.0	31.6	30.0	28.5
Business tax and surcharges	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)
Net Revenue	**31.1**	**25.8**	**31.4**	**29.7**	**28.3**

Unit: million RMB

Note: Projected business tax and surcharges represents the business tax, consumption tax, city maintenance and construction tax, resource tax and education surcharges paid by the Yunlian Micro-financing when carrying out the business operation. It is observed that average business tax and surcharges for the period from 1 January 2018 to 31 December 2019 is 0.7%. Such rate is adopted in the Forecast Period.

After FY2024, the total revenue from the three business segments of Xin Yunlian Financial and Yunlian Micro-financing is expected to maintain a perpetual growth rate of 2%.

8.7 Gross Margin

The major cost of Xin Yunlian Financial constitutes two parts: 1) the credit loss of the loan facilitated with referral and guarantee and 2) the financial guarantee fee charged by the co-operated financial guarantee company.

The major cost of Yunlian Micro-financing is the credit loss of the loan financed with its own funds.

Based on the historical financial information of the Finance Group, the credit loss rate was 5.6% and 2.3% for Xin Yunlian Financial and Yunlian Micro-financing respectively in 2019. The high credit loss rate is mainly caused by the following reasons:

– with the collapse of the P2P lending, some of the borrowers chose to default on the debt deliberately, which increased difficulty in collecting the debt and resulted in a high loss rate in 2019.

– Xin Yunlian Financial and Yunlian Micro-financing focused on increasing the number of applicants in the first two-year operation period and neglected the collection process management.

We considered that the above reasons are not expected to have a long-term impact on the credit loss rate, as Xin Yunlian Financial and Yunlian Micro-financing plan to enhance the expected applicants' credit quality and to improve the bad loan recovery mechanism by implementing a borrower credit improvement plan.

According to a study "2018 Annual Global Corporate Default Study and Rating Transition" issued by S&P, the historical average default rate of B rating corporate bonds is 1.76% for the period from 2013 to 2018. The average recovery rate for B rating corporate bonds is 37.48% with reference to an "2019 Annual Default Study" issued by Moody's. Therefore, the average credit loss rate for B rating corporate bonds is 1.19%. Such market credit loss rate is used as a projection anchor.

After a discussion with the management of the Finance Group, they are expected to set a credit loss rate of 1.5% as an operation target from a more conservative perspective, as the borrowers are individuals that may bear higher credit risk.

Based on the above analysis, the credit loss rate of Xin Yunlian Financial is expected to decrease steadily from 5.6% in 2019 to the market average of 1.5% in the Forecast Period. The credit loss rate of Yunlian Micro-financing is expected to decrease steadily from 2.3% in 2019 to the market average of 1.5% in the Forecast Period.

In summary, for Xin Yunlian Financial, the gross margin is expected to increase from 46.6% in FY2020 to 74.9% in FY2024 based on the projected revenue and projected cost. For Yunlian Micro-financing, the gross margin is expected to increase from 83.3% in FY2020 to 89.1% in FY2024 based on the projected revenue and projected cost. The detailed schedule is set out as below.

Exhibit 13.

Xin Yunlian Financial	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Handling fee	20.2	30.2	64.5	94.2	120.9
Premium fee	29.5	44.4	95.5	140.5	190.9
Total Revenue	49.7	74.6	160.0	234.7	311.8
Business tax and surcharges	(0.3)	(0.4)	(0.9)	(1.4)	(1.8)
Net Revenue	49.4	74.2	159.1	233.3	310.0
Credit loss	(23.3)	(27.8)	(36.3)	(42.1)	(57.3)
Financial guarantee charge	(2.9)	(4.4)	(9.5)	(14,1)	(19.0)
Total Cost	(26.2)	(32.2)	(45.8)	(56.2)	(76.3)
Gross Profit	23.1	42.0	113.3	177.1	233.7
Gross Margin	46.6%	56.3%	70.8%	75.5%	74.9%

Unit: million RMB

Exhibit 14.

Yunlian Micro-financing	FY2020	FY2021	FY2022	FY2023	FY2024
Interest fee	31.3	26.0	31.6	29.9	28.5
Business tax and surcharges	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)
Net Revenue	**31.1**	**25.8**	**31.4**	**29.7**	**28.3**
Credit loss	(5.0)	(3.6)	(4.1)	(3.3)	(2.9)
Gross Profit	**26.1**	**22.2**	**27.3**	**26.4**	**25.4**
Gross Margin	83.3%	85.3%	86.5%	88.2%	89.2%

Unit: million RMB

8.8 Earnings Before Interest and Tax (EBIT) Margin

Based on our discussion with the management of Xin Yunlian Financial and Yunlian Micro-financing, the operating expense of Xin Yunlian Financial and Yunlian Micro-financing mainly consists of staff cost, underwriting cost, marketing cost, administrative cost and depreciation cost.

Staff cost mainly consists the salary of the staff from R&D department, operation department, support function and management. It is estimated based on 1) the estimated headcount and 2) the estimated average salary per headcount.

During the Forecast Period, the headcount of Xin Yunlian Financial is expected to grow from 98 in FY2019 to 238 in FY2024 to cope with the future expansion of the business. The growth rate of the headcount is positively related to the growth rate of revenue of Xin Yunlian Financial.

During the Forecast Period, the headcount of Yunlian Micro-financing is expected to remain stable of 42 since the existing staff are sufficient to cope with the future expansion of the business.

It is projected that the average salary will grow at 3% each year from FY2020 to FY2024 having taken into account of the inflation rate.

Based on the above, the staff cost for Xin Yunlian Financial is expected to increase from RMB 15.1 million in FY2020 to RMB 41.3 million in FY2024. The staff cost for Yunlian Micro-financing is expected to increase from RMB 7.3 million in FY2020 to RMB 8.3 million in FY2024.

Underwriting cost mainly consists the fee paid to the staff for preparing the loan and related paperwork for the borrower. It is estimated based on 1) the loan transaction amount and 2) the estimated charged underwriting fee rate.

During the Forecast Period, the charged underwriting fee rate is expected to be 0.2% of the total loan transaction amount for Xin Yunlian Financial and Yunlian Micro-financing.

Based on the above, the underwriting cost for Xin Yunlian Financial is expected to increase from RMB 1.3 million in FY2020 to RMB 8.1 million in FY2024. The underwriting cost for Yunlian Micro-financing is expected to increase from RMB 337,137 in FY2020 to RMB 4,244,298 in FY2024.

Marketing cost mainly consists the cost incurred when the staff conduct offline advertisement of the loan in different provinces in the PRC. It is estimated based on 1) the loan transaction amount and 2) the estimated marketing fee rate.

During the Forecast Period, the charged marketing fee rate is expected to be 0.5% of the total loan transaction amount for Xin Yunlian Financial and Yunlian Micro-financing.

Based on the above, the marketing cost for Xin Yunlian Financial is expected to increase from RMB 4.2 million in FY2020 to RMB 21.2 million in FY2024. The marketing cost for Yunlian Micro-financing is expected to increase from RMB 0.8 million in FY2020 to RMB 1.0 million in FY2024.

Administrative cost mainly consists the technology expenses, legal and professional expenses and other general and administrative expenses. It is estimated based on 1) the average administrative cost per staff and 2) the estimated headcount.

During the Forecast Period, the estimated administrative cost per staff per annum is RMB 10,000. Based on the above, the administrative cost for Xin Yunlian Financial is expected to increase from RMB 1.0 million in FY2020 to RMB 2.4 million in FY2024. The administrative cost for Yunlian Micro-financing is estimated to be stable at RMB 420,000 each year from FY2020 to FY2024.

Depreciation cost is calculated from the fixed asset balance of Xin Yunlian Financial and Yunlian Micro-financing as well as the estimated spending on capital expenditure. Please refer to our later discussion on capital expenditure for details.

For Xin Yunlian Financial, the EBIT margin is expected to increase to 51% in the Forecast Period due to the business performance improvement and the scale effect of the business. For Yunlian Micro-financing, the EBIT margin is expected to remain stable at around 54% in the Forecast Period.

8.9 Effective Tax Rate

According to the relevant tax law, the applicable corporate tax rate is 25% for Xin Yunlian Financial and Yunlian Micro-financing.

8.10 Capital Expenditure

The capital expenditure measures the amount of cashflow invested by Xin Yunlian Financial and Yunlian Micro-financing in property, plant and equipment and intangible assets.

As per discussion with management of Xin Yunlian Financial and Yunlian Micro-financing, capital expenditure is required for meeting the projected expansion of business. There is only one category of capital expenditure: purchase of computer. Management has provided the estimated amount regarding the above item.

Xin Yunlian Financial and Yunlian Micro-financing are expected to engage additional computers according to the number of additional staff in the Forecast Period. The cost per unit is estimated to be RMB 5,000. The useful life of the computer is 5 years.

The annual capital expenditure is estimated to fluctuate from RMB 130,000 in FY2020 to RMB 150,000 in FY2024. We have also calculated the depreciation and amortization expense based on such capital expenditure and the existing fixed assets and intangible assets schedule. The annual depreciation and amortization expense and annual capital expenditure amount converges over long term.

8.11 Required Net Working Capital

Required net working capital of Xin Yunlian Financial and Yunlian Micro-financing includes accounts receivable, interest receivable, accounts payable, and wage payable.

Accounts Receivable

Accounts receivable is projected based on the days outstanding. For Xin Yunlian Financial, the days of accounts receivable outstanding is estimated to be about 30 days within the Forecast Period.

Interest Receivable

Interest receivable is projected based on the days outstanding. For Yunlian Micro-financing, the days of interest receivable outstanding is estimated to be about 30 days within the Forecast Period.

Accounts Payable

Accounts payable is projected based on the days outstanding. For Xin Yunlian Financial and Yunlian Micro-financing, the days of accounts payable outstanding is estimated to be about 30 days within the Forecast Period.

Wage Payable

Wage payable is projected based on the days outstanding. For Xin Yunlian Financial and Yunlian Micro-financing, the days of wage payable outstanding is estimated to be about 30 days within the Forecast Period.

9 DISCOUNT RATE AND OTHER ADJUSTMENT

9.1 Discount Rate Discussion

We adopted the weight average cost of capital (the "WACC") as the benchmark discount rate in valuing the equity interest of Xin Yunlian Financial and Yunlian Micro-financing. WACC comprises two components: cost of equity and cost of debt. Cost of equity was developed using Capital Asset Pricing Model (the "CAPM"). The CAPM states that an investor requires excess returns to compensate systematic risks and an efficient market provides no excess return for other risks. Cost of debt was developed with reference to the long-term prime lending rate in the PRC.

For Xin Yunlian Financial and Yunlian Micro-financing, our selection criteria are that the comparable companies should:

- Primarily be engaged in money lending industry in the PRC;
- Operate in an economic environment similar to where Xin Yunlian Financial and Yunlian Micro-financing operate; and
- Information on the peer firms must be extracted from a reliable source.

Exhibit 15.

Identifier	Company Name	Market Capitalisation	Debt to Equity Ratio	Unleveraged Beta
1290-HK	China Huirong Financial Holdings Ltd.	HKD 1,293 million	0.87	0.09
1543-HK	Guangdong Join-Share Financing Guarantee Investment Co., Ltd	HKD 887 million	0.23	(0.03)
1577-HK	Quanzhou Huixin Micro-credit Co., Ltd.	HKD 248 million	0.32	(0.03)
1915-HK	Yangzhou Guangling District Taihe Rural Micro-finance Company Limited	HKD 455 million	0.01	0.44
LX-US	Lexinfintech Holdings Ltd.	USD 1,759 million	0.67	0.94
QD-US	Qudian, Inc.	USD 895 million	0.55	0.84
QFIN-US	360 Finance, Inc.	USD 1,239 million	0.17	1.08
PPDF-US	FinVolution Group	USD 468 million	0.10	1.01
Median			**0.28**	**0.64**

Note: Market capitalisation as of 31 December 2019.

We have discussed the comparable companies in the table above (the "**Comparable Companies**") with management of Xin Yunlian Financial and Yunlian Micro-financing and confirmed their comparability with Xin Yunlian Financial and Yunlian Micro-financing. Therefore, we consider it appropriate to use the median of their debt to equity ratio and the median of the unleveraged beta in the formula to calculate the WACC, as set out below.

Business Description of the Comparable Companies

- **China Huirong Financial Holdings Ltd.** is an investment company, which engages in the provision of lending services. It grants collateral-backed loans, guaranteed loans, and unsecured loans. The company was founded on November 11, 2011 and is headquartered in Suzhou, the PRC.

- **Guangdong Join-Share Financing Guarantee Investment Co., Ltd.** engages in the provision of credit-based financing solutions. It operates through the following segments: Guarantee, SME Lending, and Others. The Guarantees segment offers financing and non-financing guarantees to small and medium-sized enterprises (SMEs), and consulting services. The SME Lending segment provides entrusted loans and micro-lending services. The company was founded on May 23, 2003 and is headquartered in Foshan, the PRC.

- **Quanzhou Huixin Micro-Credit Co., Ltd.** engages in the provision of financial solutions to local entrepreneurial individuals, small and medium enterprises, and microenterprises. It offers revolving loans and term loans. The revolving loan generally grant a credit line to customers with a term of up to one year. The term loans include loans with flexible terms for each drawdown within the credit line of a revolving loan which ranges from ten days up to 12 months and with majority terms ranging from one to six months. The company was founded on January 8, 2010 and is headquartered in Quanzhou, the PRC.

- **Yangzhou Guangling District Taihe Rural Micro-finance Co., Ltd.** engages in microfinance business. Its services include granting of loans to agriculture, rural areas and farmers, as well as financial guarantees, acting as a financial institution agent and other financial businesses. The firm serves the small, medium enterprises, microenterprises and individual proprietors. The company was founded by Wan Lin Bo in 2008 and is headquartered in Yangzhou, the PRC.

- **Lexinfintech Holdings Ltd.** engages in the provision of online consumer finance platforms. Through its subsidiaries, it provides online direct sales with installment payment terms; installment purchase loans; and personal installment loans. Its services are offered though its online consumer finance platform, www.fenqile.com; and mobile application. The company was founded by Wen Jie Xiao and Qian Qiao on November 22, 2013 and is headquartered in Shenzhen, the PRC.

- **Qudian Inc.** provides online credit products. It operates a platform which uses data-enabled technologies, such as artificial intelligence and machine learning, to transform the consumer finance experience in China. The company offers mall credit products, which are comprised of cash credit products and merchandise credit products, as well as budget auto financing products. Qudian was founded by Min Luo on April 9, 2014 and is headquartered in Xiamen, the PRC.

- **360 Finance, Inc.** is a holding company, which engages in the provision of digital consumer finance platform. It provides tailored online consumer finance products to prime, underserved borrowers funded primarily by its funding partners. The company proprietary technology platform supports full transaction lifecycle from credit application through settlement. 360 Finance was founded on July 25, 2016 and is headquartered in Shanghai, the PRC.

- **FinVolution Group** is an online consumer finance platform in China connecting underserved individual borrowers with financial institutions. The company's platform, empowered by proprietary cutting-edge technologies, features an automated loan transaction process, which enables a superior user experience. FinVolution Group was founded by Shao Feng Gu, Hong Hui Hu, Tie Zeng Li, and Jun Zhang in 2007 and is headquartered in Shanghai, the PRC.

WACC calculation for Xin Yunlian Financial and Yunlian Micro-financing is shown as below:

Exhibit 16.

Component	**Finace Group**	**Note**	**Formula**
Debt to equity ratio	0.28	*1*	*a*
Unleveraged beta	0.64	*2*	*b*
Risk free rate	3.20%	*3*	*c*
Equity risk premium	5.89%	*4*	*d*
Leveraged beta	0.77	*5*	*e=b*(1+a*(1-j))*
Size premium	3.58%	*6*	*f*
Firm specific premium	5.00%	*7*	*g*
Cost of equity	**16.33%**		*h=c+d*e+f+g*
Pre-tax cost of debt	6.90%	*8*	*i*
Effective tax rate	25.00%	*9*	*j*
After tax Cost of debt	**5.18%**		*k=i*(1-j)*
Adopted WACC	**14.00%**		*l=h/(1+a)+k/(1+a)*a*

Notes to the WACC parameters are as follows:

1. The debt to equity ratio is the median of the same of all the Comparable Companies, sourced from Factset. Factset is one of the leading data service providers in the market. The database is commonly used by the participants in the financial industry.

2. The unleveraged beta is the median of the same of all the Comparable Companies, sourced from Factset.

3. The risk-free rate is determined with reference to China 10-Year benchmark bond yield, sourced from Factset.

4. The equity risk premium is the China Equity Risk Premium, sourced from Aswath Damodaran database. Aswath Damodaran is a professor focusing on finance industry from Stern School of Business, New York University. The equity risk premium is concluded with reference to the default spread of each country and the mature market premium. The database is updated quarterly.

5. Leveraged beta is calculated pursuant to the formula above based on the certain relevant data of the Comparable Companies.

6. Size premium is added to reflect the effect of firm size on return, sourced from Duff & Phelps 2016 Valuation Yearbook. Duff & Phelps is a global advisor that focus on the areas of valuation, corporate finance, disputes and investigations, cyber security, claims administration and regulatory issues. The firm has nearly 4,000 professionals in 25 countries around the world, which could be regarded as an authorized institution in the valuation industry.

7. Firm specific premium is applied to incorporate the non-systematic risk that the subject company faces in its specific business environment and reflects its own characteristics. Build-up method is widely adopted in this valuation to determine the appropriate firm specific risk premium. In such method, common risk factors are listed out and premiums are assigned only to those relevant factors after qualitative analysis.

   Based on "Valuation Methodology Survey" published by PricewaterhouseCoopers in 2010 and 2017 (the "PwC Valuation Survey"), 70% of surveyed valuers in 2010 and 85% of the surveyed valuers adopted the build-up method.

   In this valuation, after analysis of the business model of Finance Group and E-commerce Group, we have listed out a number of potential risk factors to be considered. Five main categories of business risk are considered, namely economic risk, operational risk, competitive risk, legal & compliance risk, and technology risk. Each type of risk within the categories is discussed thoroughly, and we consider the list set out below to be an exhaustive list of risk factors for analysis. Five potential risk factor is established and the details are set out below:

Exhibit 17.

Risk factor	Premium	Remarks
ECONOMIC RISK	–	Economic risk refers to systematic risk brought by change of macro-economy environment. Such systematic risk is incorporated in market beta, so no separate premium is applied here.
OPERATIONAL RISK		
Uncertainty in business expansion	Yes	The Finance Group is yet to expand its business in the Forecast Period and the volatility of revenues and earnings could be significant.
Key supplier dependence	Yes	The trading information of the Licensed Retailers assessed by the Finance Group is authorized by the E-commerce Group.
Sub-contractor dependence	–	No sub-contractor is observed in this valuation.
High level of capital investment	–	This is not a big concern in this valuation since the business focus of the Finance Group is facilitating loans that do not require high level of capital investment.
Uncertainty in future funding	Yes	The money lending business requires a large funding pool from cooperating financial institutions.
COMPETITIVE RISK		
Lack of product diversification	–	This is not a big concern in this valuation since the financial loans provided by the Finance Group cover different tenor and flexible loan amount that satisfy the borrowers' needs.
Lack of customer diversification	Yes	The only customers of the Finance Group are the Licensed Retailers in the PRC.
Potential challenge from competitor	–	This is not a big concern in this valuation since there are few competitors that focus on money lending business to Licensed Retailers.
Lack of competitive marketing resources	Yes	The Finance Group is expected to conduct the offline marketing mainly through distributing leaflets to the Licensed Retailers instead of mass offline advertising.

Risk factor	Premium	Remarks
LEGAL & COMPLIANCE RISK		
Lack of required license	–	Yunlian Micro-financing has the necessary license to conduct the business.
Financial reporting and internal control systems obsolescence	–	This is not a big concern in this valuation.
TECHNOLOGY RISK		
Lack of R&D resources	–	No R&D barrier is noted in this valuation.

Also, based on the PwC Valuation Survey, the overall observed range of firm specific premium in the market is as below:

Year of Survey	Low	High
2010	2.0%	7.0%
2017	2.0%	9.3%

Source: Valuation Methodology Survey – PricewaterhouseCoopers

In this valuation, it is worth mentioning that though Finance Group and E-commerce Group have established risk factors, we also notice some relevant mitigation factors:

- Finance Group has contractually secured the access to the information of Licensed Retailer.
- Finance Group has exclusive access to the information of Licensed Retailer, so the competition within this segment is reduced.
- Finance Group is able to accurately locate the Licensed Retailer, so the need for mass marketing is reduced.
- The number of Licensed Retailer is large (4.4 million), and the financial projection does not require the management to exploit all Licensed Retailers.
- In the financial projection, key parameters such as conversion rate, loan size, etc, is referenced to the historical observed figure, thus reduces the uncertainty.

Considering both the risk factors and mitigation factors, we are of the opinion that the overall risk level of Finance Group and E-commerce Group is medium. With reference to the above firm specific premium range observed in PwC Valuation Survey, it is concluded that it would be reasonable to apply a 5% firm specific risk premium (approximately mid-point of the range, reflecting a medium risk level), by assigning 1% premium to each established risk factor.

8. The pre-tax cost of debt is determined with reference to the applicable lending rate in China and 2% premium.

9. Corporate tax rate applicable to Xin Yunlian Financial and Yunlian Micro-financing.

9.2 Perpetual Growth Rate

Since the Equity Interest is assessed based on an on-going concern, we determined the terminal value of Xin Yunlian Financial and Yunlian Micro-financing by the perpetual growth method. The perpetual growth rate is typically between 2% to 4%, which is the historical average GDP growth rate of a mature economy. According to the statistics published by IMF, the historical GDP growth rates for advanced economies in the past 20 years fell into this range (except the financial crisis period from 2008 to 2009). After a discussion with the management of the Finance Group, considering the fact that the outbreak of COVID-19 has deteriorated the economic activities and may slow down the overall GDP growth rate in long term, we adopted the lower end of the perpetual growth rate range. The perpetual growth rate is estimated at 2%. The perpetual growth year begins in FY2025.

9.3 Lack of Marketability Discount

We have adopted a lack of marketability discount of 20% in the valuation of the Equity Interest to compensate for the potential difficulty of selling the equity shares, which are not traded on a stock exchange, compared with those of the peer companies that are traded publicly in stock exchange markets.

The lack of marketability discount is sourced from the research paper – Valuation Discounts and Premiums published by National Association of Certified Valuators and Analysts (NACVA) in 2012. NACVA was found in 1991 and is headquartered in Salt Lake City, Utah. NACVA provides comprehensive research on various topic of valuation. The lack of marketability discount represents the valuation discount between a publicly traded stock that has a market, and a privately held stock which often has little market liquidity. The research paper provided by the NACVA revealed the investors' view regarding the lack of marketability discount in mature market.

We are of the view that such research is an authoritative guide in the market. This research draws conclusion from all business sectors and focus on samples observed in the US market, which is a developed market and we are of the opinion that such research also applicable to the Hong Kong market. As our Instructing Party is a public company listed on Hong Kong Exchange, it is considered as a participant in the mature capital market. The lack of marketability discount sourced from the research paper is applicable in this valuation.

In addition, we also searched other market information regarding the lack of marketability discount to cross check the reliability of the adopted parameter. With reference to a study "2019 edition of the Stout Restricted Stock Study Companion Guide" issued by Stout Risius Ross, a global advisory firm, the overall average discount for lack of marketability is 20.6%. The study is a database of private placements of unregistered common stock issued by public companies in the United States since 1991. As of March 2019, the study included 750 transactions dated from 1980 to 2018. The discount was calculated by dividing the difference between the private placement price and the market reference price by the market reference price. The study represents the widely used and accepted database available to valuators for discount for lack of marketability determination in a mature capital market. We are of the view that such research involved a number of transaction covering a sufficiently long time period, and is a reliable guide in the market. The concluded discount for lack of marketability discount is consistent with the 20% adopted in this valuation.

10 VALUATION OF 100% EQUITY INTEREST OF THE E-COMMERCE GROUP AND THE FINANCE GROUP

The following table illustrates the valuation of the 100% Equity Interest of the entities under Xin Yunlian Cloud and Xin Yunlian Digital:

Exhibit 18.

Item	Holding Percentage	100% Equity Interest	Value Attributable to Xin Yunlian Cloud/Xin Yunlian Digital
Xin Yunlian Financial	100%	584,000,000	584,000,000
Yunlian Micro-financing	60%	98,000,000	58,800,000
Xin Yunlian Advertising	60%	0	0
Xin Yunlian Investment	60%	0	0
Zhongyan E-commerce	49%	0	0
Total			**642,800,000**

Unit: RMB

As Xin Yunlian Cloud is an investment holding company, it does not have any significant asset or liability item other than the investment in Xin Yunlian Financial, Yunlian Micro-financing, Xin Yunlian Advertising and Xin Yunlian Investment. Therefore, we concluded that the market value of the whole Finance Group is RMB 642.8 million as at the Valuation Date.

As Xin Yunlian Digital is an investment holding company, it does not have any significant asset or liability item other than the investment in Zhongyan E-commerce. Therefore, we concluded that the market value of the whole E-Commerce Group is close to 0 as at the Valuation Date.

Based on the above, the 100% Equity Interest of the E-commerce Group and the Finance Group is RMB 642.8 million and the 49% non-controlling interest of the E-commerce Group and the Finance Group is RMB 315.0 million.

11 PREMISE OF VALUATION AND BASIS OF VALUATION

Our valuation is based on market value basis and market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

11.1 Source of Information

Our investigation covers the discussion with the management of the E-commerce Group and the Finance Group and the Instructing Party's representatives, the collection of information including the details of the E-commerce Group and the Finance Group. We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the the E-commerce Group and the Finance Group were prepared in reasonably care.

We have had no reason to doubt the truth and accuracy of the information provided to us by the the E-commerce Group and the Finance Group. We have also sought confirmation from the E-commerce Group and the Finance Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

11.2 Assumptions and Factors Considered

The assumptions considered in this valuation included, but were not limited to, the following:

- the Finance Group is expected to run the existing financing business;
- the Finance Group is expected to expand the financing business to the Licensed Retailers that are registered at the E-commerce Platform successfully and start record growth in 2020; and
- the demand for financing by the Licensed Retailers that are registered at the E-commerce Platform will show relatively fast growth in the Forecast Period.

The factors considered in this valuation included, but were not limited to, the following:

- The nature and history of the E-commerce Group and the Finance Group;
- The financial conditions of the E-commerce Group and the Finance Group;
- Operation and financial risks of the E-commerce Group and the Finance Group;

- Environmental policies set by the government that pertains to the E-commerce Group and the Finance Group;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of the E-commerce Group and the Finance Group including the continuity of income and the projected future results.

12 CONCLUSION

The conclusion of value is based on the accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Instructing Party and/or CHFT Advisory And Appraisal Ltd. (“CHFT”).

Based on the valuation methodology adopted, we are of the opinion that the market value of 100% Equity Interest of **the E-Commerce Group** and **the Finance Group**, as at 31 December 2019, was in the sum of **RMB 642,800,000** (RENMINBI SIX HUNDRED AND FORTY-TWO MILLION AND EIGHT HUNDRED THOUSAND).

We hereby certify that we have neither present nor prospective interests in the Instructing Party or the value(s) reported.

Yours faithfully,
For and on behalf of
CHFT Advisory And Appraisal Ltd.

Ross Wang CFA
Director

Appendix 1. Detailed Discounted Cash Flow Table

The detailed discounted cash flow table of Xin Yunlian Financial and Yunlian Micro-financing is shown as below:

Xin Yunlian Financial	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Total revenue	49,727,722	74,693,535	160,053,068	234,731,026	311,859,110
–Business tax and other related tax	(292,639)	(439,559)	(941,886)	(1,381,353)	(1,835,239)
–Total cost	(26,254,551)	(32,233,817)	(45,865,954)	(56,203,203)	(76,373,660)
Gross profit	**23,180,531**	**42,020,159**	**113,245,228**	**177,146,469**	**233,650,211**
Total operating expense	(21,683,762)	(31,857,114)	(47,790,075)	(60,007,763)	(73,042,654)
Depreciation	(110,915)	(139,298)	(147,750)	(174,556)	(174,556)
EBIT	**1,385,853**	**10,023,747**	**65,307,403**	**116,964,150**	**160,433,002**
Interest expense	–	–	–	–	–
Profit before tax	**1,385,853**	**10,023,747**	**65,307,403**	**116,964,150**	**160,433,002**
Tax effect	(346,463)	(2,505,937)	(16,326,851)	(29,241,038)	(40,108,250)
Net profit	**1,039,390**	**7,517,810**	**48,980,552**	**87,723,113**	**120,324,751**
Discounted Cash Flow Table					
EBIT	1,385,853	10,023,747	65,307,403	116,964,150	160,433,002
– Tax effect	(346,463)	(2,505,937)	(16,326,851)	(29,241,038)	(40,108,250)
– Depreciation and amortization	110,915	139,298	147,750	174,556	174,556
– Capital expenditure	(145,000)	(200,000)	(200,000)	(150,000)	(174,556)
– Change in working capital	105,783	(940,859)	(5,259,674)	(4,812,431)	(4,128,784)
Free cashflow	1,111,089	6,516,249	43,668,628	82,935,237	116,195,968
Terminal value					987,665,727
Total cashflow	**1,111,089**	**6,516,249**	**43,668,628**	**82,935,237**	**1,103,861,695**
Discount date	1-Jul-20	1-Jul-21	1-Jul-22	1-Jul-23	1-Jul-24
Discounting period	0.50	1.50	2.50	3.50	4.50
Discounting factor	0.94	0.82	0.72	0.63	0.55
NPV	**1,040,443**	**5,352,571**	**31,465,125**	**52,419,655**	**611,799,301**
WACC		14.0%			
Perpetual growth rate		2.0%			
Valuation					
Total Enterprise Value		702,077,096			
Less: Debt		–			
Add: Cash		27,891,697			
Total Equity Value		729,968,793			
Lack of Marketability Discount		20%			
Adopted Equity Value		**584,000,000**			

Yunlian Micro-financing	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Total revenue	31,368,168	26,032,934	31,597,889	29,900,257	28,572,451
–Business tax and other related tax	(214,697)	(178,181)	(216,270)	(204,650)	(195,562)
–Total cost	(4,987,485)	(3,653,536)	(4,055,558)	(3,331,363)	(2,889,451)
Gross profit	**26,165,986**	**22,201,217**	**27,326,061**	**26,364,243**	**25,487,437**
Total operating expense	(8,978,900)	(9,265,180)	(9,920,492)	(9,640,270)	(10,210,083)
Depreciation	(325,154)	(298,925)	(298,925)	(298,925)	(298,925)
EBIT	16,861,932	12,637,112	17,106,644	16,425,048	14,978,429
Interest expense	–	–	–	–	–
Profit before tax	**16,861,932**	**12,637,112**	**17,106,644**	**16,425,048**	**14,978,429**
Tax effect	(4,215,483)	(3,159,278)	(4,276,661)	(4,106,262)	(3,744,607)
Net profit	**12,646,449**	**9,477,834**	**12,829,983**	**12,318,786**	**11,233,822**
Discounted Cash Flow Table					
EBIT	16,861,932	12,637,112	17,106,644	16,425,048	14,978,429
– Tax effect	(4,215,483)	(3,159,278)	(4,276,661)	(4,106,262)	(3,744,607)
– Depreciation and amortization	325,154	298,925	298,925	298,925	298,925
– Capital expenditure	(325,154)	(298,925)	(298,925)	(298,925)	(298,925)
– Change in working capital	(2,606,389)	1,423,249	(1,528,129)	441,744	360,530
Free cashflow	10,040,060	10,901,083	11,301,853	12,760,531	11,594,352
Terminal value					98,551,989
Total cashflow	**10,040,060**	**10,901,083**	**11,301,853**	**12,760,531**	**110,146,340**
Discount date	1-Jul-20	1-Jul-21	1-Jul-22	1-Jul-23	1-Jul-24
Discounting period	0.50	1.50	2.50	3.50	4.50
Discounting factor	0.94	0.82	0.72	0.63	0.55
NPV	**9,401,690**	**8,954,358**	**8,143,472**	**8,065,361**	**61,047,008**
WACC		14.0%			
Perpetual growth rate		2.0%			
Valuation					
Total Enterprise Value		95,611,888			
Less: Debt		–			
Add: Cash		27,836,200			
Total Equity Value		123,448,088			
Lack of Marketability Discount		20%			
Adopted Equity Value		**98,000,000**			

As the business valuation report was prepared on a discounted cash flow basis under the income approach, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from the Board on such valuation for the purpose of incorporation in this circular.

A. LETTER FROM THE BOARD

大中華金融控股有限公司
GREATER CHINA FINANCIAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)
(Stock Code: 431)

30 June 2020

The Stock Exchange of Hong Kong Limited
Listing Division
12th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

Company: **Greater China Financial Holdings Limited (the "Company")**
Transaction: **Major Transaction in relation to the acquisition of Xin Yunlian Investment Limited involving the issue of convertible notes under specific mandate and the issue of shares under general mandate to a consultant**

Reference is made to the valuation report dated 7 November 2019 prepared by CHFT Advisory and Appraisal Limited (the "**Valuer**"), the independent professional valuer engaged by the Company in relation to the valuation (the "**Valuation**") on the market value of 100% equity interest of 浙江新雲聯數字科技有限公司 ("**Xin Yunlian Digital**") and 浙江新雲聯雲科技有限公司 ("**Xin Yunlian Cloud**") based on the profit forecast (the "**Profit Forecast**") which constitutes a profit forecast under Rule 14.61 of the Listing Rules. Capitalised terms used in this letter shall have the same meanings as defined in the circular (the "**Circular**") of the Company dated 30 June 2020, unless the context otherwise requires.

We would like to draw your attention that the principal assumptions upon which the Profit Forecast was based on and adopted in the Valuation by the Valuer are described and disclosed in details on page VII-22 in the Circular under the paragraph headed "Assumptions and Factors Considered".

We have reviewed the bases and assumptions upon which the Valuation was prepared, for which the Valuer is solely responsible. We have also considered the letter from HLM CPA Limited, the reporting accountants in respect of Xin Yunlian Digital and Xin Yunlian Cloud, confirming that, so far as the calculations of the discounted future estimated cash flows on which the Valuation is based and concerned, the discounted future estimated cash flows have been properly complied, in all material respects, in accordance with the respective bases and assumptions. After detailed consideration of the principal assumptions adopted in the Profit Forecast, review of independent sources of information available to the Company, and discussions and enquiries with the senior management of Xin Yunlian Digital and Xin Yunlian Cloud and all other relevant parties, we hereby confirm that the Profit Forecast has been made after due and careful enquiries.

Yours faithfully,
For and on behalf of the Board of
Greater China Financial Holdings Limited

Liu Kequan
Chairman

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report received from HLM CPA Limited, Certified Public Accountants, Hong Kong, the Company's Reporting Accountants, prepared for the purpose of incorporation in this Circular.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Rooms 1501-8, 15th Floor, Tai Yau Building,
181 Johnston Road, Wanchai, Hong Kong.
香港灣仔莊士敦道181號大有大廈15樓1501-8室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: info@hlm.com.hk

ACCOUNTANTS' REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF 浙江新雲聯數字科技有限公司(TRANSLITERATED AS ZHEJIANG XIN YUNLIAN DIGITAL TECHNOLOGY COMPANY LIMITED) ("XIN YUNLIAN DIGITAL") AND 浙江新雲聯雲科技有限公司 (TRANSLITERATED AS ZHEJIANG XIN YUNLIAN CLOUD TECHNOLOGY COMPANY LIMITED) ("XIN YUNLIAN CLOUD")

The Board of Directors
Greater China Financial Holdings Limited (the "Company")

Dear Sirs,

We have examined the accounting policies adopted and calculations of (1) the discounted future estimated cash flows on which the valuation prepared by CHFT Advisory And Appraisal Ltd. dated 30 June 2020 in respect of Xin Yunlian Digital and Xin Yunlian Cloud (the "Valuation"). The Valuation is in connection with the acquisition of Xin Yunlian Investment Limited, as set out in the Company's circular dated 30 June 2020 (the "Circular"). The Valuation based on the discounted future estimated cash flows is regarded by The Stock Exchange of Hong Kong Limited and Securities and Futures Commission of Hong Kong as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' responsibilities for the Discounted Future Estimated Cash Flows

The directors of the Company (the "Directors") are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and set out in the Circular (the "Assumptions"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, based on our work on the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. We examined the consistency of accounting policies adopted and the arithmetical accuracy of the discounted future estimated cash flows. We comply with ethical requirements and have planned and performed the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the accounting policies and calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of the Xin Yunlian Digital and Xin Yunlian Cloud.

The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the accounting policies and calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions as set out in the Circular and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

Yours faithfully,
HLM CPA Limited
Certified Public Accountants
Hong Kong
30 June 2020

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this circular misleading.

2. SHARE CAPITAL

Authorised and issued share capital of the Company as at the Latest Practicable Date:

	HK$
Authorised:	
2,109,890,000,000 Shares	2,109,890,000.00
110,000,000 preference shares of the Company	110,000.00

	HK$
Issued and fully paid:	
6,924,077,621 Shares	6,924,077.62

Authorised and issued share capital of the Company immediately after the issue of the New Shares and the Consideration Shares and the full conversion of the Convertible Notes and the Incentive Notes, assuming no exercise of options granted by the Company:

(i) immediately after the issue of New Shares, the Consideration Shares, full conversion of the Convertible Notes and the Incentive Notes (in the case of event (a) under the section headed "Incentive payment"):

	HK$
Authorised:	
2,109,890,000,000 Shares	2,109,890,000.00

		HK$
Issued and fully paid:		
6,924,077,621 Shares	Shares in issue as at the Latest Practicable Date	6,924,077.62
800,000,000 Shares	New Shares to be issued	800,000
50,000,000 Shares	Consideration Shares to be issued	50,000
200,000,000 Shares	Conversion Shares to be issued upon full conversion of the Convertible Notes	200,000
89,316,010 Shares	Shares to be issued upon full conversion of the Incentive Notes (in the case of event (a) under the section headed "Incentive payment")	89,316.01
8,063,393,631 Shares	Shares in total	8,063,393.63

(ii) immediately after the issue of New Shares, the Consideration Shares, full conversion of the Convertible Notes and the Incentive Notes (in the case of event (b) under the section headed "Incentive payment"):

		HK$
Authorised:		
2,109,890,000,000 Shares		2,109,890,000.00

		HK$
Issued and fully paid:		
6,924,077,621 Shares	Shares in issue as at the Latest Practicable Date	6,924,077.62
800,000,000 Shares	New Shares to be issued	800,000
50,000,000 Shares	Consideration Shares to be issued	50,000
200,000,000 Shares	Conversion Shares to be issued upon full conversion of the Convertible Notes	200,000
173,049,770 Shares	Shares to be issued upon full conversion of the Incentive Notes (in the case of event (b) under the section headed "Incentive payment")	173,049.77
8,147,127,391 Shares	Shares in total	8,147,127.39

(iii) immediately after the issue of New Shares, the Consideration Shares, full conversion of the Convertible Notes and the Incentive Notes (in the case of event (c) under the section headed "Incentive payment"):

		HK$
Authorised:		
2,109,890,000,000 Shares		2,109,890,000.00
		HK$
Issued and fully paid:		
6,924,077,621 Shares	Shares in issue as at the Latest Practicable Date	6,924,077.62
800,000,000 Shares	New Shares to be issued	800,000
50,000,000 Shares	Consideration Shares to be issued	50,000
200,000,000 Shares	Conversion Shares to be issued upon full conversion of the Convertible Notes	200,000
217,707,775 Shares	Shares to be issued upon full conversion of the Incentive Notes (in the case of event (c) under the section headed "Incentive payment")	217,707.78
8,191,785,396 Shares	Shares in total	8,191,785.40

3. DISCLOSURE OF INTERESTS

(i) Interests of Directors and chief executives

As at the Latest Practicable Date, the interest or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in Appendix 10 of the Listing Rules were as follows:

Long positions in the shares and underlying shares

Director	**Nature of interests**	**Number of issued Shares held**	**Approximate percentage of the issued share capital**
Mr. Liu Kequan ("**Mr. Liu**")	Corporate interests	1,447,750,000 *(Note 1)*	20.91%
Mr. Yang Dayong ("**Mr. Yang**")	Corporate and family interests	614,826,000 *(Note 2)*	8.88%

Notes:

1. The interests are held by Eastern Spring Global Limited. Mr. Liu is the beneficial owner of the entire issued share capital of Eastern Spring Global Limited.

2. The interests include (i) 612,810,000 shares held by Eternally Sunny Limited and (ii) 2,016,000 shares held by Mrs. Yang, being the spouse of Mr. Yang. Mr. Yang is the beneficial owner of the entire issued share capital of Eternally Sunny Limited.

Long position in shares and underlying shares of the Company's associated corporations (within the meaning of Part XV of the SFO)

Director	Name of associated corporation	Nature of interest	Class	Number of share/amount of registered capital	Approximate percentage of shareholding
Mr. Liu	Intraday Financial Information Service Limited	Corporate interests *(Note 3)*	Ordinary	55 shares	55%
	aBCD Enterprise Limited	Corporate interests *(Note 3)*	Ordinary	3 shares	100%
	鼎泰潤和投資諮詢(上海)有限公司(Dingtai Runhe Investment Consulting (Shanghai) Co., Ltd.*)	Corporate interests *(Note 3)*	Registered capital	RMB31,000,000	100%

Note:

3. 65.8% of the issued share capital of Long Tu Limited ("**Long Tu**") is owned by Mr. Liu. Long Tu is the legal and beneficial owner of 55 shares of Intraday Financial Information Service Limited ("**Intraday**") which is 55% of its issued share capital, whilst the remaining 45 shares, which represents 45% of the issued share capital of Intraday, is owned by the Company. Intraday is the legal and beneficial owner of 3 shares of aBCD Enterprise Limited ("**aBCD**"), which is 100% of its issued share capital. aBCD is the holder of RMB31,000,000 of the registered capital of Dingtai Runhe Investment Consulting (Shanghai) Co., Ltd., which is its entire equity interest.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(ii) Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the persons, other than a Director or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position in shares and underlying shares of the Company

Name	Nature of interests	Number of Shares held	Approximate percentage of the issued share capital
Eastern Spring Global Limited	Beneficial owner	1,447,750,000	20.91%
Eternally Sunny Limited	Beneficial owner	612,810,000	8.85%
Wardour International Limited ("**Wardour**")	Beneficial owner	125,184,000	1.80%
Chu Lam Yiu *(Note 1)*	Beneficial owner and Corporate interest	691,000,000	9.97%

Note:

1. Ms. Chu Lam Yiu owned the entire issued share capital of Wardour and was therefore deemed to have an interest in the shares in which Wardour was interested.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, no other person (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

4. OTHER INTERESTS OF THE DIRECTORS

Save as disclosed in this circular and as at the Latest Practicable Date,

(a) Interests in service contracts

None of the Directors had any existing or proposed service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation));

(b) Interests in assets

None of the Directors has or had any interest, direct or indirect, in any asset which have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up; and

(c) Interests in contracts or arrangements

None of the Directors was materially interested in any contract or arrangement entered into with any member of the Enlarged Group, which contract or arrangement is subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group taken as a whole.

5. COMPETING INTERESTS

As at the Latest Practicable Date, the Directors are not aware of any business or interest of the Directors or any of their respective associates that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

6. LITIGATION

Litigation in the PRC

(i) The Company has appointed PRC legal advisers and the applications for arbitration in enforcing the variable interest entity contracts (the "VIE Contracts") have been filed and accepted by 上海仲裁委員會 (Shanghai Arbitration Commission, "SAC") in August 2016 (the "Arbitration"). Details of the applications are set out in the Company's announcement dated 18 August 2016. On 22 February 2017, our PRC legal advisers received three decisions issued by the SAC to suspend the Arbitration as (i) 上海新盛典當有限公司 (Shanghai Xinsheng Pawnshop Limited, "Xinsheng"), 上海快鹿投資(集團)有限公司 (Shanghai Kuailu Investment Group Company Limited, "Shanghai Kuailu") and 上海中源典當有限公司 (Shanghai Zhongyuan Pawnshop Company Limited, "Zhongyuan") are involved in a criminal investigation conducted by the public security authority of Shanghai, the PRC; and (ii) the shares of Xinsheng and Zhongyuan were frozen by such public security authority. Hence, the Arbitration has been suspended since 21 February 2017. In respect of the case against Shanghai Kuailu, our PRC legal advisers understood from SAC that SAC received a court decision in respect of the criminal case against Shanghai Kuailu, its chairman and the certain parties, pursuant to which they are convicted of fraud, in late 2019. Subsequently, SAC provided our PRC legal advisers copies of the court decisions. As at the date of this report, SAC has yet to provide to our PRC legal advisers any direction on the resumption of the Arbitration. In respect of the case against Xinsheng and Zhongyuan, our PRC legal advisers has not received any oral or written updates from SAC on the Arbitration nor the criminal investigation. The PRC legal advisers will closely monitor the latest development of the cases and further announcement will be made if there is any updates on the Arbitration. The financial impacts of the de-consolidation resulting from the incident has been fully reflected in the financial year ended 31 December 2016 and the suspension of the Arbitration is not expected to create any adverse impact on the Group as a whole.

(ii) A PRC subsidiary of the Company, which primarily engages in the financing guarantee business, has commenced a proceeding against a P2P platform in Beijing, the PRC in respect of the guarantee deposit paid to and withheld by the P2P platform in the course of our financial guarantee business. In 2019, our PRC subsidiary appealed against the first instance decision in favour of the P2P platform that the P2P platform has a right to withhold the guarantee deposit paid by our PRC subsidiary for securing the loan advanced to the clients. In December 2019, the appeal court dismissed the appeal of our PRC subsidiary. The financial impacts of the case has been fully reflected in the financial year ended 31 December 2019 and is not expected to create any adverse impact on the Group as a whole.

As at the Latest Practicable Date, save as disclosed above, none of the members of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and were or might be material:

(i) the Acquisition Agreement; and

(ii) the Consultancy Agreement.

8. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have given its opinions or advice as contained in this circular:

Name	**Qualifications**
HLM CPA Limited ("**HLM**")	Certified Public Accountants
CHFT Advisory and Appraisal Ltd.	Professional valuer

As at the Latest Practicable Date, HLM and Valuer were not beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

HLM and Valuer have given, and have not withdrawn their written consent to the issue of this circular with the inclusion of the references to their name and/or their opinions in the form and context in which they are included.

As at the Latest Practicable Date, HLM and Valuer had no direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2019, the date to which the latest published audited financial statements of the Group were made up.

9. GENERAL

(a) The secretary of the Company is Ms. Chan Siu Mun, who is a member of The Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is situated at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at Suites 3001-11, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong during normal business hours on any weekday other than public holidays from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and the bye-laws of the Company;

(b) the annual reports of the Company for each of the three financial years ended 31 December 2017, 2018 and 2019 respectively;

(c) the accountant's report of the Target Group and Zhongyan E-commerce, the text of which is set out in Appendix II and IV respectively to this circular;

(d) the letter from HLM in respect of the unaudited pro forma financial information following completion of the Acquisition, the text of which is set out in Appendix VI to this circular;

(e) the valuation report prepared by Valuer in respect of the Target Company, the text of which is set out in Appendix VII to this circular;

(f) the letter from the Board and the letter from HLM CPA Limited, the reporting accountant of the Company, relating to the profit forecast, the texts of which are set out in Appendix VIII to this circular;

(g) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(h) the letter from the Board the text of which is set out in this circular;

(i) the written consent from HLM and Valuer referred to in the section headed "Experts and Consents" of this appendix;

(j) this circular; and

(k) all circulars of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited accounts (if any).

11. MISCELLANEOUS

In case of any inconsistency, the English text of this circular, the accompanying notice of the SGM and form of proxy shall prevail over its Chinese text.

Unless otherwise stated, capitalised terms used in this Appendix shall have the same meaning as that defined in the "Letter from the Board" in this circular.

With reference to the Announcement issued by the Company dated 16 November 2019, the assessed market value of the Target Group has been reduced from RMB 1,500 million to RMB 642.8 million. The initial valuation was conducted in October 2019, with a valuation date of 30 June 2019. In the revised valuation with a valuation date of 31 December 2019, the Company and the Valuer have observed and taken into account the following factors in the assessment: (1) the updated operational record of the Target Group; and (2) the change in the macro-economy environment, especially the outbreak of COVID-19.

As the operational records of Xin Yunlian Financial and Ningbo Yunlian Micro-financing for the period from 1 July 2019 to 31 December 2019 have become available, the Company and the Valuer consider it necessary to consider and reflect the results in the revised valuation.

The COVID-19 pandemic has caused major disruptions to China's economy in first quarter of 2020. While the pandemic is largely under control within China, the risk of resurgence and infections remains, and the pandemic is still ongoing worldwide. It is generally expected that the pandemic will not end in the short term and its impact will be lasting. As a result, the business prospects of the Target Group have changed and the Company and the Valuer consider it necessary to reflect such factor in the revised valuation.

The comparison and analysis of the changes in the major valuation parameters are summarized as follows:

(1) **Market penetration percentage.** Market penetration percentage represents the percentage of registered tobacco retailers that the Finance Group (as defined in Appendix VII to this circular) is expected to reach through marketing campaign. Considering the lasting impact of COVID-19 pandemic, the management of the Finance Group (as defined in Appendix VII to this circular) has decided to slow down the implementation of the marketing campaign and pursue a more prudent business expansion. As a result, the target market penetration percentage during the forecast period is adjusted downwards. The changes are shown below:

Market penetration percentage	The initial valuation	The revised valuation
Tier 1 provinces	10% from FY2020 to FY2024	4% in FY2020 and increase to 8% in FY2024
Tier 2 provinces	15% from FY2021 to FY2024	5% in FY2022 and increase to 6% in FY2024
Tier 3 provinces	15% in FY2022 and increase to 20% in FY2024	0% from FY2020 to FY2024

Note: Tier 1 provinces represent the provinces having approximately 1,889,000 registered retailers. Tier 2 provinces represent the provinces having approximately 1,887,000 registered retailers. Tier 3 provinces represent the provinces having approximately 660,000 registered retailers.

(2) **Projected interest rate for Ningbo Yunlian Micro-financing.** Projected interest rate represents the annualized interest rate charged by Ningbo Yunlian Micro-financing in the business of financing loan transaction with its own funds.

Ningbo Yunlian Micro-financing operates loan products with three types of tenors (namely 6-month, 9-month, and 12-month). In the initial valuation, the interest rate was projected to be 11.2%. As the track record of Ningbo Yunlian Micro-financing was not sufficient at the time of the initial valuation, such interest rate was determined with reference to a target loan portfolio pursued by the management.

In the revised valuation, the Valuer has analyzed the operational records of Ningbo Yunlian Micro-financing for the period from July 2019 to December 2019. It is observed that the actual monthly interest rate for the different loan products ranges from 1.25% to 2.00%, and the actual equivalent annualized interest rate is approximately 15.0%. The Company and the Valuer consider the actual interest rate from the operation records to be a better projection basis, and a 15.0% target interest rate is applied in the revised valuation.

(3) **Projected business tax and surcharges**. Projected business tax and surcharges represents the business tax, consumption tax, city maintenance and construction tax, resource tax and education surcharges paid by the Xin Yunlian Financial and Ningbo Yunlian Micro-financing when carrying out the business operation. Besides the business tax and surcharges, Xin Yunlian Financial and Ningbo Yunlian Micro-financing are also subject to 1) value added tax (6%) and 2) corporate tax (25%). The tax bases for the three types of tax and surcharges are different:

– For business tax and surcharges, the tax base is the revenue generated by the operating business and the tax payable.

– For value added tax, the tax base is the revenue generated by the operating business.

– For corporate tax, the tax base is the profit before tax.

In the initial valuation, the Valuer adopted the statutory value added tax rate of 6% and the corporate tax rate of 25%.

In the revised valuation, the Valuer has further analyzed the financial information of Xin Yunlian Financial and Ningbo Yunlian Micro-financing for the period from July 2019 to December 2019. Based on the discussion with the management of the Target Group, it is noticed that the financial statements and budget projection provided by the management of Xin Yunlian Financial and Ningbo Yunlian Micro-financing are of after value added tax basis. Thus, the revenue projection base in the revised valuation is also after value added tax.

It is observed that the actual average rate of business tax and surcharges for the period from 1 January 2018 to 31 December 2019 are 0.6% and 0.7% respectively. The Company and the Valuer consider the actual rate of business tax and surcharges from the financial information shall be included in the revised valuation. Accordingly, the adopted projected business tax and surcharges of Xin Yunlian Financial and Ningbo Yunlian Micro-financing are 0.6% and 0.7% respectively in the revised valuation. Meanwhile, the 25% corporate tax rate is also adopted in the revised valuation, which is consistent with the initial valuation.

(4) **Projected business proportion**. Projected business proportion represents the percentage that each business segment contributes.

From the additional operational information of the Finance Group (as defined in Appendix VII to this circular) for the period from 1 July 2019 to 31 December 2019, it is observed that the loan amount granted by Ningbo Yunlian Micro-financing accounted for 19% of the total loan amount, i.e. the actual business proportion of financing loan transaction with its own funds in 2019 is 19%. Accordingly, the projected business proportion of financing loan transaction with its own funds in FY2020 is calibrated from 15% to 20% to reflect the latest operation status of the Finance Group (as defined in Appendix VII to this circular).

Meanwhile, the economic environment has deteriorated due to the outbreak of COVID-19 and its impact may be significant and lasting. Though the management of the Finance Group (as defined in Appendix VII to this circular) has adjusted the expansion plan in response to the economic downturn, they decided to pursue a higher gross margin and put more emphasis on the business of facilitating loan transaction with referral and guarantee. Accordingly, the projected business proportion of facilitating loan transaction with referral in FY2020 was revised from 20% to 10% and the projected business proportion of facilitating loan transaction with referral and guarantee in FY2020 was revised from 65% to 70%.

The projected business proportion for the remaining forecast period in the revised valuation remains consistent with the initial valuation.

There are two components to the reduction of the initial valuation of approximately RMB 1,500 million to the revised valuation of RMB 642.8 million.

(a) With the revised set of parameters, the assessed market value of the Target Group is adjusted from approximately RMB 1,500 million in the initial valuation to approximately RMB 626 million.

(b) The difference between the assessed market value of the Target Group of approximately RMB 626 million and the revised valuation of RMB 642.8 million results from the changes in the model calibration conducted by the Valuer. These changes arose from the assessment of the operational records of Xin Yunlian Financial and Ningbo Yunlian Micro-financing for the period from 1 July 2019 to 31 December 2019. Nevertheless, the impact on the valuation attributable to each individual parameter is relatively small. Such parameters include:

– projected credit loss rate;

– projected approval rate for new applicants;

- projected final disbursement rate;
- projected average loan size;
- weighted average cost of capital; and
- perpetual growth rate.

大中華金融控股有限公司
GREATER CHINA FINANCIAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)
(Stock Code: 431)
website: http://www.irasia.com/listco/hk/greaterchina/index.htm

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of Greater China Financial Holdings Limited (the "**Company**") will be held at Suites 3001-11, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on Wednesday, 22 July 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(1) (a) the agreement dated 16 November 2019 (the "**Acquisition Agreement**") as supplemented by the agreement dated 29 June 2020 (the "**Supplemental Agreement**") entered into by and among the Company, Good Set Investments Limited (as the purchaser and a subsidiary of the Company), Skill Rich Limited as vendor and Mr. Chen Zheng (as the vendor guarantor) in relation to the acquisition of the entire issued share capital of Xin Yunlian Investment Limited and the unsecured interest-free loan owing by the Target Company to the Vendor (copies of the Acquisition Agreement and the Supplemental Agreement having been produced to the Meeting and marked "A" and initialed by the chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) subject to and conditional upon completion of the Acquisition in accordance with the terms of the Acquisition Agreement and the Supplemental Agreement, the creation and issue by the Company of the Convertible Notes to the Vendor to settle the amount of HK$200 million of the consideration of the Acquisition and the issue of the Conversion Shares upon conversion of the Convertible Notes be and are hereby approved;

(c) subject to and conditional upon completion of the Acquisition in accordance with the terms of the Acquisition Agreement as supplemented by the Supplemental Agreement, the issue by the Company of the New Shares at the Issue Price to the Vendor to settle the amount of HK$160 million of the consideration of the Acquisition be and is hereby approved; and

(d) subject to and conditional upon completion of the Acquisition in accordance with the terms of the Acquisition Agreement and the Supplemental Agreement, the creation and issue by the Company of the Incentive Notes to the Vendor and the issue of Shares upon conversion of the Incentive Notes be and are hereby approved;

(2) (a) the agreement dated 16 November 2019 (the ‘‘Consultancy Agreement’’) as supplemented by the agreement dated 29 June 2020 (the ‘‘Supplemental Agreement to the Consultancy Agreement’’) entered into by and among the Company, Good Set Investments Limited, and Mr. Lu Hongguo (the ‘‘Consultant’’) in relation to the provision of the consultancy services by the Consultant in relation to the Acquisition (copies of the Consultancy Agreement and the Supplemental Agreement to the Consultancy Agreement having been produced to the Meeting and marked ‘‘B’’ and initialed by the chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) subject to and conditional upon completion of the Acquisition in accordance with the terms of the Acquisition Agreement as supplemented by the Supplemental Agreement, the issue by the Company of the Consideration Shares at the Issue Price to the Consultant to settle the Consultancy Fee at HK$10 million be and is hereby approved;

(3) any one director of the Company be and is hereby authorized to execute any other documents, instruments, agreements and deeds and to do all such acts, matters and things that are of administrative nature only and ancillary to the transactions contemplated under the Acquisition Agreement, the Supplemental Agreement, the Consultancy Agreement, and the Supplemental Agreement to the Consultancy Agreement, as he or she may in his or her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Acquisition Agreement, the Supplemental Agreement, the Consultancy Agreement, and the Supplemental Agreement to the Consultancy Agreement and the transactions contemplated thereunder, and to agree to such variation of the terms of the Acquisition Agreement, the Supplemental Agreement, the Consultancy Agreement, and the Supplemental Agreement to the Consultancy Agreement and the transactions

contemplated thereunder that are of administrative nature only as he or she may in his or her absolute discretion consider necessary or desirable; and the terms capitalised in this resolution (unless otherwise defined) have the same meaning as defined in the circular of the Company dated 30 June 2020."

By order of the Board of
Greater China Financial Holdings Limited
Liu Kequan
Chairman

Hong Kong, 30 June 2020

Registered Office:
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

Head Office and Principal Place of Business in Hong Kong:
Suites 3001-11
Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Notes:

1. All resolutions will be put to vote at the Meeting by way of poll.

2. Any member of the Company (the "Shareholder") entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a Shareholder.

3. The form of proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

4. Delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the Meeting and in such event, the form of proxy shall be deemed to be revoked.

5. Where there are joint Shareholders, any one of such joint Shareholders may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint Shareholders be present at the Meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint Shareholders, and for this purpose seniority shall be determined by the order in which the names stand in the register of Shareholders of the Company in respect of the joint holding.

6. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority, must be deposited at the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 11:00 a.m. on Monday, 20 July 2020 (or if the Meeting is adjourned, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting, and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Meeting or any adjournment thereof should you so wish.

7. For determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Friday, 17 July 2020 to Wednesday, 22 July 2020, both days inclusive, during which period no transfer of shares will be registered. In order for a Shareholder to be eligible to attend and vote at the Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 16 July 2020.