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Quanzhou Huixin Micro-credit Co., Ltd.*

泉州匯鑫小額貸款股份有限公司

(Established in the People's Republic of China with limited liability)

(Stock Code: 1577)

**2018 ANNUAL RESULTS ANNOUNCEMENT
AND
PROPOSED REVISION TO SCOPE OF BUSINESS
AND AMENDMENT TO ARTICLES OF ASSOCIATION**

The board (the “**Board**”) of directors (the “**Directors**”) of Quanzhou Huixin Micro-credit Co., Ltd.* (the “**Company**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Company and its subsidiaries (the “**Group**”, “**we**” or “**our**”) for the year ended 31 December 2018 (the “**Reporting Period**”) prepared in accordance with the Hong Kong Financial Reporting Standards (the “**HKFRSs**”) promulgated by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The Board and the audit committee of the Company (the “**Audit Committee**”) have reviewed and confirmed the Annual Results.

ANNUAL RESULTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

(Amounts expressed in RMB unless otherwise stated)

	Notes	2018	2017
Interest income	6	156,789,014	140,014,622
Interest expense	6	<u>(10,618,071)</u>	<u>(1,077,592)</u>
Interest income, net		146,170,943	138,937,030
Impairment losses on loans and accounts receivable, net	7	(18,296,302)	(1,897,198)
Operating and administrative expenses		(25,161,028)	(20,426,757)
Foreign exchange loss, net		(728,902)	(4,350,028)
Other income and gains, net	8	3,114,867	2,637,565
Share of profit of an associate		<u>9,140,326</u>	<u>4,965,901</u>
PROFIT BEFORE TAX	9	114,239,904	119,866,513
Income tax expense	12	<u>(26,256,421)</u>	<u>(28,900,055)</u>
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>87,983,483</u>	<u>90,966,458</u>
Attributable to:			
Owners of the parent		87,989,848	90,966,458
Non-controlling interests		<u>(6,365)</u>	<u>—</u>
		<u>87,983,483</u>	<u>90,966,458</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		<u>0.13</u>	<u>0.13</u>
Diluted		<u>0.13</u>	<u>0.13</u>

Consolidated Statement of Financial Position

31 December 2018

(Amounts expressed in RMB unless otherwise stated)

	<i>Notes</i>	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	15	51,717,811	12,291,149
Financial assets at fair value through profit or loss	16	53,000,000	31,000,000
Loans and accounts receivable	17	1,036,985,098	919,519,129
Investment in an associate	18	131,533,077	177,477,751
Property and equipment	19	1,548,850	1,375,125
Goodwill	20	2,221,017	—
Other intangible assets	21	140,000	—
Deferred tax assets	22	2,116,411	1,446,089
Other assets	23	13,071,518	13,221,384
TOTAL ASSETS		<u>1,292,333,782</u>	<u>1,156,330,627</u>
LIABILITIES			
Interest-bearing bank borrowings	24	200,336,825	140,182,217
Income tax payable		11,585,025	13,097,652
Other payables	25	14,185,151	7,063,788
TOTAL LIABILITIES		<u>226,107,001</u>	<u>160,343,657</u>
NET ASSETS		<u>1,066,226,781</u>	<u>995,986,970</u>
EQUITY			
Share capital	26	680,000,000	680,000,000
Reserves	27	136,970,598	126,989,833
Retained profits		233,006,220	188,997,137
Equity attributable to owners of the parent		1,049,976,818	995,986,970
Non-controlling interests		16,249,963	—
TOTAL EQUITY		<u>1,066,226,781</u>	<u>995,986,970</u>

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

(Amounts expressed in RMB unless otherwise stated)

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Reserves				Total		
		Capital reserve	Surplus reserve	General reserve	Retained profits			
Balance as at 1 January 2017	680,000,000	69,383,972	34,377,654	12,421,210	142,837,676	939,020,512	—	939,020,512
Net profit and total comprehensive income for the year	—	—	—	—	90,966,458	90,966,458	—	90,966,458
Appropriation to surplus reserve	—	—	9,120,899	—	(9,120,899)	—	—	—
Appropriation to general reserve	—	—	—	1,686,098	(1,686,098)	—	—	—
Distribution to shareholders (Note 13)	—	—	—	—	(34,000,000)	(34,000,000)	—	(34,000,000)
Balance as at 31 December 2017	<u>680,000,000</u>	<u>69,383,972</u>	<u>43,498,553</u>	<u>14,107,308</u>	<u>188,997,137</u>	<u>995,986,970</u>	—	<u>995,986,970</u>
Balance as at 1 January 2018	680,000,000	69,383,972	43,498,553	14,107,308	188,997,137	995,986,970	—	995,986,970
Net profit and total comprehensive income for the year	—	—	—	—	87,989,848	87,989,848	(6,365)	87,983,483
Appropriation to surplus reserve	—	—	8,732,479	—	(8,732,479)	—	—	—
Appropriation to general reserve	—	—	—	1,248,286	(1,248,286)	—	—	—
Acquisition of a subsidiary (Note 4)	—	—	—	—	—	—	16,256,328	16,256,328
Distribution to shareholders (Note 13)	—	—	—	—	(34,000,000)	(34,000,000)	—	(34,000,000)
Balance as at 31 December 2018	<u>680,000,000</u>	<u>69,383,972</u>	<u>52,231,032</u>	<u>15,355,594</u>	<u>233,006,220</u>	<u>1,049,976,818</u>	<u>16,249,963</u>	<u>1,066,226,781</u>

Consolidated Statement of Cash Flows

Year ended 31 December 2018

(Amounts expressed in RMB unless otherwise stated)

	<i>Notes</i>	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		114,239,904	119,866,513
Adjustments for:			
Share of profit of an associate		(9,140,326)	(4,965,901)
Depreciation and amortisation	5	644,516	844,846
Impairment charged	7	18,296,302	1,897,198
Accreted interest on impaired loans		(3,226,428)	(2,047,895)
Foreign exchange loss, net		728,902	4,350,028
Loss on disposal of items of property and equipment		1,896	4,568
Interest expense	6	<u>10,618,071</u>	<u>1,077,592</u>
		132,162,837	121,026,949
Increase in financial assets at fair value through profit or loss		(19,670,000)	(5,000,000)
Increase in loans and accounts receivable		(81,877,675)	(113,516,067)
Increase in other assets		(9,352,321)	(1,056,961)
Increase in other payables		<u>8,922,368</u>	<u>2,294,306</u>
Net cash flows from operating activities before tax		30,185,209	3,748,227
Income tax paid		<u>(26,926,743)</u>	<u>(32,884,638)</u>
Net cash flows from/(used in) operating activities		<u>3,258,466</u>	<u>(29,136,411)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		(431,221)	(1,224,524)
Purchase of a shareholding in an associate		—	(172,511,850)
Acquisition of a subsidiary	4	(33,293,218)	—
Dividends received from an associate		7,185,000	—
Return of investment in an associate		<u>47,900,000</u>	<u>—</u>
Net cash flows from/(used in) investing activities		<u>21,360,561</u>	<u>(173,736,374)</u>

	<i>Notes</i>	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from new bank borrowings		200,000,000	140,000,000
Repayment of bank borrowings		(140,000,000)	—
Interest paid		(10,463,463)	(895,375)
Dividends paid	<i>13</i>	<u>(34,000,000)</u>	<u>(34,000,000)</u>
Net cash flows from financing activities	<i>28</i>	<u>15,536,537</u>	<u>105,104,625</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		40,155,564	(97,768,160)
Effect of foreign exchange rate changes, net		12,291,149	114,409,337
		<u>(728,902)</u>	<u>(4,350,028)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>51,717,811</u>	<u>12,291,149</u>

NOTES TO FINANCIAL STATEMENTS

Notes to the Financial Statements

31 December 2018

(Amounts expressed in RMB unless otherwise stated)

1. CORPORATE AND GROUP INFORMATION

The Company was established as a limited liability company in the People's Republic of China (the "PRC") and its registered office is located at 12th Floor, Former Finance Building, No. 361, Feng Ze Street, Quanzhou City, Fujian Province, PRC.

During the year, the principal activity of the Company and its subsidiaries was the provision of loans to SMEs, microenterprises, and entrepreneurial individuals.

Information about subsidiaries

The particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration/ and business	Registered/ paid-up capital	Percentage of ownership interest attributable to the Company		Principal activity
			Direct	Indirect	
Quanzhou Huixinxing Investment Co., Ltd. ("Huixinxing")	Quanzhou, China	RMB50,000,000	100%	—	Investment advisory service
Quanzhou Lianche Finance Leasing Co., Ltd. ("Lianche")	Quanzhou, China	USD10,000,000	—	75%	Finance leasing

On 16 October 2018, our Group acquired a 75% of equity interests in Lianche from a third party at a cash consideration of approximately RMB51.0 million (equivalent to approximately HK\$57.8 million).

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for financial instruments which have been measured at fair value. These financial statements are presented in Renminbi Yuan.

Basis of consolidation

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

3.1 Changes in Accounting Policies and Disclosures

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

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

Our Group applies, for the first time, HKFRS 9 Financial Instruments that relate to our Group's current principal activities and require restatement of previous financial statements. The nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have any impact on the consolidated financial statements of our Group.

3.1.1 HKFRS 9 Financial Instruments

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

(a) *Classification and measurement*

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

(b) *Impairment*

The adoption of HKFRS 9 has changed our Group's loan loss impairment method by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires our Group to record an allowance for ECL for all loans receivable and other debt financial assets not held at fair value through profit and loss, together with loan commitments and financial guarantee contracts, if any.

Based on the nature and classification of financial assets and financial liabilities of our Group recorded on the statement of financial position as at 1 January 2018 and 31 December 2018, the new requirements for classification and measurement for financial assets and financial liabilities under HKFRS 9 have insignificant impact on our Group's financial position or performance.

3.2 *Issued but not yet Effective Hong Kong Financial Reporting Standards*

All HKFRSs that remain in effect which are relevant to our Group have been applied. Our Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

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

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that relate to our Group's current principal activities or those that may have a significant impact on the consolidated financial statements of our Group is described below.

HKFRS 16, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease

liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

Our Group will adopt HKFRS 16 from 1 January 2019. Our Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. As set out in note 31 to the financial statements, the total operating lease commitments of our Group in respect of leased premises as at 31 December 2018 amounted to RMB2.4 million. Our Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in any significant impact on our Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the statement of financial position as right-of-use assets and lease liabilities.

3.3 Summary of Significant Accounting Policies

Investment in an associate

An associate is an entity in which our Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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.

Our Group's investment in an associate is stated in the consolidated statement of financial position at our Group's share of net assets under the equity method of accounting, less any impairment losses.

Our Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, our Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between our Group and its associate are eliminated to the extent of our Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of our Group's investment in an associate.

Business combinations and goodwill

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

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

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

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

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

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

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

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

Fair value measurement

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

or

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

Property and equipment and depreciation

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

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

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

Categories	Estimated useful life	Estimated residual rate	Annual depreciation rate
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets	0%	Over the shorter period of the lease terms and the useful life of the assets
Fixtures and furniture	3 to 10 years	5%	10% to 32%
Motor vehicles	4 years	5%	24%

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

Intangible assets (other than goodwill)

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

The estimated useful lives of intangible assets are as follows:

Categories	Estimated useful life
Software	1 to 3 years

Leases

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

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

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

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

Financial assets at fair value through profit or loss

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

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

This category includes derivative instruments and equity investments which our Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to our Group and the amount of the dividend can be measured reliably.

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

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the consolidated statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets.

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

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

Loans and receivables

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

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

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

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

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

General approach

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

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

Our Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, our Group may also consider a financial asset to be in default when internal or external information indicates that our Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by our Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

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

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

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

Parameters of ECL measurement

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

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. Our Group’s PD is adjusted based on the results of the internal rating grade, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor’s point-in-time PD under the current macroeconomic environment;
- LGD refers to our Group’s expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that our Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

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

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Our Group's financial liabilities are classified, at initial recognition, as loans and borrowings.

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

Our Group's financial liabilities include other payables and interest-bearing bank loans.

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if our Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. When a loan has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash receipts for the purpose of measuring the impairment loss, i.e., the original effective interest rate.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to our Group and the amount of the dividend can be measured reliably.

Employee benefits

Employee retirement scheme

The employees of our Group which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute a certain percentage of payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. The provision and contributions have been included in profit or loss upon incurrence. Our Group has no obligation for the payment of pension benefits beyond the contributions described above.

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

These financial statements are presented in Renminbi Yuan, which is our Group's functional currency. Foreign currency transactions recorded by our Group are initially recorded using its functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the Reporting Period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

Repossessed assets

Repossessed assets are initially recognised at the lower of the fair value less costs to sell and the amortised cost of the related outstanding loans on the date of repossession, and the related loans receivable together with the related impairment allowances are derecognised from the statement of financial position. Subsequently, repossessed assets are measured at the lower of their cost and fair values less costs to sell and are presented as other assets.

3.4 Significant Accounting Judgements and Estimates

The preparation of our Group's financial statements requires management to make judgments, 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.

Provision for expected credit losses on loans and accounts receivables

Our Group uses a provision matrix to calculate ECLs for loans and accounts receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on our Group's historical observed default rates. Our Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. Our Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Deferred tax assets and liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. Our Group makes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and different interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretations may arise on a wide variety of issues depending on the conditions prevailing in the respective entity's domiciles.

Impairment of goodwill

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

4. BUSINESS COMBINATIONS

On 16 October 2018, our Group acquired a 75% of equity interests in Lianche at a cash consideration of RMB50,990,000. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of the acquired subsidiary since its acquisition date.

The fair values of the identifiable assets and liabilities of Lianche as at the date of acquisition were:

	Fair value recognised on acquisition (Unaudited)
Cash and cash equivalents	17,696,782
Financial assets at fair value through profit or loss	2,330,000
Loans and accounts receivable	44,905,160
Property and equipment	365,583
Other assets	414,152
Income tax payable	(17,836)
Other payables	<u>(668,530)</u>
Total identifiable net assets at fair value	65,025,311
Non-controlling interests	<u>(16,256,328)</u>
Goodwill on acquisition	<u>2,221,017</u>
Satisfied by cash	<u><u>50,990,000</u></u>

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

Cash consideration	(50,990,000)
Cash and bank balances acquired	<u>17,696,782</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities	<u><u>(33,293,218)</u></u>

Since the acquisition, Lianche contributed RMB848,349 to our Group's interest income and a net profit of RMB19,093 to the consolidated profit for the year ended 31 December 2018.

5. SEGMENT REPORTING

For management purposes, our Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) The micro-credit business provides credit facilities to SMEs, microenterprises and entrepreneurial individuals; and
- (b) The finance lease business is primarily engaged in providing automobile lease service for individuals.

Management monitors the results of our Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss.

Segment revenue, results and assets mainly include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Intersegment transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2018	Micro-credit business	Finance lease business	Total
Segment revenue			
Interest income	155,940,665	848,349	156,789,014
Interest expense	<u>(10,618,071)</u>	<u>—</u>	<u>(10,618,071)</u>
Interest income, net	<u>145,322,594</u>	<u>848,349</u>	<u>146,170,943</u>
Segment results	<u><u>114,265,362</u></u>	<u><u>(25,458)</u></u>	<u><u>114,239,904</u></u>
Segment assets	1,226,528,295	67,805,487	1,294,333,782
<i>Reconciliation</i>			
Elimination of intersegment receivables			<u>(2,000,000)</u>
Total assets			<u><u>1,292,333,782</u></u>
Segment liabilities	225,301,367	2,805,634	228,107,001
<i>Reconciliation</i>			
Elimination of intersegment payables			<u>(2,000,000)</u>
Total liabilities			<u><u>226,107,001</u></u>

Year ended 31 December 2018	Micro-credit business	Finance lease business	Total
Other segment Information			
Impairment losses on loans and accounts receivable, net	18,235,015	61,287	18,296,302
Share of profit of an associate	9,140,326	—	9,140,326
Depreciation and amortisation	600,575	43,941	644,516
Investment in an associate	131,533,077	—	131,533,077
Capital expenditure*	<u>389,849</u>	<u>41,372</u>	<u>431,221</u>

* Capital expenditure consists of additions to property and equipment, and intangible assets.

During 2017, almost all of our Group's revenue was generated from the micro-credit business in Quanzhou, Fujian Province in Mainland China. Our Group's chief operating decision makers focus on the operating results of our Group as a whole. Accordingly, no segment analysis or information about our Group's products and services is presented.

Geographical information

Almost all of our Group's revenue generated from external customers and assets were located at Quanzhou, Fujian Province in Mainland China during the year.

6. INTEREST INCOME

	2018	2017
Interest income on:		
Loans and accounts receivable	156,789,014	140,014,622
Interest expense on:		
Bank loans	<u>(10,618,071)</u>	<u>(1,077,592)</u>
Interest income, net	<u>146,170,943</u>	<u>138,937,030</u>

7. IMPAIRMENT LOSSES ON LOANS AND ACCOUNTS RECEIVABLE

The table below shows the ECL charges on the financial instruments for the year recorded in the profit or loss:

	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Loans and accounts receivable	<u>1,546,027</u>	<u>1,376,981</u>	<u>15,373,294</u>	<u>18,296,302</u>
Total impairment loss	<u>1,546,027</u>	<u>1,376,981</u>	<u>15,373,294</u>	<u>18,296,302</u>

The table below shows the impairment losses charge/(credit) in the profit or loss under HKAS 39 during 2017:

	Collective	Individually	Total
Loans and accounts receivable	<u>(1,254,085)</u>	<u>3,151,283</u>	<u>1,897,198</u>
Total impairment loss	<u><u>(1,254,085)</u></u>	<u><u>3,151,283</u></u>	<u><u>1,897,198</u></u>

8. OTHER INCOME AND GAINS, NET

		2018	2017
Government grants	(a)	2,000,000	1,003,000
Interest from bank deposits		198,311	145,740
Gains from financial assets at fair value through profit or loss		921,056	1,502,706
Loss on disposal of items of property and equipment		(1,896)	(4,568)
Others		<u>(2,604)</u>	<u>(9,313)</u>
Total		<u>3,114,867</u>	<u>2,637,565</u>

(a) In 2018, the Company received government grants of RMB2.0 million as governmental reward funds because the Company's H shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and foreign investments were made in the Company. There were no unfulfilled conditions and other contingencies attached to such government grants.

9. PROFIT BEFORE TAX

Our Group's profit before tax is arrived at after charging:

	2018	2017
Depreciation and amortisation	644,516	844,846
Staff costs:		
Salaries, bonuses and allowances	10,249,812	6,845,262
Other social welfare	1,660,785	951,561
Impairment losses on loans and accounts receivable	18,296,302	1,897,198
Leasing expense	1,571,052	622,666
Consulting fee	4,850,677	4,841,382
Auditor's remuneration	<u>1,244,066</u>	<u>1,084,906</u>

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

The Company did not have chief executive at any time during the year. Directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Name	Year ended 31 December 2018			Total
	Fees	Salaries, allowances and benefits in kind	Contributions to a defined contribution scheme	
Executive Directors				
Zhou Yongwei	—	—	—	—
Wu Zhirui	—	937,066	38,993	976,059
Yan Zhijiang	—	494,876	37,373	532,249
Liu Aiqin	—	398,091	38,993	437,084
Non-executive Directors				
Zhu Jinsong ¹	—	—	—	—
Cai Rongjun ²	—	—	—	—
Jiang Haiying	—	—	—	—
Independent Non-executive Directors				
Zhang Lihe	83,460	—	—	83,460
Sun Leland Li Hsun	83,460	—	—	83,460
Lin Jianguo	83,460	—	—	83,460
Supervisors				
Ng Seng Chuan ³	—	—	—	—
Li Jiancheng ⁴	—	—	—	—
Hong Lijun	10,000	426,691	36,392	473,083
Ruan Cen	10,000	131,768	28,788	170,556
Wu Lindi	20,000	—	—	20,000
Chen Jinzhu	20,000	—	—	20,000
	<u>310,380</u>	<u>2,388,492</u>	<u>180,539</u>	<u>2,879,411</u>

¹ Resigned as Director in June 2018

² Appointed as Director in June 2018

³ Resigned as supervisor in June 2018

⁴ Appointed as supervisor in June 2018

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

Year ended 31 December 2017

Name	Fees	Salaries, allowances and benefits in kind	Contributions to a defined contribution scheme	Total
Executive Directors				
Zhou Yongwei	—	—	—	—
Wu Zhirui	—	942,595	36,729	979,324
Yan Zhijiang	—	486,965	36,702	523,667
Liu Aiqin ⁶	—	235,826	15,608	251,434
Non-executive Directors				
Wang Wenbin ¹	—	—	—	—
Zhu Jinsong	—	—	—	—
Jiang Haiying	—	—	—	—
Liu Aiqin ^{3,6}	—	—	—	—
Independent Non-executive Directors				
Cai Yi ²	46,433	—	—	46,433
Zhang Lihe	87,228	—	—	87,228
Wang Yiming ²	—	—	—	—
Sun Leland Li Hsun ⁴	47,521	—	—	47,521
Lin Jianguo ⁴	47,521	—	—	47,521
Supervisors				
Ng Seng Chuan	—	—	—	—
Li Jiancheng ⁵	—	—	—	—
Hong Lijun	10,000	372,980	32,803	415,783
Ruan Cen	10,000	125,628	26,442	162,070
Wu Lindi	20,000	—	—	20,000
Chen Jinzhu	20,000	—	—	20,000
Wang Shijie ⁵	4,500	97,965	16,374	118,839
	<u>293,203</u>	<u>2,261,959</u>	<u>164,658</u>	<u>2,719,820</u>

¹ Resigned as Director in March 2017

² Retired as Director in June 2017

³ Appointed as Director in March 2017

⁴ Appointed as Director in June 2017

⁵ Resigned as supervisor in August 2017

⁶ Re-designated as executive Director in August 2017

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included two Directors and one supervisor (2017: two Directors and one supervisor), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are neither a Director nor a supervisor of the Company are as follows:

	2018	2017
Salaries, allowances and benefits in kind	661,060	859,008
Contributions to a defined contribution scheme	<u>76,741</u>	<u>66,822</u>
Total	<u><u>737,801</u></u>	<u><u>925,830</u></u>

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

	2018	2017
Nil — RMB1,000,000	<u><u>2</u></u>	<u><u>2</u></u>

12. INCOME TAX EXPENSE

	2018	2017
Current income tax	26,926,743	28,886,168
Deferred income tax (Note 22)	<u>(670,322)</u>	<u>13,887</u>
Total	<u><u>26,256,421</u></u>	<u><u>28,900,055</u></u>

Our Group conducts all of its businesses in Mainland China and the applicable income tax rate is generally 25% in accordance with the Enterprise Income Tax Law of the PRC (中國企業所得稅法), which was approved and became effective on 1 January 2008.

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdiction in which our Group is domiciled to the tax expense at the effective tax rate is as follows:

	2018	2017
Profit before tax	114,239,904	119,866,513
Tax at the applicable tax rate of 25%	28,559,976	29,966,628
Tax effect of income not subject to tax	(2,285,081)	(1,241,475)
Tax effect of expenses not deductible for tax purposes	33,274	116,789
Tax losses utilised from previous periods	(58,113)	—
Tax losses not recognised	<u>6,365</u>	<u>58,113</u>
Total tax expense for the year at our Group's effective tax rate	<u><u>26,256,421</u></u>	<u><u>28,900,055</u></u>

13. DIVIDENDS

	2018	2017
Proposed and paid dividend	<u>34,000,000</u>	<u>34,000,000</u>

Pursuant to the resolution of its annual general meeting held on 12 June 2018, the Company distributed cash dividends of RMB34 million to the shareholders.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during the year.

	2018	2017
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	<u>87,989,848</u>	<u>90,966,458</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>680,000,000</u>	<u>680,000,000</u>
Basic and diluted earnings per share	<u>0.13</u>	<u>0.13</u>

15. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	1,444	1,521
Cash at banks	<u>51,716,367</u>	<u>12,289,628</u>
	<u>51,717,811</u>	<u>12,291,149</u>

At the end of the Reporting Period, the cash and bank balances of our Group denominated in Hong Kong dollar (“HKD”) and US dollar (“USD”) amounted to RMB248 (2017: RMB3,986,934) and RMB17,411,322 (2017: Nil), respectively. Cash at banks earns interest at floating rates based on daily bank deposit rates.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Wealth management products	<u>53,000,000</u>	<u>31,000,000</u>

In order to deploy surplus cash more effectively, our Group purchased from time to time wealth management products, which are held for a relatively short period of time, offered by licensed commercial banks in the PRC.

17. LOANS AND ACCOUNTS RECEIVABLE

	31 December 2018	31 December 2017
Loans receivable	1,023,706,284	940,487,198
Lease receivables	56,797,698	—
Less: Unearned finance income	(7,122,889)	—
Net lease receivables	49,674,809	—
Less: Allowance for impairment		
— Individually assessed	(18,960,642)	(7,139,559)
— Collectively assessed	(17,435,353)	(13,828,510)
	<u>1,036,985,098</u>	<u>919,519,129</u>

Our Group seeks to maintain strict control over its outstanding loans receivable to minimise credit risk. Overdue balances are reviewed regularly by management.

The table below shows the credit quality and maximum exposure to credit risk based on our Group's internal credit rating system and period-end stage classification. The amounts presented are gross of impairment allowances.

	31 December 2018				31 December 2017
	12-month ECLs	Lifetime ECLs			
	Stage 1 Collective	Stage 2 Collective	Stage 3	Total	Total
Net lease receivables					
— Not yet past due	49,674,809	—	—	49,674,809	—
Loans receivable					
— Performing (i)	920,274,205	48,481,169	—	968,755,374	919,863,340
— Impaired (ii)	—	—	54,950,910	54,950,910	<u>20,623,858</u>
Total	<u>969,949,014</u>	<u>48,481,169</u>	<u>54,950,910</u>	<u>1,073,381,093</u>	<u>940,487,198</u>

- (i) Performing loans are collectively assessed for impairment.
- (ii) Impaired loans to customers include those with objective evidence of impairment.

Our Group's loans receivable consisted of credit loans, guaranteed loans and collateral-backed loans. As at 31 December 2018, 41.7% (as at 31 December 2017: 50.3%) of loans receivable were guaranteed loans, and 53.7% (as at 31 December 2017: 48.9%) of loans receivable were collateral-backed loans.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans and accounts receivable are, as follows:

	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Gross carrying amount as at 1 January 2018	884,500,568	35,362,772	20,623,858	940,487,198
New	2,974,224,322	—	—	2,974,224,322
Derecognised	(2,861,083,702)	(23,362,772)	(2,147,165)	(2,886,593,639)
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(43,281,169)	43,281,169	—	—
Transfer to Stage 3	(30,000,000)	(6,800,000)	36,800,000	—
Write off	—	—	(325,783)	(325,783)
Acquisition of a subsidiary	45,588,995	—	—	45,588,995
At 31 December 2018	<u>969,949,014</u>	<u>48,481,169</u>	<u>54,950,910</u>	<u>1,073,381,093</u>

Our Group has conducted an assessment of ECL according to forward-looking information and used appropriate models and a large number of assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). Our Group has adopted judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as criteria for judging significant increases in credit risk, definition of credit-impaired financial asset, parameters for measuring ECL and forward-looking information.

	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
ECL allowance as at 1 January 2018	10,973,389	2,855,121	7,139,559	20,968,069
New and remeasurement	2,473,671	(1,852,175)	12,723,111	13,344,607
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(547,883)	547,883	—	—
Transfer to Stage 3	(379,761)	(549,019)	928,780	—
Accreted interest on impaired loans	—	—	(3,226,428)	(3,226,428)
Impact on period end ECL of exposures transferred between stages during the period	—	3,230,292	1,721,403	4,951,695
Write off	—	—	(325,783)	(325,783)
Acquisition of a subsidiary	683,835	—	—	683,835
At 31 December 2018	<u>13,203,251</u>	<u>4,232,102</u>	<u>18,960,642</u>	<u>36,395,995</u>

Movements of allowance for impairment losses during the year ended 31 December 2017 are as follows:

	Individually assessed	Collectively assessed	Total
As at 1 January 2017	7,145,684	15,082,595	22,228,279
Charges for the year	3,151,283	(1,254,085)	1,897,198
Write-off	(1,109,513)	—	(1,109,513)
Accreted interest on impaired loans	<u>(2,047,895)</u>	<u>—</u>	<u>(2,047,895)</u>
As at 31 December 2017	<u><u>7,139,559</u></u>	<u><u>13,828,510</u></u>	<u><u>20,968,069</u></u>

Our Group did not have any loans and accounts receivable that were still subject to enforcement activity, but, otherwise, had already been written off either at 31 December 2018 or at 31 December 2017.

The table below illustrates the gross and net amounts of lease receivables our Group expects to receive in the following consecutive accounting years,

	31 December 2018
Lease receivables	
Due within 1 year	25,303,073
Due in 1 to 2 years	23,096,534
Due in 2 to 3 years	<u>8,398,091</u>
	<u><u>56,797,698</u></u>
	31 December 2018
Net lease receivables	
Due within 1 year	20,713,596
Due in 1 to 2 years	20,908,152
Due in 2 to 3 years	<u>8,053,061</u>
	<u><u>49,674,809</u></u>

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of our Group that was needed to be recorded as at the end of the Reporting Period.

18. INVESTMENT IN AN ASSOCIATE

	2018	2017
Share of net assets	116,174,730	162,119,404
Goodwill on acquisition	<u>15,358,347</u>	<u>15,358,347</u>
	<u>131,533,077</u>	<u>177,477,751</u>

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Jinjiang Huixin Microfinance Co., Ltd. (晉江市匯鑫小額貸款有限公司) (“ Jinjiang Microfinance ”) (formerly known as Jinjiang Baiying Microfinance Co., Ltd.* (晉江市百應小額貸款有限公司))	Ordinary shares	Jinjiang, China	47.9%	Provision of micro-credit

Our Group’s shareholding in the associate all comprises equity shares held by the Company. Jinjiang Microfinance is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of the associate reconciled to the carrying amount in the consolidated financial statements:

	2018	2017
Total assets	246,403,288	388,818,904
Total liabilities	<u>3,867,318</u>	<u>50,365,034</u>
Net assets	<u>242,535,970</u>	<u>338,453,870</u>
Net assets, excluding goodwill	242,535,970	338,453,870
Reconciliation to our Group’s interest in the associate:		
Proportion of our Group’s ownership	47.9%	47.9%
Group’s share of net assets of the associate, excluding goodwill	116,174,730	162,119,404
Goodwill on acquisition	<u>15,358,347</u>	<u>15,358,347</u>
Carrying amount of the investment	<u>131,533,077</u>	<u>177,477,751</u>

	2018	For the period from 30 September 2017 to 31 December 2017
Interest income	36,617,830	10,271,602
Net profit and total comprehensive income for the period	<u>19,082,100</u>	<u>10,367,226</u>

19. PROPERTY AND EQUIPMENT

	Motor vehicles	Fixtures and furniture	Leasehold improvements	Total
Cost:				
At 1 January 2017	993,291	459,514	1,757,721	3,210,526
Additions	—	793,787	366,337	1,160,124
Disposals	<u>(90,488)</u>	<u>(880)</u>	<u>—</u>	<u>(91,368)</u>
At 31 December 2017	902,803	1,252,421	2,124,058	4,279,282
Additions	84,006	55,507	291,708	431,221
Acquisition of a subsidiary	—	166,272	309,590	475,862
Disposals	<u>—</u>	<u>(37,920)</u>	<u>—</u>	<u>(37,920)</u>
At 31 December 2018	<u>986,809</u>	<u>1,436,280</u>	<u>2,725,356</u>	<u>5,148,445</u>
Accumulated depreciation:				
At 1 January 2017	637,729	364,312	1,464,029	2,466,070
Depreciation charge for the year	97,033	134,162	293,692	524,887
Disposals	<u>(85,964)</u>	<u>(836)</u>	<u>—</u>	<u>(86,800)</u>
At 31 December 2017	648,798	497,638	1,757,721	2,904,157
Depreciation charge for the year	97,032	294,251	229,900	621,183
Acquisition of a subsidiary	—	32,243	78,036	110,279
Disposals	<u>—</u>	<u>(36,024)</u>	<u>—</u>	<u>(36,024)</u>
At 31 December 2018	<u>745,830</u>	<u>788,108</u>	<u>2,065,657</u>	<u>3,599,595</u>
Net carrying amount:				
At 31 December 2018	<u>240,979</u>	<u>648,172</u>	<u>659,699</u>	<u>1,548,850</u>
At 31 December 2017	<u>254,005</u>	<u>754,783</u>	<u>366,337</u>	<u>1,375,125</u>

20. GOODWILL

	Lianche
Cost at 1 January 2018, net of accumulated impairment	—
Acquisition of a subsidiary (<i>note 4</i>)	<u>2,221,017</u>
Cost at 1 December 2018, net of accumulated impairment	<u><u>2,221,017</u></u>
At 31 December 2018:	
Cost	2,221,017
Accumulated impairment	<u>—</u>
Net carrying amount	<u><u>2,221,017</u></u>

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the acquired subsidiary as the cash-generating unit for impairment testing.

Financial lease cash-generating unit

The recoverable amount of the financial lease cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13%. As at 31 December 2018, our Group assessed the impairment on goodwill and the recoverable amounts exceeded carrying amount, and hence the goodwill was not regarded as impaired.

The carrying amounts of goodwill are as follows:

	31 December 2018
Finance lease	<u><u>2,221,017</u></u>

Assumptions were used in the value in use calculation of the financial lease cash-generating units for 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate — The discount rate used reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development of financial lease industries, discount rates are consistent with external information sources.

21. OTHER INTANGIBLE ASSETS

Software

Cost:

At 1 January 2017	890,000
Additions	<u>64,400</u>

At 31 December 2017	954,400
Acquisition of a subsidiary	<u>280,000</u>

At 31 December 2018	<u><u>1,234,400</u></u>
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Accumulated amortisation:

At 1 January 2017	634,441
Charge for the year	<u>319,959</u>

At 31 December 2017	954,400
Acquisition of a subsidiary	116,667
Charge for the year	<u>23,333</u>

At 31 December 2018	<u><u>1,094,400</u></u>
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Net carrying amount:

At 31 December 2018	<u><u>140,000</u></u>
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At 31 December 2017	<u><u>—</u></u>
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22. DEFERRED TAX ASSETS

The movements in the deferred tax assets are as follows:

Impairment allowance on loans

At 1 January 2017	1,459,976
Recognised in profit or loss (<i>Note 12</i>)	<u>(13,887)</u>

At 31 December 2017	1,446,089
Recognised in profit or loss (<i>Note 12</i>)	<u>670,322</u>

At 31 December 2018	<u><u>2,116,411</u></u>
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Our Group has a tax loss arising in the subsidiary of RMB454,014 in 2018 that will be available for offsetting against future taxable profits within a period of five years.

No deferred tax asset has been recognised in respect of the tax loss as it has arisen in the subsidiary that has been loss-making and it is not considered probable that taxable profit will be available against which the tax loss can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

23. OTHER ASSETS

		2018	2017
Reposessed assets	(a)	8,060,000	8,060,000
Deferred and prepaid expenses		3,562,612	4,120,847
Other receivables		1,448,906	1,040,537
		<u>13,071,518</u>	<u>13,221,384</u>

(a) The reposessed assets are properties located at Quanzhou, Fujian Province in China. The contracts to effect the repossession of the properties have been signed and registered with the local authority. The certificates of the properties have not been obtained because the properties are still under development.

24. INTEREST-BEARING BANK BORROWINGS

		2018	2017
Guaranteed bank loans repayable:			
Within one year		<u>200,336,825</u>	<u>140,182,217</u>

As at 31 December 2018, the annual interest rate of the loans above was 6.003% (31 December 2017: 5.655%).

The interest-bearing bank borrowings of RMB200.0 million as at 31 December 2018 were guaranteed by one of the Company's shareholders, Fujian Septwolves Group Co., Ltd.

25. OTHER PAYABLES

		2018	2017
Payrolls payable		2,792,062	2,189,887
Value-added tax, and surcharges payable		2,637,223	2,260,228
Audit fee		1,226,415	1,084,906
Deposits		7,132,335	1,400,000
Others		397,116	128,767
		<u>14,185,151</u>	<u>7,063,788</u>

26. SHARE CAPITAL

	31 December 2018	31 December 2017
Issued and fully paid ordinary shares of RMB1 each	<u>680,000,000</u>	<u>680,000,000</u>

27. RESERVES

The amounts of our Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity.

Capital reserve

Capital reserve comprises share premium, which represents the difference between the par value of the shares of our Group and the proceeds received from the issuance of the shares of the Company.

Surplus reserve

Surplus reserve comprises the statutory surplus reserve and the discretionary surplus reserve.

The entities established in the PRC are required to appropriate 10% of their net profit, as determined under China Accounting Standards for Business Enterprises (2006) and other relevant regulations issued by the Ministry of Finance of the PRC, to the statutory surplus reserve until the balance reaches 50% of the registered capital.

Subject to the approval of equity holders of the entities established in the PRC, the statutory surplus reserve may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

After making the appropriation to the statutory surplus reserve, the Company and its subsidiaries may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders. Subject to the approval of shareholders, the discretionary surplus reserve may be used to make good previous years' losses, if any, and may be converted into capital.

General reserve

In accordance with the relevant regulations, the Company is required to set aside a general reserve through appropriations of profit after tax on an annual basis, and the balance of the general reserve should reach 1.5% of its risk assets before 30 June 2018. Such reserve is not available for profit distribution or transfer to capital. As at 31 December 2018, the balance of the general reserve of the Company was RMB15.4 million, no lower than 1.5% of its risk assets.

Distributable profit

Pursuant to the resolution of the Board passed on 19 March 2019, a final dividend of approximately RMB34.0 million (equivalent to RMB0.05 per share (including tax)) was proposed after the appropriation of the statutory surplus reserve and general reserve and is subject to approval by shareholders at the forthcoming annual general meeting.

28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	2018	
	Bank borrowings and interest payable	Amounts due to shareholders
At 1 January 2018	140,182,217	—
Changes from financing cash flows	49,536,537	(34,000,000)
2017 final dividends payable	—	34,000,000
Interest expense	<u>10,618,071</u>	<u>—</u>
At 31 December 2018	<u><u>200,336,825</u></u>	<u><u>—</u></u>

	2017	
	Bank borrowings and interest payable	Amounts due to shareholders
At 1 January 2017	—	—
Changes from financing cash flows	139,104,625	(34,000,000)
2016 final dividends payable	—	34,000,000
Interest expense	<u>1,077,592</u>	<u>—</u>
At 31 December 2017	<u><u>140,182,217</u></u>	<u><u>—</u></u>

29. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel of the Group

	2018	2017
Salaries and other short-term employee benefits	<u><u>2,860,422</u></u>	<u><u>2,708,811</u></u>

Further details of non-executive Directors' and supervisors' emoluments are included in note 10 to the consolidated financial statements.

(b) Loan guarantee

The interest-bearing bank borrowings of RMB200.0 million as at 31 December 2018 were guaranteed by one of the shareholders of the Company, Fujian Septwolves Group Co., Ltd.. The guarantee fee of RMB949,906 was accrued during the year, which was based on a fixed rate of the balance of interest-bearing borrowings.

30. CONTINGENT LIABILITIES

As at 31 December 2018, there were no significant contingent liabilities.

31. OPERATING LEASES

Our Group leases office premises under various operating lease agreements as the lessee. Future minimum lease payments (inclusive of value-added tax) under non-cancellable operating leases falling due are as follows:

	2018	2017
Within 1 year (inclusive)	1,362,614	1,490,591
1 to 2 years (inclusive)	1,032,753	999,041
2 to 3 years (inclusive)	<u>—</u>	<u>792,963</u>
	<u><u>2,395,367</u></u>	<u><u>3,282,595</u></u>

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, our Group had the following capital commitments at the end of the Reporting Period:

	2018	2017
Contracted, but not provided for:		
Software	<u><u>556,553</u></u>	<u><u>820,408</u></u>

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the Reporting Period are as follows:

	31 December 2018
Financial assets	
Financial assets at fair value through profit or loss	53,000,000
Financial assets at amortised cost	
— Cash and cash equivalents	51,717,811
— Loans and accounts receivable	1,036,985,098
— Other receivables	<u>1,448,906</u>
	<u><u>1,143,151,815</u></u>
Financial liabilities	
Financial liabilities at amortised cost	
— Interest-bearing bank borrowings	200,336,825
— Other payables	<u>8,755,866</u>
	<u><u>209,092,691</u></u>

31 December
2017

Financial assets

Financial assets at fair value through profit or loss 31,000,000

Loans and receivables

— Cash and cash equivalents	12,291,149
— Loans and accounts receivable	919,519,129
— Other receivables	<u>1,040,537</u>

963,850,815

Financial liabilities

Financial liabilities at amortised cost

— Interest-bearing bank borrowings	140,183,217
— Other payables	<u>2,613,673</u>

142,796,890

34. FINANCIAL RISK MANAGEMENT

The main risks arising from our Group's financial instruments include credit risk, foreign currency risk, interest rate risk, price risk and liquidity risk. Our Group has no significant exposures to other financial risks except as disclosed below. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Our Group manages the loans granted to SMEs, microenterprises and entrepreneurial individuals with the same policies and procedures.

The principal features of our Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management policies and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit assessment, granting of credit limits, loan evaluation, loan review and approval, granting of loans and post-disbursement loan monitoring.

In the lending business, our Group adopts a loan classification approach to manage its loan portfolio risk. Our Group's loans are categorised as "normal", "special-mention", "substandard", "doubtful" or "loss" according to their levels of risk. The core definitions of the five categories of loans receivable are set out below:

- Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
- Special-mention: Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.

- Substandard: Borrower's ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay the principal and interest. Losses may ensue even when collateral or guarantees are invoked.
- Doubtful: Borrowers cannot repay the principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
- Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

To enhance the credit risk management practices, our Group also launches training programs periodically for credit officers at different levels.

Our Group is exposed to credit risk primarily associated with cash at banks, loans receivable and other receivables. The credit risk of these assets mainly arises from the counterparties' failure to discharge their contractual obligations and the maximum exposure equals the carrying amount.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

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

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information

Criteria for judging significant increases in credit risk

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

Our Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in remaining lifetime probability of default is considered significant comparing with the one at initial recognition.

Qualitative criteria

- Significant adverse change in debtor's operation or financial status.
- Be classified into Special Mention category within five-tier loan classification.

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due.

Definition of credit-impaired financial asset

The standard adopted by our Group to determine whether a credit impairment occurs under HKFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When our Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Internal rating of the borrower indicating default or near-default;
- Significant financial difficulty of the issuer or the customer;
- The debtor leaves any of the loans receivable of our Group overdue for more than 90 days;
- It is becoming probable that the customer will enter bankruptcy or other financial restructuring.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

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

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

- LGD refers to our Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that our Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, our Group identifies the key economic indicators that affect the credit risk and ECL, such as GDP growth, Central Bank base rates and price indices.

Collateral and other credit enhancements

The amount and the type of collateral required depends on the assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The collateral obtained by our Group mainly consists of mortgages on land use rights, building ownership rights or equipment and pledge on shares. All collateral is registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of the collateral regularly.

Although collateral can mitigate credit risk to a certain extent, our Group mostly grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flows, instead of the value of collateral. The necessity of collateral is dependent on the nature of the loan. In the event of default, our Group might sell the collateral for repayment. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

It is our Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, our Group does not occupy repossessed properties for business use.

The tables below summarise the impaired loans by type of collateral, guarantee and overdue period.

	31 December 2018				Total
	Not overdue	Overdue within 3 months	Overdue more than 3 to 12 months	Overdue more than 1 year	
Guaranteed loans	<u>—</u>	<u>2,500,000</u>	<u>34,300,000</u>	<u>18,150,910</u>	<u>54,950,910</u>
Total	<u>—</u>	<u>2,500,000</u>	<u>34,300,000</u>	<u>18,150,910</u>	<u>54,950,910</u>

	31 December 2017				
	Not overdue	Overdue within 3 months	Overdue more than 3 to 12 months	Overdue more than 1 year	Total
Guaranteed loans	<u>—</u>	<u>—</u>	<u>1,698,075</u>	<u>18,925,783</u>	<u>20,623,858</u>
Total	<u>—</u>	<u>—</u>	<u>1,698,075</u>	<u>18,925,783</u>	<u>20,623,858</u>

Credit quality of loans receivable

A loan or advance is identified as an impaired loan if there is objective evidence indicating that the loan's estimated future cash flows are influenced by one or several factors and the impact can be estimated reliably. Our Group closely monitors the credit quality of the loans, and uses measures such as disposal of impaired loans to mitigate overall credit risk exposure.

Our Group manages the credit quality of financial assets using credit ratings. The table below shows the credit quality of loans receivable exposed to credit risk, based on our Group's credit rating system. The amounts presented are gross of impairment allowances.

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
31 December 2018	<u>996,530,183</u>	<u>21,900,000</u>	<u>54,950,910</u>	<u>1,073,381,093</u>
31 December 2017	<u>919,863,340</u>	<u>—</u>	<u>20,623,858</u>	<u>940,487,198</u>

As at 31 December 2018, loans neither past due nor impaired were related to various diversified customers with no recent default history.

As at 31 December 2018, loans past due but not impaired are related to the individual customer with no default history. According to past experience, our Group does not recognise allowance for these loans receivable since there is no significant change in credit quality and the amount is expected to be recovered in full.

Analysis of risk concentration

Since the loans are granted to third parties whose creditworthiness has been assessed by our Group, no collateral is required in certain cases. Our Group manages its exposure to the concentration of credit risk by diversifying its portfolio in terms of customer type and industry. Because its business operations are subject to the geographic restrictions of its operating licence, our Group is exposed to the credit risk of geographic concentration. However, although its customers are concentrated in Quanzhou city, our Group provides loans to a wide variety of customers that operate in different industries in order to mitigate its exposure to such risk.

(b) Foreign currency risk

Our Group operates principally in the PRC with only limited exposure to foreign exchange rate risk arising primarily from certain bank deposits denominated in USD or HKD.

The following table demonstrates the sensitivity at the end of the Reporting Period to a reasonably possible change in the USD and HKD exchange rates, with all other variables held constant, of our Group's profit before tax (due to changes in the fair value of monetary assets) and our Group's equity.

Changes in exchange rate	2018	
	Impact on profit before tax	Impact on equity
+ 5%	870,579	870,579
- 5%	(870,579)	(870,579)

Changes in exchange rate	2017	
	Impact on profit before tax	Impact on equity
+ 5%	199,347	199,347
- 5%	(199,347)	(199,347)

The above impact on equity represents adjustments to profit before tax.

(c) Interest rate risk

Our Group's exposure to the risk of changes in interest rates relates primarily to its cash at banks, loans receivable and interest-bearing bank borrowings. The majority of our Group's loans receivable bear fixed rates. They are mostly influenced by the mismatch of repricing day of interest-generating assets and interest-bearing liabilities. Our Group does not use derivative financial instruments to manage its interest rate risk.

The table below analyses our Group's interest rate risk exposure on financial assets and liabilities.

The assets and liabilities are included at carrying amount and categorised by the earlier of the contractual re-pricing and maturity dates.

31 December 2018						
	Overdue	Less than 3 months	3 to 12 months	1 to 5 years	Floating rate	Total
Financial assets:						
Cash at banks	—	—	—	—	51,716,367	51,716,367
Loans and accounts receivable	<u>55,978,535</u>	<u>270,360,171</u>	<u>545,719,755</u>	<u>164,926,637</u>	—	<u>1,036,985,098</u>
Subtotal	<u>55,978,535</u>	<u>270,360,171</u>	<u>545,719,755</u>	<u>164,926,637</u>	<u>51,716,367</u>	<u>1,088,701,465</u>
Financial liabilities:						
Interest-bearing bank borrowing	—	—	—	—	200,000,000	200,000,000
Subtotal	—	—	—	—	<u>200,000,000</u>	<u>200,000,000</u>
Exposure to interest sensitivity	<u>55,978,535</u>	<u>270,360,171</u>	<u>545,719,755</u>	<u>164,926,637</u>	<u>(148,283,633)</u>	<u>888,701,465</u>
31 December 2017						
	Overdue	Less than 3 months	3 to 12 months	1 to 5 years	Floating rate	Total
Financial assets:						
Cash at banks	—	—	—	—	12,289,628	12,289,628
Loans receivable	<u>13,719,653</u>	<u>286,899,957</u>	<u>435,183,994</u>	<u>183,715,525</u>	—	<u>919,519,129</u>
Subtotal	<u>13,719,653</u>	<u>286,899,957</u>	<u>435,183,994</u>	<u>183,715,525</u>	<u>12,289,628</u>	<u>931,808,757</u>
Financial liabilities:						
Interest-bearing bank borrowing	—	—	—	—	140,000,000	140,000,000
Subtotal	—	—	—	—	<u>140,000,000</u>	<u>140,000,000</u>
Exposure to interest sensitivity	<u>13,719,653</u>	<u>286,899,957</u>	<u>435,183,994</u>	<u>183,715,525</u>	<u>(127,710,372)</u>	<u>791,808,757</u>

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of our Group's profit before tax (through the impact on floating rate instruments). Our Group's equity is not affected, other than the consequential effect on retained profits (a component of our Group's equity) by the changes in profit before tax.

Changes in variables	2018 Impact on profit before tax	2017 Impact on profit before tax
+ 50 basis points	(741,418)	(638,552)
- 50 basis points	<u>741,418</u>	<u>638,552</u>

(d) Price risk

Equity price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Our Group is exposed to equity price risk arising from financial assets at fair value through profit or loss (Note 16). As at 31 December 2018, a 10% increase in the fair value of the financial assets, with all other variables held constant, would increase financial assets at fair value through profit or loss by RMB5.3 million (31 December 2017: RMB3.1 million).

(e) Liquidity risk

Liquidity risk is the risk that our Group will encounter difficulty in meeting obligations associated with financial liabilities.

Our Group seeks to manage its liquidity risk by circulating liquidity facilities. The facilities consider the maturity dates of financial instruments and estimated cash flows from operation.

The tables below summarise the maturity profiles of the financial assets and financial liabilities of our Group based on undiscounted cash flows:

31 December 2018						
	On demand	Overdue	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
Financial assets:						
Cash and cash equivalents	51,717,811	—	—	—	—	51,717,811
Financial assets at fair value through profit or loss	53,000,000	—	—	—	—	53,000,000
Loans and accounts receivable	—	76,850,910	310,460,657	580,372,574	185,752,959	1,153,437,100
Other assets	—	—	123,361	996,139	329,406	1,448,906
Subtotal	<u>104,717,811</u>	<u>76,850,910</u>	<u>310,584,018</u>	<u>581,368,713</u>	<u>186,082,365</u>	<u>1,259,603,817</u>
Financial liabilities:						
Interest-bearing bank borrowings	—	—	3,338,325	205,669,500	—	209,007,825
Other payables	—	—	2,155,866	—	6,600,000	8,755,866
Subtotal	<u>—</u>	<u>—</u>	<u>5,494,191</u>	<u>205,669,500</u>	<u>6,600,000</u>	<u>217,763,691</u>
Net	<u>104,717,811</u>	<u>76,850,910</u>	<u>305,089,827</u>	<u>375,699,213</u>	<u>179,482,365</u>	<u>1,041,840,126</u>
31 December 2017						
	On demand	Overdue	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
Financial assets:						
Cash and cash equivalents	12,291,149	—	—	—	—	12,291,149
Financial assets at fair value through profit or loss	31,000,000	—	—	—	—	31,000,000
Loans receivable	—	20,623,858	326,128,952	480,106,516	220,858,735	1,047,718,061
Other assets	—	—	888,282	—	152,255	1,040,537
Subtotal	<u>43,291,149</u>	<u>20,623,858</u>	<u>327,017,234</u>	<u>480,106,516</u>	<u>221,010,990</u>	<u>1,092,049,747</u>
Financial liabilities:						
Interest-bearing bank borrowings	—	—	1,979,250	144,860,158	—	146,839,408
Other payables	—	—	1,213,673	1,400,000	—	2,613,673
Subtotal	<u>—</u>	<u>—</u>	<u>3,192,923</u>	<u>146,260,158</u>	<u>—</u>	<u>149,453,081</u>
Net	<u>43,291,149</u>	<u>20,623,858</u>	<u>323,824,311</u>	<u>333,846,358</u>	<u>221,010,990</u>	<u>942,596,666</u>

(f) Capital management

The primary objectives of our Group's capital management are to safeguard our 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.

Our 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, our Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018.

Our Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, less cash and cash equivalents. Management regards total equity, which includes share capital, reserves and retained profits, as capital. The gearing ratios as at the end of the Reporting Periods were as follows:

	31 December 2018	31 December 2017
Interest-bearing bank borrowings	200,336,825	140,182,217
Less: cash and cash equivalents	<u>51,717,811</u>	<u>12,291,149</u>
Net debt	148,619,014	127,708,851
Share capital	680,000,000	680,000,000
Reserves	136,970,598	126,989,833
Retained profits	<u>233,006,220</u>	<u>188,997,137</u>
Capital	<u>1,049,976,818</u>	<u>995,986,970</u>
Capital and net debt	<u>1,198,595,832</u>	<u>1,123,695,821</u>
Gearing ratio	<u>12.4%</u>	<u>11.4%</u>

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	31 December 2018					Total
	On demand	Overdue	Less than 3 months	3 to less than 12 months	After 12 months	
Assets:						
Cash and cash equivalents	51,717,811	—	—	—	—	51,717,811
Financial assets at fair value through profit or loss	53,000,000	—	—	—	—	53,000,000
Loans and accounts receivable	—	55,978,535	270,915,576	546,547,788	163,543,199	1,036,985,098
Investment in an associate	—	—	—	—	131,533,077	131,533,077
Property and equipment	—	—	—	—	1,548,850	1,548,850
Goodwill	—	—	—	—	2,221,017	2,221,017
Other intangible assets	—	—	—	—	140,000	140,000
Deferred tax assets	—	—	—	—	2,116,411	2,116,411
Other assets	—	—	314,178	4,367,934	8,389,406	13,071,518
Subtotal	<u>104,717,811</u>	<u>55,978,535</u>	<u>271,229,754</u>	<u>550,915,722</u>	<u>309,491,960</u>	<u>1,292,333,782</u>
Liabilities:						
Interest-bearing bank borrowings	—	—	336,825	200,000,000	—	200,336,825
Income tax payable	—	—	11,585,025	—	—	11,585,025
Other payables	—	—	7,585,151	—	6,600,000	14,185,151
Subtotal	<u>—</u>	<u>—</u>	<u>19,507,001</u>	<u>200,000,000</u>	<u>6,600,000</u>	<u>226,107,001</u>
Net	<u>104,717,811</u>	<u>55,978,535</u>	<u>251,722,753</u>	<u>350,915,722</u>	<u>302,891,960</u>	<u>1,066,226,781</u>

31 December 2017

	On demand	Overdue	Less than 3 months	3 to less than 12 months	After 12 months	Total
Assets:						
Cash and cash equivalents	12,291,149	—	—	—	—	12,291,149
Financial assets at fair value through profit or loss	31,000,000	—	—	—	—	31,000,000
Loans receivable	—	13,719,653	286,899,957	435,183,994	183,715,525	919,519,129
Investment in an associate	—	—	—	—	177,477,751	177,477,751
Property and equipment	—	—	—	—	1,375,125	1,375,125
Deferred tax assets	—	—	—	—	1,446,089	1,446,089
Other assets	—	—	1,406,011	708,524	11,106,849	13,221,384
Subtotal	<u>43,291,149</u>	<u>13,719,653</u>	<u>288,305,968</u>	<u>435,892,518</u>	<u>375,121,339</u>	<u>1,156,330,627</u>
Liabilities:						
Interest-bearing bank borrowings	—	—	182,217	140,000,000	—	140,182,217
Income tax payable	—	—	13,097,652	—	—	13,097,652
Other payables	—	—	7,063,788	—	—	7,063,788
Subtotal	<u>—</u>	<u>—</u>	<u>20,343,657</u>	<u>140,000,000</u>	<u>—</u>	<u>160,343,657</u>
Net	<u>43,291,149</u>	<u>13,719,653</u>	<u>267,962,311</u>	<u>295,892,518</u>	<u>375,121,339</u>	<u>995,986,970</u>

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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.

Our Group's financial assets mainly include cash at banks, financial assets at fair value through profit or loss and loans receivable.

Our Group's financial liabilities mainly include interest-bearing bank borrowings.

Due to the short remaining period or periodical repricing to reflect market price, the carrying amounts of these financial assets and liabilities approximate to their fair values.

Our Group's finance department headed by the finance director is responsible for determining the policies and procedures for the fair value measurements of financial instruments. The financial director reports directly to the general manager and the Audit Committee. At each reporting date, our Group analyses the movements in the values of financial instruments. The valuation is reviewed and approved by the general manager.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of our Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Financial assets at fair value through profit or loss	<u>53,000,000</u>	<u>—</u>	<u>—</u>	<u>53,000,000</u>

As at 31 December 2017

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Financial assets at fair value through profit or loss	<u>31,000,000</u>	<u>—</u>	<u>—</u>	<u>31,000,000</u>

In 2018, our Group had no transfer of financial assets measured at fair value between Level 1 and Level 2.

37. EVENTS AFTER THE REPORTING PERIOD

On 31 January 2019, Huixinxing, a wholly-owned subsidiary of the Company, entered into an agreement with Quanzhou Baiying Finance Holdings Limited (“**Baiying Finance Holdings**”). Pursuant to the agreement, the parties agreed to establish a new company in the PRC, which will be principally engaged in non-financing guarantee business. Huixinxing has agreed to contribute RMB30.0 million, being 60% of the proposed registered capital of the new company.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the Reporting Period is as follows:

	31 December 2018	31 December 2017
ASSETS		
Cash and cash equivalents	32,674,394	10,513,062
Financial assets at fair value through profit or loss	49,000,000	31,000,000
Loans and accounts receivable	988,055,411	919,519,129
Investment in an associate	131,533,077	177,477,751
Investment in a subsidiary	50,000,000	500,000
Property and equipment	1,172,320	1,375,125
Deferred tax assets	2,116,411	1,446,089
Other assets	12,896,144	13,180,785
TOTAL ASSETS	<u>1,267,447,757</u>	<u>1,155,011,941</u>
LIABILITIES		
Interest-bearing bank borrowings	200,336,825	140,182,217
Income tax payable	11,449,517	13,097,652
Other payables	6,107,123	5,502,569
TOTAL LIABILITIES	<u>217,893,465</u>	<u>158,782,438</u>
NET ASSETS	<u>1,049,554,292</u>	<u>996,229,503</u>
EQUITY		
Share capital	680,000,000	680,000,000
Reserves	136,970,598	126,989,833
Retained profits	232,583,694	189,239,670
TOTAL EQUITY	<u>1,049,554,292</u>	<u>996,229,503</u>

A summary of the Company's reserves is as follows:

	Capital reserve	Surplus reserve	General reserve	Total
Balance as at 1 January 2017	69,383,972	34,377,654	12,421,210	116,182,836
Appropriation to surplus reserve	—	9,120,899	—	9,120,899
Appropriation to general reserve	<u>—</u>	<u>—</u>	<u>1,686,098</u>	<u>1,686,098</u>
Balance as at 31 December 2017 and 1 January 2018	69,383,972	43,498,553	14,107,308	126,989,833
Appropriation to surplus reserve	—	8,732,479	—	8,732,479
Appropriation to general reserve	<u>—</u>	<u>—</u>	<u>1,248,286</u>	<u>1,248,286</u>
Balance as at 31 December 2018	<u>69,383,972</u>	<u>52,231,032</u>	<u>15,355,594</u>	<u>136,970,598</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Since the China Banking Regulatory Commission (中國銀行業監督管理委員會), which is transformed into the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) (the “**CBIRC**”) and the People’s Bank of China (中國人民銀行) (the “**PBOC**”) promulgated the *Guiding Opinions on the Pilot Operation of Microfinance Companies* (關於小額貸款公司試點的指導意見) in 2008, which first formalized the registration procedures for microfinance companies at the national level, China’s microfinance industry has seen rapid expansion. In 2012, the State Council of the PRC (中華人民共和國國務院) (the “**State Council**”) approved the establishment of a pilot financial reform zone in Quanzhou city, making Quanzhou city the third pilot financial reform zone in China. Fujian provincial government subsequently implemented a series of financial reform policies and measures aiming at developing and cultivating the local financial services sector and channeling private capital to SMEs and local microenterprises. In 2014, the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) designated Quanzhou city as a pilot zone for the comprehensive reform of the private economy, initiating reform programs that include improving the financial services sector as well as increasing the financial support of, and the financing resources available to, private enterprises. In December 2015, the State Council promulgated the *Plan for Promoting the Development of Inclusive Finance (2016–2020)* (*Guo Fa [2015] No. 74*) (推進普惠金融發展規劃 (2016–2020年) (國發[2015]74號)), which aims to improve the quality and the coverage of inclusive finance service. In 2017, the government of Quanzhou city promulgated the *Opinions on Promoting the Sound and Sustainable Development of Micro-credit Companies, Pawnshop Companies and Financing Guarantee Companies* (泉州市人民政府關於促進小額貸款公司、典當行和融資擔保公司健康持續發展的若干意見), which encourages microfinance companies to develop innovative businesses. In 2018, the Quanzhou Financial Affairs Bureau (泉州市金融工作局) and certain other government departments promulgated the *Opinions on the Implementation of Strengthening Financial Services of Real Economy to further Facilitate and Reduce the Cost of the Financing* (關於加強實體經濟金融服務進一步緩解融資難融資貴的實施意見), which allow microfinance companies in Quanzhou to comprehensively carry out microfinance business mainly for small and medium enterprises (“**SMEs**”) and “agriculture, rural and farmers” (三農) in Quanzhou city.

Competition within the microfinance industry in Fujian province and Quanzhou city is increasingly intense. According to the statistics of the PBOC and Quanzhou Local Finance Association (the “**Association**”), there were 118 registered microfinance companies in Fujian province as of 31 December 2018, of which 32 were in Quanzhou city. The total registered capital of microfinance companies in Fujian province amounted to RMB26.3 billion as of 31 December 2018, of which RMB8.5 billion was the total registered capital of microfinance companies in Quanzhou city, according to the statistic of the PBOC and the Association. As of 31 December 2018, the average principal amount of outstanding loans per microfinance company amounted to RMB253.0 million in Fujian province and RMB264.0 million in Quanzhou city.

Business Overview

Our Group is principally engaged in loan business and finance lease business. We conduct our loan business primarily through the Company and our finance lease business through Lianche, a subsidiary of the Company, since October 2018.

Our Loan Business

Based in Quanzhou city, we are the largest licensed microfinance company in Fujian province in terms of revenue in 2018, according to the statistics of the Fujian Provincial Economic and Information Technology Commission (福建省經濟和信息化委員會). We are primarily dedicated to providing local entrepreneurial individuals, SMEs and microenterprises with practical and flexible short-term financing solutions to support their continued development and address their ongoing liquidity needs. We generate substantially all of our income by charging interest on the loans extended to our customers. We provide two types of loans, namely, revolving loans and term loans to our customers. For the years ended 31 December 2017 and 2018, we served 570 and 4,791 customers, respectively. We granted 1,848 loans with an aggregate amount of RMB3,239.0 million and 4,813 loans with an aggregate amount of RMB2,959.0 million for the years ended 31 December 2017 and 2018, respectively. As of 31 December 2017 and 2018, we had 424 and 3,779 customers, respectively. Most of the new customers are from internet consumer finance loan business. We had 554 loans with principal amount of outstanding loans of RMB922.9 million as of 31 December 2017 and 3,828 loans with principal amount of outstanding loans of RMB1,000.3 million as of 31 December 2018.

We financed our operations primarily through a combination of share capital of our shareholders and bank borrowings. The following table sets forth our share capital, net capital, principal amount of outstanding loans and loan/net capital ratio as of the dates indicated:

	As of 31 December	
	2018	2017
Share capital (<i>RMB in millions</i>)	680.0	680.0
Net capital of the Company (<i>RMB in millions</i>) ⁽¹⁾	1,049.6	996.0
Principal amount of outstanding loans (<i>RMB in millions</i>)	1,000.3	922.9
Loan/net capital ratio ⁽²⁾	0.95 times	0.93 times

Notes:

(1) Represents the aggregate of our share capital, reserves and retained profits of the Company.

(2) Represents the balance of the principal amount of our outstanding loans divided by our net capital.

We consider a number of factors in determining the interest rates that we charge on a loan, including the customer's background and credit history, whether the loan is secured or unsecured, the value of collateral, if any, the quality of the guarantee, and the use and term of the loan. The table below sets forth the average balance of our outstanding performing loans and corresponding average effective interest rate per annum for the years indicated:

	Year ended 31 December	
	2018	2017
Average balance of outstanding performing loans ⁽¹⁾ (RMB'000)	952,611	811,491
Average effective interest rate per annum ⁽²⁾	16.37%	16.43%

Notes:

- (1) Calculated as the average balance of the principal amount of our outstanding performing loans at the end of each month for the year.
- (2) Calculated by dividing the interest income derived from our performing loans for the year by the average balance of outstanding performing loans for the year.

The interest rates we charge on our loans vary depending on the tenure of each loan or drawdown, the credit profile of the customer, and the prevailing conditions of the lending market.

Loan Portfolio

The principal amount of our outstanding loans increased steadily from RMB922.9 million as of 31 December 2017 to RMB1,000.3 million as of 31 December 2018, primarily due to the expansion of our loan business.

The following table sets forth the balance of our loans by industry as of the dates indicated:

	As of 31 December			
	2018		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Manufacturing	342,251	34.2	355,800	38.5
Wholesale and retail	362,785	36.3	299,027	32.4
Financial	26,910	2.7	33,000	3.6
Construction	70,073	7.0	77,281	8.4
Public facilities and commercial service	159,800	16.0	113,536	12.3
Agriculture	14,070	1.4	10,910	1.2
Transportation, warehousing and post	3,010	0.3	9,100	1.0
Mining	600	0.1	1,200	0.1
Others	20,819	2.0	22,998	2.5
Total	<u>1,000,318</u>	<u>100.0</u>	<u>922,852</u>	<u>100.0</u>

Revolving Loans and Term Loans

We offer two types of loans, namely, revolving loans and term loans, as part of our flexible financing solutions, depending on a customer's repayment and re-borrowing needs. The following table sets forth the principal amount of our revolving loans and term loans as of the dates indicated:

	As of 31 December			
	2018		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Principal amount of outstanding loans:				
Revolving loans	622,120	62.2	483,237	52.4
Term loans	378,198	37.8	439,615	47.6
Total	<u>1,000,318</u>	<u>100.0</u>	<u>922,852</u>	<u>100.0</u>

Loan Portfolio by Security

Our loans receivable consists of credit loans, guaranteed loans and collateral-backed loans. The following table sets forth our loan portfolio by security as of the dates indicated:

	As of 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Principal amount of outstanding loans:				
Credit loans	46,431	4.6	7,000	0.8
Guaranteed loans	421,324	42.1	462,304	50.1
Collateral-backed loans				
— with guarantee	355,808	35.6	333,579	36.1
— without guarantee	<u>176,755</u>	<u>17.7</u>	<u>119,969</u>	<u>13.0</u>
Total	<u>1,000,318</u>	<u>100.0</u>	<u>922,852</u>	<u>100.0</u>

Our credit loans significantly increased from RMB7.0 million as of 31 December 2017 to RMB46.4 million as of 31 December 2018 mainly because we did not require our new high-quality customers to provide any guarantee or collateral.

The following table sets forth the interest rates of our loans by security as of the dates indicated:

	As of 31 December			
	2018		2017	
	% (lowest)	% (highest)	% (lowest)	% (highest)
Credit loans	12.0	19.9	18.0	18.0
Guaranteed loans	8.4	24.0	8.4	24.0
Collateral-backed loans				
— with guarantee	15.6	24.0	15.6	24.0
— without guarantee	13.6	23.4	11.9	23.4

Collateral-backed Loans

The collateral obtained by our Group under our collateral-backed loans mainly consists of building ownership rights, equipment ownership rights and shares. The following table sets forth the types of collaterals under our collateral-backed loans as of the dates indicated:

	As of 31 December	
	2018	2017
	RMB'000	RMB'000
Building ownership rights	301,563	210,048
Building and land use rights	16,000	15,000
Shares	205,000	218,500
Equipment and share pledge	10,000	10,000

Maturity Profile of Loan Portfolio

As of 31 December 2018, our maturity profiles within one year and over one year accounted for 91.8% and 0.5% of the total principal amount of outstanding loans, respectively. The following table sets forth the maturity profile of our loans as of the dates indicated:

	As of 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Principal amount of outstanding loans:				
Past due	76,851	7.7 ⁽¹⁾	20,624	2.2 ⁽¹⁾
Due within three months	313,562	31.3	343,670	37.3
Due between three months and one year	604,861	60.5	437,496	47.4
Due between one year and three years	2,023	0.2	113,930	12.3
Due over three years	<u>3,021</u>	<u>0.3</u>	<u>7,132</u>	<u>0.8</u>
Total	<u>1,000,318</u>	<u>100.0</u>	<u>922,852</u>	<u>100.0</u>

Note:

- (1) The percentage equals to the default ratio as of the respective dates during the Reporting Period, representing the balance of principal amount of past due loans divided by the total principal amount of our outstanding loans.

Past due loans

The principal amount of our past due loans was RMB20.6 million and RMB76.9 million as of 31 December 2017 and 2018, respectively, accounting for 2.2% and 7.7% of the total principal amount of our outstanding loans as of the same dates.

We had 14 past due loans with an aggregate amount of RMB20.6 million as of 31 December 2017. As of 31 December 2018, RMB2.0 million of the principal amount of these past due loans as of 31 December 2017 had been settled and RMB0.3 million of the principal amount of these past due loans as of 31 December 2017 had been written off. As of 31 December 2018, the remaining portion of principal amount of past due loans as of 31 December 2017 was RMB18.3 million and the allowance for impairment losses for the remaining portion of past due loans as of 31 December 2017 was RMB9.0 million.

As of 31 December 2018, we had 21 past due loans with an aggregate amount of RMB76.9 million, and our allowance for impairment losses for these past due loans as of the same date was RMB21.4 million.

The principal amount of our past due loans increase from RMB20.6 million as of 31 December 2017 to RMB76.9 million as of 31 December 2018, mainly due to nine new past due loans during the Reporting Period as a result of the influence of the overall economic in 2018.

Loan Portfolio by Exposure Size

The following table sets forth the distribution of the principal amount of our outstanding loans and number of borrowers by exposure size as of the dates indicated:

	As of 31 December					
	2018		2017			
	<i>Number of borrower⁽¹⁾</i>	<i>RMB'000</i>	<i>%⁽²⁾</i>	<i>Number of borrower⁽¹⁾</i>	<i>RMB'000</i>	<i>%⁽²⁾</i>
Principal amount of outstanding loans:						
Up to RMB1.0 million	3,558	152,116	15.2	218	75,584	8.2
Over RMB1.0 million to RMB3.0 million (inclusive)	103	196,232	19.6	78	146,285	15.8
Over RMB3.0 million to RMB5.0 million (inclusive)	101	446,145	44.6	111	490,700	53.2
Over RMB5.0 million to RMB10.0 million (inclusive)	8	55,275	5.5	9	64,583	7.0
Over RMB10.0 million	<u>9</u>	<u>150,550</u>	<u>15.1</u>	<u>8</u>	<u>145,700</u>	<u>15.8</u>
Total	<u>3,779</u>	<u>1,000,318</u>	<u>100.0</u>	<u>424</u>	<u>922,852</u>	<u>100.0</u>

Notes:

- (1) Loans granted to a single borrower under multiple loan agreements are aggregated for the purpose of the calculation of loan exposure size to such customer.
- (2) Represents the principal amount of outstanding loans of each category divided by the total principal amount of our outstanding loans.

We adopted a loan classification approach to manage our loan portfolio risk. We categorize our loans by reference to the “Five-Tier Principle” set forth in the *Guideline for Loan Credit Risk Classification* (貸款風險分類指引) issued by the CBIRC. We make provisions for the anticipated level for loan loss after categorizing the loan according to the “Five-Tier Principle”. According to the “Five-Tier Principle”, our loans are categorized as “normal”, “special-mention”, “substandard”, “doubtful” or “loss” according to their levels of risk. We consider our “substandard”, “doubtful” and “loss” loans as impaired loans. The following table sets forth the breakdown of the total principal amount of our outstanding loans by category as of the dates indicated:

	As of 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Normal	896,886	89.7	866,865	93.9
Special-mention	48,481	4.8	35,363	3.8
Substandard	41,970	4.2	18,668	2.0
Doubtful	12,072	1.2	1,630	0.2
Loss	909	0.1	326	0.1
Total	1,000,318	100.0	922,852	100.0

We assess impairment either collectively or individually as appropriate. We assess our loans for impairment at the end of each relevant period, determine a level of allowance, and recognize any related provisions using the concept of impairment under HKFRS 9 since its effective date which is 1 January 2018. Our loan loss impairment method was adjusted by the adoption of HKFRS 9 which replaced HKAS 39's incurred loss approach with a forward-looking ECL approach. For “normal” and “special-mention” loans, given that they are not impaired, we make collective assessment based primarily on factors including prevailing general market and industry conditions and historical impaired ratio. For “substandard”, “doubtful” and “loss” loans, the impairment losses are assessed individually by evaluating the loss that we expect to incur on the balance sheet date.

Our “substandard” loans increased from RMB18.7 million as of 31 December 2017 to RMB42.0 million as of 31 December 2018 mainly because we categorized nine new past due loans as “substandard”.

The following table sets forth the key default and loss ratios reflecting the asset quality of our loan business:

	As of/For the year ended	
	31 December	
	2018	2017
	<i>(RMB'000, except for percentage)</i>	
Impaired loan ratio⁽¹⁾	5.4%	2.2%
Balance of impaired loans receivable	54,951	20,624
Balance of gross loans receivable	1,023,706	940,487
Allowance coverage ratio⁽²⁾	64.9%	101.7%
Allowance for impairment losses ⁽³⁾	35,651	20,968
Balance of impaired loans receivable	54,951	20,624
Provision for impairment losses ratio⁽⁴⁾	3.5%	2.2%
Loss ratio⁽⁵⁾	11.7%	1.4%
Net charge of impairment allowance on loans receivable	18,235	1,897
Interest income on loans receivable	155,941	140,015

Notes:

- (1) Represents the balance of impaired loans receivable divided by the balance of gross loans receivable. Impaired loan ratio indicates the quality of our loan portfolio.
- (2) Represents the allowance for impairment losses for all loans divided by the balance of impaired loans receivable. The allowance for impairment losses for all loans includes allowances provided for performing loans which are assessed collectively and allowances provided for impaired loans receivable which are assessed individually. Allowance coverage ratio indicates the level of allowance we set aside to cover probable loss in our loan portfolio.
- (3) Allowance for impairment losses reflects our management's estimate of the probable loss in our loan portfolio.
- (4) Represents the allowance for impairment losses divided by the balance of gross loans receivable. Provision for impairment losses ratio measures the cumulative level of provisions.
- (5) Represents the net charge of impairment allowance on loans receivable divided by our interest income. Loss ratio is a benchmark which our management uses to monitor our financial results in relation to impairment losses incurred.

Our impaired loans receivable increased from RMB20.6 million as of 31 December 2017 to RMB55.0 million as of 31 December 2018. Our impaired loan ratio increased from 2.2% as of 31 December 2017 to 5.4% as of 31 December 2018. Such increase were primarily because the loans from eight customers were recognized as impaired loans during the Reporting Period.

Our Finance Lease Business

We commenced our finance lease business principally engaged in the provision of automobile finance lease services for individuals since October 2018. Revenue from finance lease business was RMB0.8 million for the year ended 31 December 2018.

The following table sets forth the average monthly balance of the interest-generating finance lease receivables and corresponding range of interest rate for the year indicated:

**For the year ended
31 December 2018**

Average monthly balance of interest-generating finance lease receivables (<i>RMB'000</i>)	47,631
Range of interest rate	7.80% to 13.88%

Finance Lease Receivables by Security

The following table sets forth our finance lease receivables by security as of the date indicated:

	As of 31 December 2018	
	<i>RMB'000</i>	%
Collateral-backed leases:		
— with guarantee	29,802	52.0
— without guarantee	<u>26,996</u>	<u>48.0</u>
Total	<u><u>56,798</u></u>	<u><u>100.0</u></u>

Gross and Net Amounts of Lease Receivables

The following table sets forth the expected gross and net amounts of lease receivables in the following consecutive years:

	As of 31 December 2018 RMB'000
Lease receivables	56,798
— Due within one year	25,303
— Due in one year to two years	23,097
— Due in two years to three years	8,398
Net lease receivables	49,675
— Due within one year	20,714
— Due in one year to two years	20,908
— Due in two years to three years	8,053

We categorize our lease receivables according to our “Five-Tier Principle”. Our lease receivables are categorized as “normal”, “special-mention”, “standard”, “doubtful” or “loss” according to their levels of risk. As of 31 December 2018, all of our lease receivables were categorized as “normal”.

Compliance with Key Regulatory Requirements

The following table summarizes the key statutory capital requirements and lending restrictions applicable to us and our compliance status for the year ended 31 December 2018:

Key requirements

Compliance status

The registered capital of a microfinance company in Fujian province shall not be lower than RMB100 million.

Our Group complied with such requirement for the year ended 31 December 2018.

The debt to net capital ratio of a microfinance company in Quanzhou city is capped at 100%.

Our Group complied with such requirement for the year ended 31 December 2018.

Key requirements

The interest rates charged by microfinance companies may not exceed the maximum loan interest rate specified by judicial departments, or lower than 0.9 times of the prevailing PBOC benchmark lending rate, pursuant to the *Interim Measures of Fujian Province for the Administration of Microfinance Companies* (福建省小額貸款公司暫行管理辦法). The *Provision on Issues Concerning Applicable Legal Norms for the Court's Trial of Lending Cases* (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) promulgated by the Supreme People's Court (最高人民法院) on 1 September 2015 provide that: (i) the interest on the loans with interest rates up to 24% per annum is valid and enforceable; (ii) as to the loans with interest rates per annum ranging from 24% (exclusive) and 36% (inclusive), if the interest on the loans has already been paid to the lender, and so long as such payment has not damaged the interest of the state, the community and any third parties, the courts will turn down the borrower's request to demand the return of the excess interest payment; and (iii) if the annual interest rate of a private loan is higher than 36%, the excess will not be enforced by the courts.

A microfinance company shall not grant loans to its own shareholders, directors, senior management and their related parties.

The outstanding amount of loan made to the same borrower by a microfinance company cannot exceed 5% of the net capital of such microfinance company.

Compliance status

Our Group complied with such applicable requirement for the year ended 31 December 2018.

Our Group complied with such requirement for the year ended 31 December 2018.

Our Group complied with such requirement for the year ended 31 December 2018.

Key requirements

Upon the listing of the H shares of the Company on the main board (the “**Main Board**”) of the Stock Exchange (the “**Listing**”) on 30 September 2016 (the “**Listing Date**”), the ratio of the balance of outstanding loans of up to a maximum of RMB5.0 million to a single borrower to the total balance of outstanding loans that is applicable to the Company shall not be lower than 70% (the “**Amended 70% Requirement**”).

Risk assets of a finance leasing company shall not exceed ten times of its total net assets.

Compliance status

Our Group complied with the Amended 70% Requirement for the year ended 31 December 2018.

Our Group complied with such requirement for the year ended 31 December 2018.

Financial Overview

Interest Income, Net

We generate substantially all of our interest income from interest on loans that we provide to our customers. We incur interest expense on bank borrowings which are principally used to fund our loan business.

The following table sets forth our interest income and interest expense for the years indicated:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest income on:		
Loans receivable ⁽¹⁾	155,941	140,015
Finance lease	848	—
Interest expense on:		
Bank loans	<u>(10,618)</u>	<u>(1,078)</u>
Interest income, net	<u>146,171</u>	<u>138,937</u>

Interest Income on loans receivable

Our interest income from short-term financings provided to entrepreneurial individuals, SMEs and microenterprises primarily consists of interest income from our outstanding performing loans. Interest income from outstanding performing loans is mainly affected by two factors: (i) the balance of our outstanding performing loans; and (ii) the effective interest rates that we charge on our performing loans.

The following table sets forth the average balance of our outstanding performing loans and corresponding average effective interest rate per annum for the years indicated:

	Year ended 31 December	
	2018	2017
Average balance of outstanding performing loans ⁽¹⁾ (RMB'000)	952,610	811,491
Average effective interests rate per annum ⁽²⁾	16.37%	16.43%

Notes:

- (1) Calculated as the average balance of the principal amount of our outstanding performing loans at the end of each month for the year indicated.
- (2) Calculated by dividing the interest income derived from our performing loans for the year by the average balance of outstanding performing loans for the year.

Our loan business is primarily funded by our share capital as well as our bank borrowings. The average balance of our outstanding performing loans generally demonstrates a trend consistent with our capital base during the Reporting Period. Our interest income increase by 12.0% from RMB140.0 million for the year ended 31 December 2017 to RMB156.8 million for the year ended 31 December 2018. The average balance of our outstanding performing loans increased by 18.0% from RMB811.5 million in 2017 to RMB961.0 million in 2018. Such increases were primarily attributable to the steady expansion of our loan business. For the years ended 31 December 2017 and 2018, our average effective interest rate per annum on our performing loans slightly decreased from 16.43% to 16.37%. Such decrease was primarily due to (i) the increase of the proportion of collateral-backed loans with low interest; and (ii) the charging of low interest rate to our high-quality customers.

Interest Expense

The following table sets forth the average balance of our bank borrowings and effective interest rates per annum for the years indicated:

	Year ended 31 December	
	2018	2017
Average balance of bank borrowings ⁽¹⁾ (RMB'000)	185,361	19,056
Effective interests rate per annum ⁽²⁾	5.73%	5.66%

Notes:

- (1) Calculated as the average balance of our bank borrowings at the end of each month for the year indicated.
- (2) Calculated by dividing the interest expense for the year by average balance of bank borrowings for the year.

Our average balance of bank borrowings significantly increased from RMB19.1 million as of 31 December 2017 to RMB185.4 million as of 31 December 2018, which was generally in line with our business expansion.

Net Charge of Impairment Allowance on Loans and Accounts Receivable

Net charge of impairment allowance on loans and accounts receivable mainly arose from the changes in the balance of allowance for impairment loss we made in relation to our loans receivable during the relevant periods.

We review our loan portfolios periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any evidence of impairment. Our management reviews the methodology and assumptions used in estimating future cash flows regularly to minimize difference between loss estimates and actual loss.

Our net charge of impairment allowance on loans and accounts receivable for the years ended 31 December 2017 and 2018 were RMB1.9 million and RMB18.3 million, respectively. Such increase was primarily because (i) we newly recorded the loans from eight customers as impaired loans; and (ii) we increased the charge of impairment allowance on loans receivable to the exist impaired loans.

Operating and Administrative Expenses

Our operating and administrative expenses mainly include taxes and surcharges, staff costs, consulting fee, depreciation and amortization expenses, leasing expenses and auditor's remuneration. The table below sets forth the components of our operating and administrative expenses by nature for the years indicated:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Tax and surcharges	1,282	1,138
Staff costs:		
Salaries, bonuses and allowances	10,250	6,845
Other social welfare	1,661	952
Consulting fee	4,851	4,841
Depreciation and amortization	645	845
Leasing expenses	1,571	623
Auditor's remuneration	1,244	1,085
Others	3,657	4,098
Total operating and administrative expenses	<u>25,161</u>	<u>20,427</u>

Our tax and surcharges primarily comprise city maintenance and construction tax and additional education fees, accounting for 5.6% and 5.1% of our operating and administrative expenses for the years ended 31 December 2017 and 2018, respectively. Staff costs, including salaries, bonuses and allowances paid to employees, other social welfare insurance and benefits, accounted for 38.2% and 47.3% of our operating and administrative expenses for the years ended 31 December 2017 and 2018, respectively. Service fees consist of auditor's remuneration and other consulting fees.

Our operating and administrative expenses for the years ended 31 December 2017 and 2018 were approximately RMB20.4 million and RMB25.2 million, respectively. Such increase was primarily due to (i) the increase in staff costs; and (ii) the increase in office leasing expenses.

Other Income and Gains, Net

Our net other income and gains consists of gains from financial assets at fair value through profit or loss, interest from bank deposits, government grants, loss on disposal of items of property and equipment and other gains and losses. The following table sets forth the details of our net other income and gains for the years indicated:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Gains from financial assets at fair value through profit or loss	921	1,503
Government grants	2,000	1,003
Interest from bank deposits	198	146
Loss on disposal of items of property and equipment	(2)	(5)
Others	(3)	(9)
	<hr/>	<hr/>
Total	<u>3,114</u>	<u>2,638</u>

Income Tax Expense

During the years ended 31 December 2017 and 2018, we were subject to the general tax rate of 25% pursuant to the *Enterprise Income Tax Law of the PRC* (中國企業所得稅法) which became effective from 1 January 2008, and was amended on 24 February 2017 and became effective as from the same day. Our income tax expense for the years ended 31 December 2017 and 2018 was RMB28.9 million and RMB26.3 million, respectively, and our effective tax rate for the same years was 24.1% and 23.0%, respectively.

The Directors confirmed that we have paid all relevant taxes and are not subject to any dispute or unresolved tax issues with the relevant tax authorities in the PRC.

Net Profit and Total Comprehensive Income for the Year

As a result of the foregoing, we recorded net profit, defined as net profit and total comprehensive income, of RMB91.0 million and RMB88.0 million for the years ended 31 December 2017 and 2018, respectively.

Liquidity and Capital Resources

The H shares of the Company became listed on the Main Board of the Stock Exchange on the Listing Date with net proceeds from the global offering of approximately HK\$271.3 million (the “**Global Offering**”) (after deducting underwriting commissions, the incentive fees and other estimated expenses in connection with the Global Offering). Due to relevant requirements stipulated by the State Administration of Foreign Exchange of the PRC (“**SAFE**”), the expenses payable by the Company in

connection with the Global Offering were not fully paid out of the proceeds from the global offering. Such expenses were settled by the Company using its own funds. As a result, the actual bank balance of the proceeds from the global offering amounted to approximately HK\$292.3 million. For details, please refer to the announcement of change in use of proceeds of the Company dated 29 August 2017.

We have in the past funded our working capital and other capital requirements primarily by equity contributions from our shareholders, bank borrowings and cash flows from operations. Our liquidity and capital requirements primarily relate to granting loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain liquidity that can meet our working capital needs while supporting a healthy level of business scale and expansion.

Cash Flows

The following table sets forth a selected summary of our cash flows statement for the years indicated:

	Year ended 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from/(used in) operating activities	3,258	(29,137)
Net cash flows from/(used in) investing activities	21,361	(173,736)
Net cash flows from financing activities	15,537	105,105
Net increase/(decrease) in cash and cash equivalents	40,156	(97,768)
Cash and cash equivalents at beginning of year	12,291	114,409
Effect of foreign exchange rate changes, net	(729)	(4,350)
	<u>51,718</u>	<u>12,291</u>
Cash and cash equivalents at end of year	<u>51,718</u>	<u>12,291</u>

Net Cash Flows From/(used in) Operating Activities

Our business involves a substantial amount of operating cash turnover as well as ongoing funding in the ordinary course of business undertaking, given the capital-intensive nature of short-term microfinance business. Our business growth was mainly supported by funding from equity contributions and bank borrowings, which were cash inflows from financing activities.

Our cash generated from operating activities primarily consists of loans repaid by our customers and interest income from loans we grant to customers. Our cash used in operating activities primarily consists of loans we extend to our customers. Net cash flows from operating activities reflect: (i) our profit before tax adjusted for non-cash and non-operating items, such as income from investing in the associate, charge on assets impairment, interest expense, accreted interest on impaired loans, foreign exchange loss, loss on disposal of property and equipment, as well as depreciation and amortization; (ii) the effects of changes in working capital; and (iii) income tax paid.

Net cash flows used in operating activities for the year ended 31 December 2018 was RMB3.3 million. Net cash flows generated from operating activities before working capital adjustment was RMB132.2 million. Cash outflows arising from changes in working capital primarily consisted of: an increase in loans receivable of RMB81.9 million as a growth of our Group' loan business; (ii) an increase in financial assets at fair value through profit or loss of RMB19.7 million; and (iii) an increase in other assets of RMB9.4 million. Such cash outflows were partly offset by an increase in other payables of RMB8.9 million mainly attributable to the increase in payrolls payable, taxes, performance deposit, etc.

Net Cash Flows From/(used in) Investing Activities

Our cash used in investing activities is primarily attributable to the acquisition of a subsidiary.

For the year ended 31 December 2018, our net cash flows from investing activities was RMB21.4 million, which was mainly due to (i) the decrease of capital of Jinjiang Microfinance and dividends income from Jinjiang Microfinance of RMB55.1 million; and (ii) the net cash outflows of RMB33.3 million for the acquisition of a subsidiary.

Net Cash Flows From Financing Activities

For the year ended 31 December 2018, our net cash flows from financing activities was RMB15.5 million. Our net cash flows from financing activities consisted of: (i) bank borrowings of RMB200.0 million; and (ii) payment of dividend of RMB34.0 million.

Cash Management

We have established certain management measures to manage our liquidity. As our business relies primarily on its available cash, we normally set aside a sufficient amount of cash for general working capital needs, such as administrative expenses and payment of interests on bank borrowings, and use substantially all of the remainder for granting loans to our customers. As of 31 December 2017 and 2018, the total cash and cash equivalents amounted to RMB12.3 million and RMB51.7 million, respectively, which we consider to be adequate based on our actual working capital needs.

Selected Items of the Statements of Financial Position

	As of 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Assets		
Cash and cash equivalents	51,718	12,291
Financial assets at fair value through profit or loss	53,000	31,000
Loans and accounts receivable	1,036,985	919,519
Investment in an associate	131,533	177,478
Property and equipment	1,549	1,375
Goodwill	2,221	—
Other intangible assets	140	—
Deferred tax assets	2,116	1,446
Other assets	13,072	13,222
	<u>1,292,334</u>	<u>1,156,331</u>
Total assets	<u>1,292,334</u>	<u>1,156,331</u>
Liabilities		
Interest-bearing bank borrowings	200,337	140,182
Income tax payable	11,585	13,098
Other payables	14,185	7,064
	<u>226,107</u>	<u>160,344</u>
Total liabilities	<u>226,107</u>	<u>160,344</u>
Net assets	<u>1,066,227</u>	<u>995,987</u>

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of our cash in hand and cash at banks. As of 31 December 2017 and 2018, we had cash and cash equivalents of RMB12.3 million and RMB51.7 million, respectively. The increase in our cash and cash equivalents was primarily due to the increase in our interest-bearing bank borrowings.

Loans and Accounts Receivable

Our loans and accounts receivable consist of net lease receivables and loans receivable. We consider a financial asset in default when it is overdue for more than 90 days.

The following table sets forth our loans and accounts receivable and allowance for impairment losses as of the dates indicated:

	As of 31 December	
	2018	2017
	RMB'000	RMB'000
Net lease receivables:		
— Not yet past due	49,675	—
Loans receivable:		
— Performing loans receivable ⁽¹⁾	968,755	919,863
— Impaired loans receivable ⁽²⁾	54,951	20,624
	<u>1,073,381</u>	<u>940,487</u>
Total loans and accounts receivable		
Less: Allowance for impairment losses		
— individual assessed	(18,961)	(7,140)
— collective assessed	(17,435)	(13,828)
	<u>(36,396)</u>	<u>(20,968)</u>
Total allowance for impairment losses		
	<u>1,036,985</u>	<u>919,519</u>
Net loans and accounts receivable		

Notes:

(1) Performing loans are collectively assessed for impairment.

(2) Impaired loans include those with objective evidence of impairment.

Our net loans and accounts receivable increased from RMB919.5 million as of 31 December 2017 to RMB1,037.0 million as of 31 December 2018, which was generally in line with our business expansion.

As of 31 December 2018, our maturity profiles within six months and over six months accounted for 67.8% and 24.7% of the total loans receivable, respectively. The following table sets forth a maturity portfolio of our gross loans receivable as of the dates indicated:

	As of 31 December			
	2018		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Past due	76,851	7.5	20,624	2.2
Due within three months	336,950	32.9	361,305	38.4
Due between three months and six months	357,093	34.9	337,771	35.9
Due between six months and one year	247,768	24.2	99,725	10.6
Due over one year	5,044	0.5	121,062	12.9
Total	<u>1,023,706</u>	<u>100.0</u>	<u>940,487</u>	<u>100.0</u>

The majority of our loans during the years ended 31 December 2017 and 2018 were guaranteed loans and collateral-backed loans, which accounted for 50.3% and 48.9% of our loans receivables as of 31 December 2017 and 41.7% and 53.7% of our loans receivables of our loans receivable as of 31 December 2018, respectively. The following table sets forth the balance of our gross loans receivable as of the dates indicated:

	As of 31 December			
	2018		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Credit loans	47,141	4.6	7,113	0.8
Guaranteed loans	427,198	41.7	473,432	50.3
Collateral-backed loans				
— with guarantee	368,725	36.0	339,221	36.1
— without guarantee	180,642	17.7	120,721	12.8
Total	<u>1,023,706</u>	<u>100.0</u>	<u>940,487</u>	<u>100.0</u>

Other Assets

Our other assets primarily consist of repossessed assets, deferred and prepaid expenses and other receivables. The following table sets forth a breakdown of our other assets as of the dates indicated:

	As of 31 December	
	2018	2017
	RMB'000	RMB'000
Repossessed assets	8,060	8,060
Deferred and prepaid expenses	3,563	4,121
Other receivables	1,449	1,041
Total other assets	<u>13,072</u>	<u>13,221</u>

Income Tax Payable

Our income tax payable, which represents our current income tax liabilities, was RMB13.1 million and RMB11.6 million, respectively, as of 31 December 2017 and 2018.

Other Payables

Our other payables mainly include VAT and surcharges payable, payrolls payable, auditor's remuneration, deposits and others. As of 31 December 2017 and 2018, our other payables were RMB7.1 million and RMB14.2 million, respectively.

Indebtedness

Interest-bearing Bank Borrowings

The following table sets forth our outstanding borrowings as of the dates indicated:

	As of 31 December	
	2018	2017
	RMB'000	RMB'000
Guaranteed bank loans:		
— repayable within one year	<u>200,337</u>	<u>140,182</u>
	<u>200,337</u>	<u>140,182</u>

Corporate Bond

On 11 December 2017, a proposed issue of bonds in the PRC with an aggregate amount of no more than RMB500.0 million (inclusive) (the “**Bonds**”) had been approved by the Board and passed by the shareholders by way of poll at the extraordinary general meeting of the Company on 5 February 2018.

For more details, please refer to the announcement of the Company dated 11 December 2017, the circular of the Company dated 19 December 2017, the poll results announcement of the Company dated 5 February 2018, the annual report of the Company dated 23 April 2018 and the announcement of termination of proposed issue of Bonds of the Company dated 15 June 2018.

The *Administrative Measures on Issuance and Trading of Corporate Bonds* (公司債券發行與交易管理辦法) promulgated by the China Securities Regulatory Commission (中國證券監督管理委員會) on 15 January 2015 and the *Guideline on Negative List Regarding Undertaking Non-public Offering of Corporate Bonds* (非公開發行公司債券項目承接負面清單指引) (the “**Guideline**”) issued by Securities Association of China (中國證券業協會) (the “**SAC**”) govern the undertaking of non-public offering of corporate bonds by underwriting institutions in the PRC. The Guideline was amended by the SAC on 11 May 2018 to include in the *Negative List Regarding Undertaking Non-public Offering of Corporate Bonds* (非公開發行公司債券項目承接負面清單) micro-credit companies that do not have corporate credit rating of “AA” or above (the “**New Credit Rating Requirement**”), among other things. As the Company does not meet the New Credit Rating Requirement for micro-credit companies under the amended Guideline, the Company decided not to proceed with the issue of the Bonds. For more details, please refer to the announcement of termination of proposed issue of Bonds dated 15 June 2018.

Contingent Liabilities

As of 31 December 2018, we had no contingent liabilities.

Capital Expenditures

Our capital expenditures consist primarily of expenditures for (i) additions to property and equipment; and (ii) intangible assets. The following table sets forth our capital expenditures for the years indicated:

	Year ended 31 December	
	2018	2017
	RMB’000	RMB’000
Capital expenditures		
— Micro-credit	390	1,225
— Finance lease	41	—
	<hr/>	<hr/>
Total	<u>431</u>	<u>1,225</u>

Related Party Transactions

Fujian Septwolves Group Co., Ltd.* (福建七匹狼集團有限公司) is a substantial shareholder and hence a connected person of the Company. Therefore, related party transactions as disclosed in note 29(b) to the financial statements constitute connected transactions of our Group under Chapter 14A of the Listing Rules. Since such guarantee will be conducted on normal commercial terms or better and will not be secured by the assets of the Company, the transactions constitute financial assistance to the Company from a connected person under Chapter 14A of the Listing Rules which is exempt from reporting, announcement and shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

Commitment and Contractual Obligations

Operating Leases

We lease our office properties from third parties under non-cancellable operating leases. The table below sets out our future minimum lease payments under non-cancellable operating leases:

	As of 31 December	
	2018	2017
	RMB'000	RMB'000
Operating lease commitments:		
Within one year (inclusive)	1,362	1,491
One to two years (inclusive)	1,033	999
Two to three years (inclusive)	—	793
Total	<u>2,395</u>	<u>3,283</u>

The lease terms typically run for an initial period of one to five years, with an option to renew when all terms are renegotiated. None of the leases include contingent rental.

Capital Commitments

Other than the operating lease commitments disclosed above, we had a capital commitment of approximately RMB820,408 and RMB556,553, contracted but not provided for in the financial statements, in respect of a software as of 31 December 2017 and 2018.

Key Financial Ratios

The table below sets out our key financial ratios as of the dates indicated:

	As of/For the year ended	
	31 December	
	2018	2017
Return on equity ⁽¹⁾	8.4%	9.1%
Return on assets ⁽²⁾	6.8%	7.9%
Gross loans to total assets ⁽³⁾	83.1%	81.3%
Gearing ratio ⁽⁴⁾	12.4%	11.4%

Notes:

- (1) Return on equity is calculated by dividing net profit attributable to owners of the parent for the year by the balance of equity attributable to owners of the Company as of the indicated date multiplied by 100%.
- (2) Return on assets is calculated by dividing net profit and total comprehensive income for the year by the balance of total assets as of the indicated date multiplied by 100%.
- (3) Gross loans to total assets ratio equals the gross loans and accounts receivable amount as of the indicated date divided by the total assets as of the same date and multiplied by 100%. Gross loans and accounts receivable represent our total loans receivable before the deduction of allowance for impairment.
- (4) Gearing ratio equals net debt as of the indicated date divided by the aggregate of our capital and net debt as of the same date multiplied by 100%. It reflects our financial leverage.

Our return on equity reflecting our financial performance slightly decreased from 9.1% for the year ended 31 December 2017 to 8.4% for the year ended 31 December 2018 primarily due to the slight decrease of the net profit as a result of the increase in provision for loan impairment loss in 2018. Our return on assets reflecting our profitability decreased from 7.9% for the year ended 31 December 2017 to 6.8% for the year ended 31 December 2018 primarily due to the decrease of the average effective interest rate per annum. Our gross loans to total assets remained at a high level with a slight increase from 81.3% as of 31 December 2017 to 83.1% as of 31 December 2018, which reflects our high capital utilization ratio. Our gearing ratios reflecting our financial leverage slightly increased from 11.4% as of 31 December 2017 to 12.4% as of 31 December 2018.

Off-balance Sheet Arrangements

As of 31 December 2018, we did not have any off-balance sheet arrangements.

Foreign Currency Exposure

Our Group did not use any derivative financial instruments to hedge the risk of exchange rate changes since almost all of our revenue was from mainland China for the year ended 31 December 2018.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 16 October 2018, Huixinxing, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the “**Sale and Purchase Agreement**”) with Xiamen Yingsheng Textile Technology Co., Ltd.* (廈門盈晟紡織科技有限公司) (the “**Vendor**”).

Pursuant to the Sale and Purchase Agreement, Huixinxing had agreed to acquire and the Vendor had conditionally agreed to sell, in aggregate, 75% equity interests in Lianche for a consideration of approximately RMB51.0 million (equivalent to approximately HK\$57.8 million), which is fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole.

Lianche is a finance leasing company established in Quanzhou, Fujian province on 10 August 2017 and is primarily engaged in finance leasing, domestic and overseas leasing assets acquirement, disposal of the salvage value and repair of leasing assets, leasing transaction consultancy and vehicles sales.

On 23 October 2018, the above transaction has been completed. For more details, please refer to the announcement of the Company dated 16 October 2018. Save as disclosed above, there was no material investments or acquisitions for the year ended 31 December 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

Other than bank loans we obtained from commercial banks, we may also consider issuing bonds in the PRC or conducting income rights transfer and repurchase financing or other investments plans or choices. Nevertheless, as of the date of this announcement, we do not have any firm intention or formulated any specific plan on material external financing in the short term.

Save as disclosed above, our Group had no future plans for material investments or external financing as of 31 December 2018.

EMPLOYMENT AND EMOLUMENTS

As of 31 December 2018, our Group had 79 employees, who were all based in the PRC. Our employees’ remuneration has been paid in accordance with relevant laws and regulations in the PRC. Appropriate salaries and bonuses were paid with reference to the actual practices of our Group. Other corresponding benefits include pension, unemployment insurance and housing allowance.

PROSPECTS

The vision of our Group is to become China’s leading provider of microfinance services. Our mission is “assisting in adding value to customers with professional and efficient services and good credit”, and we uphold the core values of “integrity, responsibility, professionalism, innovation and cooperation”.

In 2018, the Quanzhou Financial Affairs Bureau (泉州市金融工作局) and certain other government departments promulgated the *Opinions on the Implementation of Strengthening the Financial Services of Real Economy to further Facilitate and Reduce the Cost of Financing* (關於加強實體經濟金融服務進一步緩解融資難融資貴的實施意見), which allow microfinance companies in Quanzhou to comprehensively carry out microfinance business mainly for small and medium enterprises and “agriculture, rural and farmers” (三農) in Quanzhou city. The policy has further extended the scope of operation of microfinance companies, and hence expanded our potential customer base. Our Group is actively broadening our business channels and developing business in Quanzhou city.

Our Group further adjusted and optimized our organizational structure, and developed an organizational structure with our business department as the center. We also established business units having functions such as corporate finance, real estate finance, construction and guarantee, internet and consumer finance. We streamlined our departments of risk management, finance and human resources and administration, and set up finance centers, information centers and human resources and administration centers, which optimized our management lines and improved services efficiency.

Given the changes in the domestic and foreign macroeconomic situation and the microeconomic situation in Quanzhou city, our Group has formulated the following corresponding business strategies for each business unit: (i) to strengthen the risk control standards for our corporate finance unit, and promote delicacy and precision for every project and strictly controlled our business risks; (ii) to expand the sales channels for the real estate finance unit, moderately relax the mortgage ceiling of high-quality real estate, and make attempt to provide loans and investment consultation services; (iii) to extend the product portfolio of construction finance, and commence non-finance guarantee business such as tender guarantees and performance guarantees on a trial basis; and (iv) to enhance the building of information systems and make effort to provide customers with more direct and efficient online financial services.

In addition, our Group will further conduct investment business, seek for investment and merger and acquisition opportunities in microfinance companies with an aim to enrich our credit products, expand our sources of customer and carry out loan consultation services.

USE OF PROCEEDS FROM GLOBAL OFFERING

The H shares of the Company became listed on the Main Board of the Stock Exchange on the Listing Date with net proceeds from the Global Offering of approximately HK\$292.3 million (after deducting underwriting commissions, the incentive fees and other expense in connection with the Global Offering).

As of 31 December 2018, the net proceeds were applied in the manners as set out in the announcement of change in use of proceeds of the Company dated 29 August 2017. The remaining balance of the net proceeds was approximately HK\$0.5 million, which is expected to be used up within 6 months. The details of the revised allocation of the net proceeds, the utilization of the net proceeds and the remaining balance as of 31 December 2018 as set out below:

Item No.	Purposes	Revised allocation (amounts adjusted on a pro-rata basis)⁽¹⁾	Amount utilized as of 31 December 2018⁽¹⁾	The remaining balance as of 31 December 2018⁽¹⁾
(i)	To enlarge the capital base of our loan business and to develop new products and services in order to satisfy the diverse financing and business needs from entrepreneurial individuals, SMEs and microenterprises	Approximately HK\$219.2 million (approximately 75%)	Approximately HK\$219.2 million	—
(ii)	For strategic acquisitions and investments in financial services providers	Approximately HK\$43.8 million (approximately 15%)	Approximately HK\$43.8 million	—
(iii)	To strengthen our sales network and marketing activities, upgrade IT system, develop innovative mobile clients, as well as to enhance our employees' training programs and human resources	Approximately HK\$7.3 million (approximately 2.5%)	Approximately HK\$7.3 million	—
(iv)	To strengthen our internal control and risk management systems and establish long-term cooperation with third party credit information service providers	Approximately HK\$4.4 million (approximately 1.5%)	Approximately HK\$4.0 million	Approximately HK\$0.4 million
(v)	For working capital and general corporate purpose	Approximately HK\$17.5 million (approximately 6%)	Approximately HK\$17.5 million	Approximately HK\$0.1 million ⁽²⁾
	Total	Approximately HK\$292.3 million	Approximately HK\$291.8 million	Approximately HK\$0.5 million⁽³⁾

Notes:

- (1) The numbers in the table are approximate figures. Any discrepancies in the numbers are due to roundings.
- (2) The remaining balance of the net proceeds for working capital and general corporate purpose was HK\$48,300 as of 31 December 2018.
- (3) The total remaining balance of the net proceeds was HK\$451,300 as of 31 December 2018.

CORPORATE GOVERNANCE

Our Group is committed to maintaining high standards of corporate governance and protecting the interests of its shareholders in an open manner.

The Board and the management of the Company has adopted the code provisions (the “**Code Provisions**”) of the Corporate Governance Code set out in Appendix 14 to the Listing Rules and reviewed its corporate governance practice from time to time. During the Reporting Period, the Company has fully complied with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct for carrying out securities transactions of the Company by the Directors and supervisors of the Company. After specific enquiry with all Directors and supervisors, they have confirmed fully compliance with the relevant requirements stipulated in the Model Code during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Our Group has not purchased, sold or redeemed any of the Company’s listed securities for the year ended 31 December 2018.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.05 per share for the year ended 31 December 2018 to shareholders whose names appear on the Company’s register of members on Tuesday, 25 June 2019 (the “**Proposed Final Dividend**”). Subject to the approval of the shareholders at the Company’s forthcoming annual general meeting to be held on Wednesday, 12 June 2019 (the “**AGM**”), the Proposed Final Dividend is expected to be paid on or around Friday, 16 August 2019.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain shareholder’s entitlement to attend and vote at the AGM, the H share register of members of the Company will be closed from Monday, 13 May 2019 to Wednesday, 12 June 2019, both days inclusive, during which period no share transfers will be registered. In order to qualify for attending and voting at the AGM, holders of H shares of the Company shall lodge transfer documents with the Company’s H share registrar in Hong Kong (“**H Share Registrar**”), Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, or to the Company’s registered office in the PRC (for holders of domestic shares), for registration no later than 4:30 p.m. on Friday, 10 May 2019.

For the purpose of determining the entitlement to the Proposed Final Dividend, the H share register of members of the Company will be closed from Thursday, 20 June 2019 to Tuesday, 25 June 2019, both days inclusive, during which period no share transfers of H shares of the Company will be registered. In order to be entitled to the Proposed Final Dividend, unregistered holders of H shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with H Share Registrar, Boardroom Share Registrars (HK) Limited, or to the Company's registered office in the PRC (for holders of domestic shares), for registration no later than 4:30 p.m. on Wednesday, 19 June 2019.

EVENTS AFTER THE REPORTING PERIOD

The Board proposed a final dividend of RMB0.05 per share for the year ended 31 December 2018.

On 31 January 2019, Huixinxing, a wholly-owned subsidiary of the Company, entered into the promoters agreement with Baiying Finance Holdings, pursuant to which the parties agreed to established a joint venture company in the PRC. The parties expected to invest a total of RMB50.0 million into the joint venture company by contributing to its registered capital. Huixinxing has agreed to contribute RMB30,000,000, being 60% of the proposed registered capital of the joint venture company, and Baiying Finance Holdings agreed to contribute RMB20,000,000, being 40% of the proposed registered capital of the joint venture company.

Baiying Finance Holdings is a non-wholly owned subsidiary of Fujian Septwolves Group, a substantial shareholder of the Company, and hence a connected person of the Company pursuant to the Listing Rules. As such, the proposed formation of the joint venture Company constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. For more details, please refer to the announcement of the Company dated 31 January 2019.

On 11 February 2019, the above formation of joint venture company has been completed. Save as disclosed above, there were no material investments or acquisitions for the year ended 31 December 2018.

Save as disclosed above and in the note 37 to the Financial Statements of this announcement, the Board is not aware of any events after the Reporting Period.

AGM

The AGM will be held at 7/F, Nanyi Square Office, No. 666 Feng Ze Street, Feng Ze District, Quanzhou city, Fujian province, the PRC on Wednesday, 12 June 2019. Notice of the AGM will be issued and disseminated by the Company to shareholders in due course.

AUDIT COMMITTEE

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by our Group, auditing, internal controls and financial report matters, and our Group's policies and practices on corporate governance. The Audit Committee has reviewed and discussed with management and the Company's auditor, Ernst & Young, the financial statements for the year ended 31 December 2018.

This Annual Results announcement is based on our Group's audited financial statements for the year ended 31 December 2018 which has been agreed with the auditor of the Company.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The Annual Results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qzhuixin.net). The annual report for the year ended 31 December 2018 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and available on the same websites in due course.

PROPOSED REVISION TO SCOPE OF BUSINESS AND AMENDMENT TO ARTICLES OF ASSOCIATION

Proposed Revision to Scope of Business

On 19 March 2019, the Board approved the change of scope of business of the Company from “conduct loan business, loans entrusted by institutions in the bank industry, and other approved business (excluding those that shall be pre-approved by the bank supervisory authorities) in Licheng District, Luojiang, District, Jinjiang City and Nan'an City” to “conduct loan business, bill discount, loans entrusted by institutions in the bank industry, and other approved business (excluding those that shall be pre-approved by the bank supervisory authorities) in Quanzhou city” (the “**Proposed Revision of Scope of Business**”) in compliance with the *Opinions on the Implementation of Strengthening the Financial Services of Real Economy to further Facilitate and Reduce the Cost of the Financing* (關於加強實體經濟金融服務進一步緩解融資難融資貴的實施意見).

The Proposed Revision of Scope of Business is subject to the approval of the shareholders of the Company by way of special resolution at the AGM and all the necessary approvals and filing procedures having been obtained from the relevant authorities in the PRC.

Proposed Amendment to Articles of Association

On 19 March 2019, the Board also approved the following proposed amendment to the Article 13 of the articles of association of the Company (the “**Proposed Amendment of Articles of Association**”):

The Article 13, which originally reads as:

“The Company’s scope of business shall be as approved by the authority in charge of the registration of the Company. The Company’s scope of business is: conduct loan business, loans entrusted by institutions in the bank industry, and other approved business (excluding those that shall be pre-approved by the bank supervisory authorities) in Licheng District, Luojiang, District, Jinjiang City and Nan’an City.”

is proposed to be amended as:

“The Company’s scope of business shall be as approved by the authority in charge of the registration of the Company. The Company’s scope of business is: conduct loan business, bill discount, loans entrusted by institutions in the bank industry, and other approved business (excluding those that shall be pre-approved by the bank supervisory authorities) in Quanzhou city.”

The Proposed Amendment of Articles of Association is subject to the approval of the shareholders of the Company by way of special resolution at the AGM and all necessary filing procedures having been obtained from the relevant authorities in the PRC.

By order of the Board
Quanzhou Huixin Micro-credit Co., Ltd.*
ZHOU Yongwei
Chairman

Hong Kong, 19 March 2019

As at the date of this announcement, the executive Directors are Mr. ZHOU Yongwei, Mr. WU Zhirui, Mr. YAN Zhijiang and Ms. LIU Aiqin; the non-executive Directors are Mr. JIANG Haiying and Mr. CAI Rongjun; and the independent non-executive Directors are Mr. SUN Leland Li Hsun, Mr. ZHANG Lihe and Mr. LIN Jianguo.

* *For identification purpose only*