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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)

2019 ANNUAL RESULTS ANNOUNCEMENT

The board (the “**Board**”) of directors (the “**Director(s)**”) 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 2019 (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 2019

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

	Notes	2019	2018
Interest income	6	170,813,797	156,789,014
Interest expense	6	<u>(9,052,708)</u>	<u>(10,618,071)</u>
Interest income, net		161,761,089	146,170,943
Impairment losses on loans and accounts receivable, net	7	(37,828,797)	(18,296,302)
Operating and administrative expenses		(33,197,519)	(25,161,028)
Foreign exchange gain/(loss), net		113,382	(728,902)
Other income and gains, net	8	6,560,055	3,114,867
Other expenses		(2,231,399)	—
Share of profit of an associate		<u>2,974,056</u>	<u>9,140,326</u>
PROFIT BEFORE TAX	9	98,150,867	114,239,904
Income tax expense	12	<u>(23,618,773)</u>	<u>(26,256,421)</u>
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>74,532,094</u>	<u>87,983,483</u>
Attributable to:			
Owners of the parent		64,421,947	87,989,848
Non-controlling interests		<u>10,110,147</u>	<u>(6,365)</u>
		<u>74,532,094</u>	<u>87,983,483</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		<u>0.09</u>	<u>0.13</u>
Diluted		<u>0.09</u>	<u>0.13</u>

Consolidated Statement of Financial Position

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	15	36,118,840	51,717,811
Securities purchased under agreements to re-sell		29,900,000	—
Financial assets at fair value through profit or loss	16	118,278,528	53,000,000
Loans and accounts receivable	17	1,098,824,186	1,036,985,098
Property and equipment	18	920,820	1,548,850
Right-of-use assets	19	1,930,175	—
Goodwill	20	14,729,281	2,221,017
Other intangible assets	21	1,583,360	140,000
Investment in an associate		—	131,533,077
Deferred tax assets	22	3,182,693	2,116,411
Other assets	23	15,320,526	13,071,518
TOTAL ASSETS		<u>1,320,788,409</u>	<u>1,292,333,782</u>
LIABILITIES			
Interest-bearing bank borrowings	24	70,108,074	200,336,825
Lease liabilities	19	1,647,345	—
Income tax payable		7,440,617	11,585,025
Deferred tax liabilities	22	116,477	—
Other payables	25	12,610,106	14,185,151
TOTAL LIABILITIES		<u>91,922,619</u>	<u>226,107,001</u>
NET ASSETS		<u>1,228,865,790</u>	<u>1,066,226,781</u>
EQUITY			
Share capital	26	680,000,000	680,000,000
Reserves	27	143,154,528	136,970,598
Retained profits		257,244,237	233,006,220
Equity attributable to owners of the parent		1,080,398,765	1,049,976,818
Non-controlling interests		148,467,025	16,249,963
TOTAL EQUITY		<u>1,228,865,790</u>	<u>1,066,226,781</u>

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

(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 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	—	—	—	—	—	—	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>	
Balance as at 1 January 2019	680,000,000	69,383,972	52,231,032	15,355,594	233,006,220	1,049,976,818	16,249,963	1,066,226,781	
Net profit and total comprehensive income for the year	—	—	—	—	64,421,947	64,421,947	10,110,147	74,532,094	
Appropriation to surplus reserve	—	—	5,263,257	—	(5,263,257)	—	—	—	
Appropriation to general reserve	—	—	—	920,673	(920,673)	—	—	—	
Acquisition of subsidiaries (Note 4)	—	—	—	—	—	—	122,465,293	122,465,293	
Capital injection by a non-controlling shareholder	—	—	—	—	—	—	20,000,000	20,000,000	
Capital return to a non-controlling shareholder	—	—	—	—	—	—	(20,000,000)	(20,000,000)	
Distribution to shareholders (Note 13)	—	—	—	—	(34,000,000)	(34,000,000)	(358,378)	(34,358,378)	
Balance as at 31 December 2019	<u>680,000,000</u>	<u>69,383,972</u>	<u>57,494,289</u>	<u>16,276,267</u>	<u>257,244,237</u>	<u>1,080,398,765</u>	<u>148,467,025</u>	<u>1,228,865,790</u>	

Consolidated Statement of Cash Flows

Year ended 31 December 2019

(Amounts expressed in RMB unless otherwise stated)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		98,150,867	114,239,904
Adjustments for:			
Share of profit of an associate		(2,974,056)	(9,140,326)
Depreciation of property and equipment		790,537	621,183
Depreciation of repossessed assets		296,791	—
Depreciation of right-of-use assets		1,826,685	—
Amortisation of other intangible assets		1,451,662	23,333
Impairment of loans and accounts receivable	7	37,828,797	18,296,302
Impairment of goodwill		2,221,017	—
Accreted interest on impaired loans		(8,626,419)	(3,226,428)
Foreign exchange (gain)/loss, net		(113,382)	728,902
(Losses)/gains on disposals of items of property and equipment		(21,559)	1,896
Interest expense	6	<u>9,052,708</u>	<u>10,618,071</u>
Increase in financial assets at fair value through profit or loss		(38,446,416)	(19,670,000)
Increase in securities purchased under agreements to re-sell		(29,900,000)	—
Decrease/(increase) in loans and accounts receivable		103,204,559	(81,877,675)
Decrease/(increase) in other assets		512,621	(9,352,321)
(Decrease)/increase in other payables		<u>(3,671,666)</u>	<u>8,922,368</u>
Net cash flows from operating activities before tax		171,582,746	30,185,209
Income tax paid		<u>(30,917,650)</u>	<u>(26,926,743)</u>
Net cash flows from operating activities		<u>140,665,096</u>	<u>3,258,466</u>

	<i>Notes</i>	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		(443,610)	(431,221)
Prepayment for items of property and equipment		29,648	—
Acquisition of subsidiaries	4	12,503,825	(33,293,218)
Dividends received from an associate		7,185,000	7,185,000
Return of an investment in an associate		<u>—</u>	<u>47,900,000</u>
Net cash flows from investing activities		<u>19,274,863</u>	<u>21,360,561</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by a non-controlling shareholder		20,000,000	—
New bank borrowings		70,000,000	200,000,000
Repayment of bank borrowings		(200,000,000)	(140,000,000)
Interest paid		(9,120,483)	(10,463,463)
Principal portion of lease payments		(2,173,451)	—
Dividends paid	13	(34,000,000)	(34,000,000)
Capital return and distribution to a non-controlling shareholder		<u>(20,358,378)</u>	<u>—</u>
Net cash flows (used in)/from financing activities	28	<u>(175,652,312)</u>	<u>15,536,537</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(15,712,353)	40,155,564
Cash and cash equivalents at beginning of year		51,717,811	12,291,149
Effect of foreign exchange rate changes, net		<u>113,382</u>	<u>(728,902)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>36,118,840</u>	<u>51,717,811</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2019

(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 "China" or "PRC") and its registered office is located at 12th Floor, Former Finance Building, No. 361, Feng Ze Street, Quanzhou city, Fujian province, the PRC.

During the year, the principal activity of the Company and its subsidiaries was the provision of loans to small and medium enterprises ("SMEs"), microenterprises and entrepreneurial individuals, as well as automobile finance lease and investment consulting services.

Information about subsidiaries

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

Name	Place of incorporation and kind of legal entity	Registered capital	Paid-up capital	Percentage of ownership interest held by the Company		Principal activities and place of operation
				Direct	Indirect	
Quanzhou Huixinxing Investment Co., Ltd.	Quanzhou, China Corporation	RMB50,000,000	RMB50,000,000	100%	—	Investment advisory service, Quanzhou
Quanzhou Lianche Finance Leasing Co., Ltd.* (泉州市連車融資租賃有限公司) ("Lianche")	Quanzhou, China Corporation	US dollars ("USD") 10,000,000	USD10,000,000	—	75%	Finance leasing, Quanzhou
Jinjiang Huixin Microfinance Co., Ltd.* (晉江市匯鑫小額貸款有限公司) ("JJHX")*	Jinjiang, China Corporation	RMB200,000,000	RMB200,000,000	47.9%	—	Provision of micro-credit, Jinjiang
Fujian Huixinxing Bidding Guarantee Co., Ltd.* (福建匯鑫行投標擔保有限公司) ("HXXBG")**	Fuzhou, China Corporation	RMB50,000,000	RMB50,000,000	—	60%	Non-financing guarantee business, Fuzhou
Jinjiang Qiding Building Materials Co., Ltd.	Jinjiang, China Corporation	RMB5,000,000	RMB500,000	—	100%	Wholesale of building materials, Jinjiang
Jinjiang Houdexin Information Service Co., Ltd.	Jinjiang, China Corporation	RMB5,000,000	RMB500,000	—	100%	Information technology advisory service, Jinjiang
Hong Kong Huixinhang Co., Limited	Hong Kong, China Corporation	Hong Kong dollars ("HKD") 10,000,000	—	—	100%	Investment advisory service, Hong Kong
Fujian Huichangfu Real Estate Agency Co., Ltd.	Jinjiang, China Corporation	RMB10,000,000	RMB500,000	—	100%	Estate brokerage services, Jinjiang
Xiamen Anshenghe Trading Co., Ltd.* (廈門安盛和貿易有限責任公司) ("Anshenghe")***	Xiamen, China Corporation	RMB5,078,000	RMB5,078,000	—	100%	Wholesale, Xiamen
Jinjiang Qinyuan Investment Consulting Co., Ltd.	Jinjiang, China Corporation	RMB5,000,000	RMB500,000	—	100%	Investment advisory service, Jinjiang

- * JJHX is accounted for as a subsidiary of our Group even though our Group has only a 47.9% equity interest in this company based on the factors explained in note 4 to the financial statements.
- ** Pursuant to the shareholders' decision, HXXBG terminated its operations and have the business license revoked on 30 December 2019.
- *** In May 2019, JJHX obtained a 100% interest in Anshenghe, details of which are set out in note 4 to the financial statements.

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 RMB.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. 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 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of our Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) *Adoption of HKFRS 16*

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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

Our Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. Our Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

Our Group has lease contracts for various items of property. As a lessee, our Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to our Group. Under HKFRS 16, our Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (the “**short-term leases**”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, our Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. Our Group elected to present the right-of-use assets separately in the statement of financial position.

Our Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease;
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on the assessment of whether leases were onerous by applying HKAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review; and
- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease)
Assets	
Increase in right-of-use assets	3,269,227
Decrease in other assets	<u>(38,971)</u>
Increase in total assets	<u><u>3,230,256</u></u>
Liabilities	
Increase in lease liabilities	3,287,322
Decrease in other payables	<u>(57,066)</u>
Increase in total liabilities	<u><u>3,230,256</u></u>
The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:	
Operating lease commitments as at 31 December 2018	2,395,367
Add: Payments for optional extension periods not recognised as at 31 December 2018	<u>1,274,967</u>
	3,670,334
Weighted average incremental borrowing rate as at 1 January 2019	<u>6.00%</u>
Lease liabilities as at 1 January 2019	<u><u>3,287,322</u></u>

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. Our Group assessed its business model for its long-term interests in associates upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of our Group.
- (c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii)

how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, our Group considered whether it has any uncertain tax positions. Based on our Group's tax compliance and transfer pricing study, our Group concluded that the interpretation did not have any significant on the financial position or performance of our Group.

3.2 Issued but not yet Effective Hong Kong Financial Reporting Standards

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> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</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> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

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

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to our Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Our Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, our Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on our Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. Our Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on our Group's financial statements.

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

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

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

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:

Category	Estimated useful life
Software	1 to 3 years

Leases (applicable from 1 January 2019)

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

Group as a lessee

Our Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Our Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets.

(b) Lease liabilities

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

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

Leases (applicable before 1 January 2019)

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 ownership 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

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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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 amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in 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 are carried in the statement of financial position at fair value with net changes in fair value recognised in 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 through profit or loss are also recognised as other income in 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.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from 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.

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

Impairment of financial assets

Our Group recognises an allowance for expected credit losses ("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 ECLs 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 ECLs, 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 ECLs of 12 months or the entire lifetime respectively. The key measuring parameters of ECLs 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 collateral, repayments) 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 collateral, the LGD varies.
- 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.

Financial liabilities

Initial recognition and measurement

Our Group’s financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, 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:

Financial liabilities at amortised cost (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 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 profit or loss.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

For the purpose of the 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.

Securities purchased under agreements to re-sell

Our Group enters into purchases of securities under agreements to re-sell substantially identical securities. The amounts advanced under these agreements are classified as financial assets measured at amortised cost, and reflected as assets in the statement of financial position. Our Group does not take physical possession of securities purchased under agreements to resell. In the event of default by the counterparty to repay the loan, our Group has the right to the underlying securities.

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 an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, 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 RMB, 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.

Judgements

In the process of applying our Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Significant judgement in determining the lease term of contracts with renewal options

Our Group has several lease contracts that include extension and termination options. Our Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, our Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimation uncertainty

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

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 a 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 entities' 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.

Leases — Estimating the incremental borrowing rate

Our Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“**IBR**”) to measure lease liabilities. The IBR is the rate of interest that our Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what our Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease. Our Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

4. BUSINESS COMBINATIONS

In April 2019, the Company and Quanzhou Yuanpeng Clothing and Textile Co., Ltd.* (泉州市遠鵬服飾織造有限公司) (“**Quanzhou Yuanpeng**”), which hold 47.9% and 9.6% equity interests in JJHX, respectively, entered into an agreement whereby the two parties agreed to act in concert in the exercise of the voting and other rights in relation to their shareholdings in JJHX. As a result of the above arrangement, the Company considered it has control over JJHX. Accordingly, the Company ceased to account for the investment in JJHX as an investment in an associate and the results of JJHX are consolidated in our Group’s consolidated financial statements.

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

	Fair value recognised on acquisition
Cash and bank balances	13,581,344
Financial assets at fair value through profit or loss	7,340,000
Loans and accounts receivable	215,709,407
Other assets	3,958,341
Other liabilities	<u>(5,530,947)</u>
Total identifiable net assets at fair value	235,058,145
Non-controlling interests	<u>(122,465,293)</u>
Goodwill on acquisition	<u>14,729,281</u>
Fair value of the equity interest held by the Company	<u><u>127,322,133</u></u>

Management assessed the fair value of the investment in JJHX as of the acquisition date and considered the fair value approximates its carrying amount and therefore no revaluation gains or losses were recognised from this transaction.

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

Cash consideration	—
Cash and bank balances acquired	<u>13,581,344</u>
Net inflow of cash and cash equivalents included in cash flows from investing activities	<u><u>13,581,344</u></u>

Since the acquisition, JJHX contributed RMB28,210,144 to our Group’s interest income and a net profit of RMB17,399,532 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the interest income of our Group and the net profit of our Group for the year would have been RMB182,386,955 and RMB80,740,979 respectively.

In May 2019, JJHX repossessed a 100% interest in Anshenghe as a settlement for its non-performing loans. In addition, JJHX paid the original shareholder of Anshenghe a cash consideration of RMB1,078,000. 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 Anshenghe as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and bank balances	481
Financial assets at fair value through profit or loss	6,764,811
Other payables	<u>(61,590)</u>
 Total identifiable net assets at fair value	 6,703,702
Non-controlling interests	<u>—</u>
 Goodwill on acquisition	 <u>—</u>
 Consideration:	
Cash	1,078,000
Fair value of the loan settled	<u>5,625,702</u>
 Purchase consideration transferred	 <u><u>6,703,702</u></u>

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

Cash consideration	(1,078,000)
Cash and bank balances acquired	<u>481</u>
 Net outflow of cash and cash equivalents included in cash flows from investing activities	 <u><u>(1,077,519)</u></u>

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 leasing 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 2019	Micro-credit business	Finance lease business	Total
Segment revenue			
Interest income	165,400,056	5,413,741	170,813,797
Interest expense	<u>(9,033,589)</u>	<u>(19,119)</u>	<u>(9,052,708)</u>
Interest income, net	156,366,467	5,394,622	161,761,089
Segment results	<u><u>71,785,647</u></u>	<u><u>2,746,447</u></u>	<u><u>74,532,094</u></u>
Segment assets	<u><u>1,251,130,925</u></u>	<u><u>69,657,484</u></u>	<u><u>1,320,788,409</u></u>
Segment liabilities	<u><u>90,011,435</u></u>	<u><u>1,911,184</u></u>	<u><u>91,922,619</u></u>
Other segment Information			
Net charge/(reversal) of the impairment on loans and accounts receivable, net	38,041,690	(212,893)	37,828,797
Share of profit of an associate	2,974,056	—	2,974,056
Depreciation and amortisation	3,861,289	504,386	4,365,675
Capital expenditure*	<u><u>2,926,051</u></u>	<u><u>—</u></u>	<u><u>2,926,051</u></u>

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

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	145,322,594	848,349	146,170,943
Segment results	<u>114,265,362</u>	<u>(25,458)</u>	<u>114,239,904</u>
Segment assets			
<i>Reconciliation</i>			
Elimination of intersegment receivables			<u>(2,000,000)</u>
Total assets			<u>1,292,333,782</u>
Segment liabilities			
<i>Reconciliation</i>			
Elimination of intersegment payables			<u>(2,000,000)</u>
Total liabilities			<u>226,107,001</u>
Other segment Information			
Net charge of the impairment 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.

Geographical information

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

6. INTEREST INCOME

	2019	2018
Interest income on:		
Loans and accounts receivable	170,813,797	156,789,014
Interest expense on:		
Bank loans	(8,891,732)	(10,618,071)
Lease liabilities	<u>(160,976)</u>	<u>—</u>
Interest income, net	<u>161,761,089</u>	<u>146,170,943</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 profit or loss:

Year ended 31 December 2019	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Loans and accounts receivable	<u>(10,473,528)</u>	<u>8,692,011</u>	<u>39,610,314</u>	<u>37,828,797</u>
Total impairment loss	<u>(10,473,528)</u>	<u>8,692,011</u>	<u>39,610,314</u>	<u>37,828,797</u>
Year ended 31 December 2018	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>

8. OTHER INCOME AND GAINS, NET

	2019	2018
Gains on disposals of financial assets at fair value through profit or loss	3,505,372	921,056
Government grants	1,260,000	2,000,000
Gains/(losses) on disposals of items of property and equipment	21,559	(1,896)
Interest from bank deposits	151,774	198,311
Others	1,621,350	(2,604)
	<u>6,560,055</u>	<u>3,114,867</u>
Total	<u>6,560,055</u>	<u>3,114,867</u>

9. PROFIT BEFORE TAX

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

	2019	2018
Depreciation and amortisation	4,365,675	644,516
Staff costs:		
Salaries, bonuses and allowances	13,650,209	10,249,812
Other social welfare	2,341,737	1,660,785
Impairment losses on loans and accounts receivable	37,828,797	18,296,302
Leasing expense	—	1,571,052
Impairment losses on goodwill	2,221,017	—
Auditor's remuneration	1,366,934	1,244,066
	<u>1,366,934</u>	<u>1,244,066</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 2019			Total
	Fees	Salaries, allowances and benefits in kind	Contributions to a defined contribution scheme	
Executive Directors				
Zhou Yongwei	—	—	—	—
Wu Zhirui	—	938,400	43,127	981,527
Yan Zhijiang	—	517,400	43,127	560,527
Liu Aiqin	—	360,965	42,704	403,669
Non-executive Directors				
Cai Rongjun	—	—	—	—
Jiang Haiying	—	—	—	—
Independent Non-executive Directors				
Zhang Lihe	87,799	—	—	87,799
Sun Leland Li Hsun	87,799	—	—	87,799
Lin Jianguo	87,799	—	—	87,799
Supervisors				
Li Jiancheng	—	—	—	—
Hong Lijun	10,000	380,375	38,849	429,224
Ruan Cen	10,000	140,100	29,639	179,739
Wu Lindi	20,000	—	—	20,000
Chen Jinzhu	20,000	—	—	20,000
	<u>323,397</u>	<u>2,337,240</u>	<u>197,446</u>	<u>2,858,083</u>

Year ended 31 December 2018

Name	Fees	Salaries, allowances and benefits in kind	Contributions to a defined contribution scheme	Total
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.

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three Directors and one supervisor of the Company (2018: 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 one (2018: two) highest paid employee who is neither a Director nor a supervisor of the Company are as follows:

	2019	2018
Salaries, allowances and benefits in kind	481,015	661,060
Contributions to a defined contribution scheme	<u>38,849</u>	<u>76,741</u>
Total	<u><u>519,864</u></u>	<u><u>737,801</u></u>

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

	2019	2018
Nil to RMB1,000,000	<u><u>1</u></u>	<u><u>2</u></u>

12. INCOME TAX EXPENSE

	2019	2018
Current income tax	23,363,520	26,926,743
Deferred income tax (<i>Note 22</i>)	<u>255,253</u>	<u>(670,322)</u>
Total	<u><u>23,618,773</u></u>	<u><u>26,256,421</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 PRC Corporate Income Tax Law, 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:

	2019	2018
Profit before tax	98,150,867	114,239,904
Tax at the applicable tax rate of 25%	24,537,717	28,559,976
Lower tax rate for specific provinces or enacted by local authority	(659,115)	—
Tax effect of income not subject to tax	(960,237)	(2,285,081)
Tax effect of expenses not deductible for tax purposes	739,532	33,274
Tax losses utilised from previous periods	(128,210)	(58,113)
Tax losses not recognised	<u>89,086</u>	<u>6,365</u>
Total tax expense for the year at our Group's effective tax rate	<u><u>23,618,773</u></u>	<u><u>26,256,421</u></u>

13. DIVIDENDS

Pursuant to the resolution of annual general meeting of the Company held on 12 June 2019, the Company distributed cash dividends of RMB34.0 million to the shareholders for the year ended 31 December 2018.

Pursuant to the resolution of the board of directors of the Company passed on 26 March 2020, 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.

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.

	2019	2018
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	<u>64,421,947</u>	<u>87,989,848</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><u>0.09</u></u>	<u><u>0.13</u></u>

15. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash on hand	32,932	1,444
Cash at banks	36,052,503	51,716,367
Cash equivalents	<u>33,405</u>	<u>—</u>
Total	<u><u>36,118,840</u></u>	<u><u>51,717,811</u></u>

At the end of the Reporting Period, the cash and bank balances of our Group denominated in USD amounted to RMB9,138,624 (2018: RMB17,411,322). Cash at banks earns interest at floating rates based on daily bank deposit rates.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	31 December 2019	31 December 2018
At fair value through profit or loss			
Wealth management products	<i>(a)</i>	47,820,000	53,000,000
Listed equity investments		44,528,525	—
Listed funds		6,000,000	—
Designated as at fair value through profit or loss			
Other unlisted investments	<i>(b)</i>	<u>19,930,003</u>	<u>—</u>
Total		<u>118,278,528</u>	<u>53,000,000</u>

(a) Wealth management products purchased from time to time, which are held for a relatively short period of time, offered by licensed commercial banks in the PRC.

(b) The unlisted equity investments were designated as at fair value through profit or loss on the basis that they are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of our Group.

17. LOANS AND ACCOUNTS RECEIVABLE

	31 December 2019	31 December 2018
Loans receivable	1,129,136,307	1,023,706,284
Lease receivables	39,228,856	56,797,698
Less: Unearned finance income	(3,746,939)	(7,122,889)
Net lease receivables	35,481,917	49,674,809
Less: Allowance for impairment		
— Individually assessed	(43,438,596)	(18,960,642)
— Collectively assessed	<u>(22,355,442)</u>	<u>(17,435,353)</u>
Total	<u>1,098,824,186</u>	<u>1,036,985,098</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 2019			
	<u>12-month ECLs</u>	<u>Lifetime ECLs</u>		Total
	Stage 1 Collective	Stage 2 Collective	Stage 3	
Net lease receivables				
Performing	35,297,942	—	—	35,297,942
Non-performing	—	—	183,975	183,975
Loans receivable				
Performing (i)	732,590,133	323,239,966	—	1,055,830,099
Non-performing (ii)	—	—	73,306,208	73,306,208
Total	<u>767,888,075</u>	<u>323,239,966</u>	<u>73,490,183</u>	<u>1,164,618,224</u>
	31 December 2018			
	<u>12-month ECLs</u>	<u>Lifetime ECLs</u>		
	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Net lease receivables				
Performing	49,674,809	—	—	49,674,809
Loans receivable				
Performing (i)	920,274,205	48,481,169	—	968,755,374
Non-performing (ii)	—	—	54,950,910	54,950,910
Total	<u>969,949,014</u>	<u>48,481,169</u>	<u>54,950,910</u>	<u>1,073,381,093</u>

(i) Performing loans are collectively assessed for impairment.

(ii) Non-performing 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 2019, 38.8% (31 December 2018: 41.7%) of loans receivable were guaranteed loans, and 60.7% (31 December 2018: 53.7%) 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 is, 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				
(excluding write-off)	(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	<u>45,588,995</u>	<u>—</u>	<u>—</u>	<u>45,588,995</u>
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>
New	2,941,661,963	—	—	2,941,661,963
Derecognised				
(excluding write-off)	(2,942,741,008)	(101,344,191)	(22,244,705)	(3,066,329,904)
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(303,537,467)	303,537,467	—	—
Transfer to Stage 3	(3,762,095)	(23,106,078)	26,868,173	—
Write-off	—	—	(31,387,529)	(31,387,529)
Acquisition of a subsidiary	<u>106,317,668</u>	<u>95,671,599</u>	<u>45,303,334</u>	<u>247,292,601</u>
At 31 December 2019	<u>767,888,075</u>	<u>323,239,966</u>	<u>73,490,183</u>	<u>1,164,618,224</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 ECLs 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 ECLs 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
Net charge/(reversal) of the impairment	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 year end ECLs of exposures transferred between stages during the year	—	3,230,292	1,721,403	4,951,695
Write-off and transfer out	—	—	(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>
Net charge/(reversal) of the impairment	(6,189,087)	(8,193,623)	37,104,932	22,722,222
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(4,231,765)	4,231,765	—	—
Transfer to Stage 3	(52,676)	(284,673)	337,349	—
Accreted interest on impaired loans	—	—	(8,626,419)	(8,626,419)
Impact on year end ECLs of exposures transferred between stages during the year	—	12,938,542	2,168,033	15,106,575
Write-off	—	—	(31,387,529)	(31,387,529)
Acquisition of a subsidiary	<u>1,516,207</u>	<u>5,185,399</u>	<u>24,881,588</u>	<u>31,583,194</u>
At 31 December 2019	<u>4,245,930</u>	<u>18,109,512</u>	<u>43,438,596</u>	<u>65,794,038</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 2019 or at 31 December 2018.

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 2019	31 December 2018
Lease receivables		
Due within 1 year	26,465,686	25,303,073
Due in 1 to 2 years	11,913,752	23,096,534
Due in 2 to 3 years	<u>849,418</u>	<u>8,398,091</u>
	<u>39,228,856</u>	<u>56,797,698</u>

	31 December 2019	31 December 2018
Net lease receivables		
Due within 1 year	23,469,421	20,713,596
Due in 1 to 2 years	11,193,980	20,908,152
Due in 2 to 3 years	818,516	8,053,061
	<u>35,481,917</u>	<u>49,674,809</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. PROPERTY AND EQUIPMENT

	Motor vehicles	Fixtures and furniture	Leasehold improvements	Total
Cost:				
At 1 January 2018	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	986,809	1,436,280	2,725,356	5,148,445
Additions	—	30,608	421	31,029
Acquisition of subsidiaries	703,268	109,944	—	813,212
Disposals	<u>(157,176)</u>	<u>(4,600)</u>	<u>—</u>	<u>(161,776)</u>
At 31 December 2019	<u>1,532,901</u>	<u>1,572,232</u>	<u>2,725,777</u>	<u>5,830,910</u>
Accumulated depreciation:				
At 1 January 2018	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	745,830	788,108	2,065,657	3,599,595
Depreciation charge for the year	112,717	355,018	322,802	790,537
Acquisition of subsidiaries	573,794	99,851	—	673,645
Disposals	<u>(149,317)</u>	<u>(4,370)</u>	<u>—</u>	<u>(153,687)</u>
At 31 December 2019	<u>1,283,024</u>	<u>1,238,607</u>	<u>2,388,459</u>	<u>4,910,090</u>

	Motor vehicles	Fixtures and furniture	Leasehold improvements	Total
Net carrying amount:				
At 31 December 2019	<u>249,877</u>	<u>333,625</u>	<u>337,318</u>	<u>920,820</u>
At 31 December 2018	<u>240,979</u>	<u>648,172</u>	<u>659,699</u>	<u>1,548,850</u>

19. LEASES

Our Group as a lessee

Our Group has lease contracts for various items of property used in its operations. Leases of property generally have lease terms between 2 and 5 years. Generally, our Group is restricted from assigning and subleasing the leased assets outside our Group. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(a) *Right-of-use assets*

The carrying amounts of our Group's right-of-use assets and the movements during the year are as follows:

	Properties
At 1 January 2019	3,269,227
Additions	304,398
Acquisition of a subsidiary	183,235
Depreciation charge	<u>(1,826,685)</u>
At 31 December 2019	<u>1,930,175</u>

(b) *Lease liabilities*

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

	Lease liabilities
Carrying amount at 1 January 2019	3,287,322
New leases	250,363
Additions as a result of acquisition of a subsidiary	122,135
Accretion of interest recognised during the year	160,976
Payments	<u>(2,173,451)</u>
Carrying amount at 31 December	<u>1,647,345</u>

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

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

	2019
Interest on lease liabilities	160,976
Depreciation charge of right-of-use assets	<u>1,826,685</u>
Total amount recognized in profit or loss	<u><u>1,987,661</u></u>

(d) The total cash outflow for leases is disclosed in note 28(b) to the financial statements. At 31 December 2019, there were no future cash outflows relating to leases that have not yet commenced.

20. GOODWILL

Cost at 1 January 2018, net of accumulated impairment	—
Acquisition of a subsidiary	<u>2,221,017</u>
Cost at 31 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>
Cost at 1 January 2019, net of accumulated impairment	2,221,017
Acquisition of subsidiaries (<i>Note 4</i>)	14,729,281
Impairment during the year	<u>(2,221,017)</u>
Cost at 31 December 2019, net of accumulated impairment	<u><u>14,729,281</u></u>
At 31 December 2019:	
Cost	16,950,298
Accumulated impairment	<u>(2,221,017)</u>
Net carrying amount	<u><u>14,729,281</u></u>

Impairment testing of goodwill

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

- Finance lease cash-generating unit; and
- Micro-credit cash-generating unit.

Finance lease cash-generating unit

The recoverable amount of the finance 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 2019, the recoverable amount is less than the carrying amount, the related difference is recognised in the current profit or loss.

Micro-credit cash-generating unit

The recoverable amount of the micro-credit 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 2019, our Group assessed the impairment on goodwill and the recoverable amounts exceeded the carrying amount, and hence the goodwill was not regarded as impaired.

The carrying amounts of goodwill are as follows:

	31 December 2019	31 December 2018
Finance lease	—	2,221,017
Micro-credit	<u>14,729,281</u>	<u>—</u>
	<u>14,729,281</u>	<u>2,221,017</u>

Assumptions were used in the value in use calculation of the finance lease and micro-credit cash-generating units for 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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 finance lease industries and discount rates are consistent with external information sources.

21. OTHER INTANGIBLE ASSETS

	Software
Cost:	
At 1 January 2018	954,400
Acquisition of a subsidiary	<u>280,000</u>
At 31 December 2018	1,234,400
Additions	2,895,022
Acquisition of subsidiaries	<u>22,700</u>
At 31 December 2019	<u>4,152,122</u>
Accumulated amortisation:	
At 1 January 2018	954,400
Acquisition of a subsidiary	116,667
Charge for the year	<u>23,333</u>
At 31 December 2018	1,094,400
Acquisition of subsidiaries	22,700
Charge for the year	<u>1,451,662</u>
At 31 December 2019	<u>2,568,762</u>
Net carrying amount:	
At 31 December 2019	<u>1,583,360</u>
At 31 December 2018	<u>140,000</u>

22. DEFERRED TAX

The movements in the gross deferred tax assets and liabilities are as follows:

Gross deferred tax assets

	Impairment allowance on loans	Fair value adjustments of financial assets at fair value through profit or loss	Recoverable loss	Total
At 1 January 2018	1,446,089	—	—	1,446,089
Recognised in profit or loss (<i>Note 12</i>)	<u>670,322</u>	<u>—</u>	<u>—</u>	<u>670,322</u>
At 31 December 2018	2,116,411	—	—	2,116,411
Recognised in profit or loss (<i>Note 12</i>)	(172,158)	33,382	380	(138,396)
Acquisition of subsidiaries	<u>1,205,058</u>	<u>—</u>	<u>—</u>	<u>1,205,058</u>
At 31 December 2019	<u>3,149,311</u>	<u>33,382</u>	<u>380</u>	<u>3,183,073</u>

Gross deferred tax assets liabilities

	Fair value adjustments of financial assets at fair value through profit or loss	Total
At 1 January 2018 and at 31 December 2018	—	—
Recognised in profit or loss (<i>Note 12</i>)	116,857	116,857
Acquisition of subsidiaries	<u>—</u>	<u>—</u>
At 31 December 2019	<u>116,857</u>	<u>116,857</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of our Group for financial reporting purposes:

	2019	2018
Net deferred tax assets recognised in the consolidated statement of financial position	3,182,693	2,116,411
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>116,477</u>	<u>—</u>

Our Group has tax losses arising in mainland China of RMB36,104 (2018: RMB454,014) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

23. OTHER ASSETS

	<i>Note</i>	31 December 2019	31 December 2018
Reposessed assets	(a)	12,855,969	8,060,000
Other receivables		1,691,324	1,448,906
Deferred and prepaid expenses		773,233	<u>3,562,612</u>
		<u>15,320,526</u>	<u>13,071,518</u>

Note:

- (a) Reposessed assets are properties located at Quanzhou city, Fujian province and Weihai city, Shandong province in the PRC. The contracts to effect the repossession of the properties have been signed and registered with the local authority. The certificates of some properties with a carrying amount of RMB8,060,000 (31 December 2018: RMB8,060,000) have not been obtained because these properties are still under development.

24. INTEREST-BEARING BANK BORROWINGS

	31 December 2019	31 December 2018
Guaranteed bank loans repayable:		
Within one year	<u>70,108,074</u>	<u>200,336,825</u>

As at 31 December 2019, the annual interest rate of the loans above was 5.434% (31 December 2018: 6.003%).

The interest-bearing bank borrowings of RMB70.1 million as at 31 December 2019 were guaranteed by one of the shareholders, Fujian Septwolves Group Co., Ltd.* (福建七匹狼集團有限公司) (“**Septwolves Group**”).

25. OTHER PAYABLES

	31 December 2019	31 December 2018
Payrolls payable	4,888,981	2,792,062
Value-added tax, and surcharges payable	1,646,239	2,637,223
Deposits	3,739,241	7,132,335
Others	2,335,645	<u>1,623,531</u>
	<u>12,610,106</u>	<u>14,185,151</u>

26. SHARE CAPITAL

	31 December 2019	31 December 2018
Issued and fully paid ordinary shares of RMB1.0 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 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. Such reserve is not available for profit distribution or transfer to capital. As at 31 December 2019, the balance of the general reserve of the Company was RMB16.3 million, no lower than 1.5% of its risk assets.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	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>

	Bank borrowings and interest payable	Lease liabilities	Amounts due to shareholders
At 31 December 2018	200,336,825	—	—
Effect of adoption of HKFRS 16	<u>—</u>	<u>3,287,322</u>	<u>—</u>
At 1 January 2019 (restated)	200,336,825	3,287,322	—
Changes from financing cash flows	(139,120,483)	(2,173,451)	(34,000,000)
2018 final dividends payable	—	—	34,000,000
Return of retained earnings	—	—	—
New finance lease	—	250,363	—
Acquisition of subsidiaries	8,891,732	122,135	—
Interest expense	<u>—</u>	<u>160,976</u>	<u>—</u>
At 31 December 2019	<u><u>70,108,074</u></u>	<u><u>1,647,345</u></u>	<u><u>—</u></u>

(b) Total cash outflow for leases

The total cash outflow for leases of RMB2,173,451 was within financing activities.

29. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel of our Group

	2019	2018
Salaries and other short-term employee benefits	<u><u>2,693,393</u></u>	<u><u>2,860,442</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 RMB70.1 million as at 31 December 2019 (31 December 2018: RMB200.0 million) were guaranteed by Septwolves Group. The guarantee fee of RMB672,830 (2018: RMB949,906) was accrued during the year, which was based on a fixed rate of the balance of the interest-bearing borrowings.

(c) Loan facilitation services

During the year, our Group provided loan facilitation service to a related party, Fujian Yuanheng Pegadaian Co., Ltd.* (福建元亨典當有限公司), and received a fee of revenue of RMB261,001 (2018: RMB39,579).

(d) Lease and property management fee

Our Group has signed a lease agreement with Xiamen Septwolves Asset Management Co., Ltd.* (廈門七匹狼資產管理有限公司) (“**Septwolves AMC**”), a subsidiary of Septwolves Group. During the year, our Group paid Septwolves AMC RMB126,000 (2018: RMB97,638) for the rent.

During the year, the property management fee of RMB32,934 (2018: RMB19,265) was paid to Xiamen Huakaifugui Property Management Co., Ltd.* (廈門花開富貴物業管理有限公司), a subsidiary of Septwolves Group.

(e) Outstanding balances with related parties

As at 31 December 2019, our Group had an outstanding balance due to Septwolves Group, amounting to RMB11,132 (31 December 2018: RMB90,849). The balance is both unsecured and interest-free.

30. CONTINGENT LIABILITIES

As at 31 December 2019, there were no significant contingent liabilities.

31. COMMITMENTS

(a) Our Group had the following capital commitments at the end of the Reporting Period:

	31 December 2019	31 December 2018
Contracted, but not provided for:		
Software	<u>767,000</u>	<u>556,553</u>

(b) Operating lease commitments as at 31 December 2018

Our Group leases office premises under various operating lease agreements as the lessee. At 31 December 2018, our Group had total future minimum lease payments (inclusive of value-added tax) under non-cancellable operating leases falling due as follows:

	2018
Within 1 year	1,362,614
1 to 2 years (inclusive)	<u>1,032,753</u>
	<u><u>2,395,367</u></u>

32. 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 2019	31 December 2018
Financial assets		
Financial assets at fair value through profit or loss	118,278,528	53,000,000
Financial assets at amortised cost		
— Cash and cash equivalents	36,118,840	51,717,811
— Securities purchased under agreements to re-sell	29,900,000	—
— Loans and accounts receivable	1,098,824,186	1,036,985,098
— Other receivables	<u>1,691,324</u>	<u>1,448,906</u>
	<u>1,284,812,878</u>	<u>1,143,151,815</u>
Financial liabilities		
Financial liabilities at amortised cost		
— Interest-bearing bank borrowings	70,108,074	200,336,825
— Lease liabilities	1,647,345	—
— Other payables	<u>5,545,483</u>	<u>8,755,866</u>
	<u>77,300,902</u>	<u>209,092,691</u>

33. 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 of Directors 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, securities purchased under agreements to re-sell, loans and accounts 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 conducts an assessment of ECLs according to forward-looking information and uses 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 ECLs 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 ECLs
- 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 the end of each reporting period. 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 at the end of each reporting period 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 the 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 ECLs of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include PD, LGD and EAD. Our Group takes into account the quantitative analysis of historical statistics (such as internal rating grade, manners of guarantees and types of collateral, repayments) 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 collateral, 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 depend 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.

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

	31 December 2019				Total
	Not overdue	Overdue within 3 months	Overdue more than 3 to 12 months	Overdue more than 1 year	
Guaranteed loans	—	650,000	5,410,000	44,841,797	50,901,797
Collateral-backed loans with guarantees	—	183,975	—	22,404,411	22,588,386
Total	—	833,975	5,410,000	67,246,208	73,490,183

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

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 2019	<u>1,009,318,041</u>	<u>81,810,000</u>	<u>73,490,183</u>	<u>1,164,618,224</u>
31 December 2018	<u>996,530,183</u>	<u>21,900,000</u>	<u>54,950,910</u>	<u>1,073,381,093</u>

As at 31 December 2019 and 31 December 2018, loans neither past due nor impaired were related to various diversified customers with no recent default history.

As at 31 December 2019, 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 individual 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.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on our Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

	31 December 2019	31 December 2018
Cash and cash equivalents*	36,085,908	51,716,367
Securities purchased under agreements to re-sell	29,900,000	—
Loans and accounts receivable	1,098,824,186	1,036,985,098
Other receivables	<u>1,691,324</u>	<u>1,448,906</u>
Total	<u>1,166,501,418</u>	<u>1,090,150,371</u>

* Excluding cash on hand.

(b) Foreign currency risk

Our Group operates principally in mainland China 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.

2019

Changes in exchange rates	Impact on profit before tax	Impact on equity
+5%	714,315	714,315
-5%	<u>(714,315)</u>	<u>(714,315)</u>

2018

Changes in exchange rates	Impact on profit before tax	Impact on equity
+5%	870,579	870,579
-5%	<u>(870,579)</u>	<u>(870,579)</u>

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, securities purchased under agreements to re-sell, loans and accounts receivable, interest-bearing bank borrowings and lease liabilities. The majority of our Group's loans and accounts receivable bear interest at fixed rates. They are mostly influenced by the mismatch of the repricing dates 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 repricing or maturity date.

31 December 2019						
	Overdue	Less than 3 months	3 to 12 months	1 to 5 years	Floating rate	Total
Financial assets:						
Cash and cash equivalents	—	—	—	—	36,085,908	36,085,908
Securities purchased under agreements to re-sell	—	29,900,000	—	—	—	29,900,000
Loans and accounts receivable	37,915,481	228,360,987	633,746,370	198,801,348	—	1,098,824,186
Subtotal	37,915,481	258,260,987	633,746,370	198,801,348	36,085,908	1,164,810,094
Financial liabilities:						
Interest-bearing bank borrowings	—	—	—	—	70,108,074	70,108,074
Lease liabilities	—	245,467	1,222,157	179,721	—	1,647,345
Subtotal	—	245,467	1,222,157	179,721	70,108,074	71,755,419
Exposure to interest sensitivity	37,915,481	258,015,520	632,524,213	198,621,627	(34,022,166)	1,093,054,675
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	55,978,535	270,360,171	545,719,755	164,926,637	—	1,036,985,098
Subtotal	55,978,535	270,360,171	545,719,755	164,926,637	51,716,367	1,088,701,465
Financial liabilities:						
Interest-bearing bank borrowings	—	—	—	—	200,000,000	200,000,000
Subtotal	—	—	—	—	200,000,000	200,000,000
Exposure to interest sensitivity	55,978,535	270,360,171	545,719,755	164,926,637	(148,283,633)	888,701,465

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.

	2019	2018
	Impact on	Impact on
	profit before	profit before
	tax	tax
Changes in variables		
+50 basis points	(169,570)	(741,418)
-50 basis points	169,570	741,418
	<u>169,570</u>	<u>741,418</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 2019, 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 RMB11.8 million (31 December 2018:RMB5.3 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 present the cash flows of our Group of financial assets and financial liabilities that will be settled on a net basis and on a gross basis by the remaining contractual maturities at the financial reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

31 December 2019							
	On demand	Overdue	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Financial assets:							
Cash and cash equivalents	36,118,840	—	—	—	—	—	36,118,840
Securities purchased under agreements to re-sell	—	—	29,900,000	—	—	—	29,900,000
Financial assets at fair value through profit or loss	47,820,000	—	—	—	—	70,458,528	118,278,528
Loans and accounts receivable	—	80,340,183	277,500,222	687,508,853	233,777,628	—	1,279,126,886
Other assets	533,817	—	374,779	441,053	341,675	—	1,691,324
Subtotal	<u>84,472,657</u>	<u>80,340,183</u>	<u>307,775,001</u>	<u>687,949,906</u>	<u>234,119,303</u>	<u>70,458,528</u>	<u>1,465,115,578</u>
Financial liabilities:							
Interest-bearing bank borrowings	—	—	20,964,014	51,262,056	—	—	72,226,070
Lease liabilities	—	—	268,461	1,258,278	182,300	—	1,709,039
Other payables	—	—	2,445,483	—	3,100,000	—	5,545,483
Subtotal	<u>—</u>	<u>—</u>	<u>23,677,958</u>	<u>52,520,334</u>	<u>3,282,300</u>	<u>—</u>	<u>79,480,592</u>
Net	<u>84,472,657</u>	<u>80,340,183</u>	<u>284,097,043</u>	<u>635,429,572</u>	<u>230,837,003</u>	<u>70,458,528</u>	<u>1,385,634,986</u>
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>	

(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 2019.

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 2019	31 December 2018
Interest-bearing bank borrowings	70,108,074	200,336,825
Lease liabilities	1,647,345	—
Less: Cash and cash equivalents	<u>36,118,840</u>	<u>51,717,811</u>
Net debt	35,636,579	148,619,014
Share capital	680,000,000	680,000,000
Reserves	143,154,528	136,970,598
Retained profits	<u>257,244,237</u>	<u>233,006,220</u>
Capital	<u>1,080,398,765</u>	<u>1,049,976,818</u>
Capital and net debt	<u>1,116,035,344</u>	<u>1,198,595,832</u>
Gearing ratio	<u>3.2%</u>	<u>12.4%</u>

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. For purposes of the tables set forth, “Loans and accounts receivable” are considered overdue only if principal payments are overdue. In addition, for loans and accounts receivable that are repayable by instalments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity:

	31 December 2019					Total
	On demand	Overdue	Less than 3 months	3 to less than 12 months	After 12 months	
Assets:						
Cash and cash equivalents	36,118,840	—	—	—	—	36,118,840
Financial assets held under resale agreements	—	—	29,900,000	—	—	29,900,000
Financial assets at fair value through profit or loss	47,820,000	—	—	—	70,458,528	118,278,528
Loans and accounts receivable	—	37,915,481	228,360,987	633,746,370	198,801,348	1,098,824,186
Property and equipment	—	—	—	—	920,820	920,820
Right-of-use assets	—	—	—	—	1,930,175	1,930,175
Goodwill	—	—	—	—	14,729,281	14,729,281
Other intangible assets	—	—	—	—	1,583,360	1,583,360
Deferred tax assets	—	—	—	—	3,182,693	3,182,693
Other assets	533,817	—	525,321	1,063,744	13,197,644	15,320,526
Subtotal	84,472,657	37,915,481	258,786,308	634,810,114	304,803,849	1,320,788,409
Liabilities:						
Interest-bearing bank borrowings	—	—	20,108,074	50,000,000	—	70,108,074
Lease liabilities	—	—	245,467	1,222,157	179,721	1,647,345
Income tax payable	—	—	7,440,617	—	—	7,440,617
Deferred tax liabilities	—	—	—	—	116,477	116,477
Other payables	—	—	9,510,106	—	3,100,000	12,610,106
Subtotal	—	—	37,304,264	51,222,157	3,396,198	91,922,619
Net	84,472,657	37,915,481	221,482,044	583,587,957	301,407,651	1,228,865,790

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
Property and equipment	—	—	—	—	1,548,850	1,548,850
Goodwill	—	—	—	—	2,221,017	2,221,017
Other intangible assets	—	—	—	—	140,000	140,000
Investment in an associate	—	—	—	—	131,533,077	131,533,077
Deferred tax assets	—	—	—	—	2,116,411	2,116,411
Other assets	—	—	314,178	4,367,934	8,389,406	13,071,518
Subtotal	104,717,811	55,978,535	271,229,754	550,915,722	309,491,960	1,292,333,782
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	—	—	19,507,001	200,000,000	6,600,000	226,107,001
Net	104,717,811	55,978,535	251,722,753	350,915,722	302,891,960	1,066,226,781

35. 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, securities purchased under agreements to re-sell, financial assets at fair value through profit or loss and loans and accounts receivable.

Our Group's financial liabilities mainly include interest-bearing bank borrowings, lease liabilities and other payables.

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 finance 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.

Our Group invests in wealth management products issued by banks in mainland China. Our Group has estimated the fair values of these wealth management products by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair values of unlisted equity investments were determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; making reference to the current market value of another instrument that is substantially the same and net assets making as much use of available and supportable

market data as possible. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, are reasonable, and that they were the most appropriate values at the end of the Reporting Period.

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 2019

	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>92,348,525</u>	<u>6,000,000</u>	<u>19,930,003</u>	<u>118,278,528</u>

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>

Our Group did not have any financial liabilities measured at fair value as at 31 December 2019 (31 December 2018: Nil).

In 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

Important unobservable input value in fair value measurement of Level 3

2019	Fair value	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Other unlisted investment	12,727,300	Recent transaction price	N/A	N/A
Other unlisted investment	7,202,703	Adjusted net asset value	Discount for lack of liquidity	The lower the discount, the higher the fair value

The movements in fair value measurements within Level 3 during the year are as follows:

	2019
Financial assets at fair value through profit or loss	
At 1 January	—
Total gains recognised in profit or loss	437,892
Acquisition of a subsidiary	6,764,811
Repossessed unlisted investments	<u>12,727,300</u>
At 31 December	<u><u>19,930,003</u></u>

36. OTHER MATTERS

On 30 December 2019, the Shenzhen Stock Exchange approved the Company's proposal to issue asset-backed securities using some of its loans and accounts receivable as the underlying assets, with an aggregate principal amount of not more than RMB300.0 million. The approval is valid for 12 months.

37. EVENT AFTER THE REPORTING PERIOD

The ECL as at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Since January 2020, the outbreak of coronavirus has spread, and the prevention and control of coronavirus has been going on throughout the mainland China. The outbreak of coronavirus has caused disruption to business and economic activities. The impact on the GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECLs under HKFRS 9 in 2020.

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 2019	31 December 2018
ASSETS		
Cash and cash equivalents	4,810,669	32,674,394
Financial assets at fair value through profit or loss	12,727,300	49,000,000
Loans and accounts receivable	845,096,485	988,055,411
Property and equipment	611,017	1,172,320
Right-of-use assets	1,541,987	—
Investments in subsidiaries	177,322,133	50,000,000
Investment in an associate	—	131,533,077
Intangible assets	1,583,360	—
Deferred tax assets	2,339,106	2,116,411
Other assets	<u>103,906,663</u>	<u>12,896,144</u>
TOTAL ASSETS	<u><u>1,149,938,720</u></u>	<u><u>1,267,447,757</u></u>
LIABILITIES		
Interest-bearing bank borrowings	70,108,074	200,336,825
Lease liabilities	1,379,032	—
Income tax payable	2,130,731	11,449,517
Other payables	<u>8,134,023</u>	<u>6,107,123</u>
TOTAL LIABILITIES	<u><u>81,751,860</u></u>	<u><u>217,893,465</u></u>
NET ASSETS	<u><u>1,068,186,860</u></u>	<u><u>1,049,554,292</u></u>
EQUITY		
Share capital	680,000,000	680,000,000
Reserves	143,154,528	136,970,598
Retained profits	<u>245,032,332</u>	<u>232,583,694</u>
TOTAL EQUITY	<u><u>1,068,186,860</u></u>	<u><u>1,049,554,292</u></u>

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

	Capital reserve	Surplus reserve	General reserve	Total
Balance as at 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 and 1 January 2019	69,383,972	52,231,032	15,355,594	136,970,598
Appropriation to surplus reserve	—	5,263,257	—	5,263,257
Appropriation to general reserve	<u>—</u>	<u>—</u>	<u>920,673</u>	<u>920,673</u>
Balance as at 31 December 2019	<u>69,383,972</u>	<u>57,494,289</u>	<u>16,276,267</u>	<u>143,154,528</u>

39. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Company's Board of Directors on 26 March 2020.

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 *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 SMEs and ‘agriculture, rural and farmers’ (三農) in Quanzhou city.

China’s finance leasing industry has developed rapidly since 2012. With China’s industrial reform and equipment upgrades, the steady growth of China’s fixed asset investment has created greater potential for the development of the finance leasing industry. In 2016, Fujian provincial government promulgated the *Opinions on Promoting the Development of the Finance Leasing Industry* (關於促進融資租賃業發展的意見), which has implemented effective measures in taxation and development environment to support the finance leasing industry in Fujian province.

Business Overview

Our Group is principally engaged in loan business and finance lease business. We conduct our loan business primarily through the Company and JJHX which was consolidated into our Group's consolidated financial statements from April 2019. Based in Quanzhou city, we are the largest licensed microfinance company in Fujian province in terms of revenue in 2019, according to the statistics of the Fujian Financial Supervision Bureau (福建省地方金融监督管理局). 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. Since October 2018, we commenced our finance leasing business principally engaged in the provision of automobile finance leasing services for SMEs and individuals in the PRC.

We generate substantially all of our income by charging interest on the loans and finance leases extended to our customers. For the years ended 31 December 2019, the total loans and finance leases granted to our customers amounted to RMB2,936.0 million. Our interest income from loans receivable was RMB165.4 million for the year ended 31 December 2019. Our interest income from finance lease receivables was RMB5.4 million for the year ended 31 December 2019.

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, lease receivables, and loan and finance lease/net capital ratio as of the dates indicated:

	As of 31 December	
	2019	2018
Share capital (<i>RMB in millions</i>)	680.0	680.0
Net capital (<i>RMB in millions</i>) ⁽¹⁾	1,228.9	1,066.2
Principal amount of outstanding loans (<i>RMB in millions</i>)	1,108.7	1,000.3
Lease receivables (<i>RMB in millions</i>)	39.2	56.8
Loan and finance lease/Net capital ratio ⁽²⁾	0.93 Times	0.99 Times

Notes:

- (1) Represents the aggregate of our share capital, reserves and retained profits of our Group.
- (2) Represents the principal amount of our outstanding loans and the total amount of our lease receivables divided by our net capital.

Our Loan Business

Loan Portfolio

The principal amount of our outstanding loans increased steadily from RMB1,000.3 million as of 31 December 2018 to RMB1,108.7 million as of 31 December 2019, primarily due to the consolidation of JJHX.

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

	As of 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Manufacturing	358,926	32.4	342,251	34.2
Wholesale and retail	349,104	31.5	362,785	36.3
Financial	46,380	4.2	26,910	2.7
Construction	189,728	17.1	70,073	7.0
Public facilities and commercial service	131,444	11.9	159,800	16.0
Agriculture	1,500	0.1	14,070	1.4
Transportation, warehousing and post	2,050	0.2	3,010	0.3
Mining	—	—	600	0.1
Others	29,543	2.7	20,819	2.0
Total	1,108,675	100.0	1,000,318	100.0

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			
	2019		2018	
	RMB'000	%	RMB'000	%
Principal amount of outstanding loans:				
Revolving loans	785,082	70.8	622,120	62.2
Term loans	323,593	29.2	378,198	37.8
Total	1,108,675	100.0	1,000,318	100.0

Loan Portfolio by Security

Our loans receivable consist 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			
	2019		2018	
	RMB'000	%	RMB'000	%
Principal amount of outstanding loans:				
Credit loans	6,000	0.5	46,431	4.6
Guaranteed loans	425,777	38.4	421,324	42.1
Collateral-backed loans				
— with guarantee	452,356	40.8	355,808	35.6
— without guarantee	224,542	20.3	176,755	17.7
Total	1,108,675	100.0	1,000,318	100.0

Our credit loans significantly decreased from RMB46.4 million as of 31 December 2018 to RMB6.0 million as of 31 December 2019 mainly because (i) we collected the credit loans granted in 2018; and (ii) no new credit loans were granted in 2019.

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

	As of 31 December			
	2019		2018	
	% (lowest)	% (highest)	% (lowest)	% (highest)
Credit loans	12.0	19.9	12.0	19.9
Guaranteed loans	8.4	24.0	8.4	24.0
Collateral-backed loans				
— with guarantee	12.0	24.0	15.6	24.0
— without guarantee	13.6	24.0	13.6	23.4

Collateral-backed Loans

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

	As of 31 December	
	2019	2018
	RMB'000	RMB'000
Building ownership rights	460,807	301,563
Building and land use rights	65,800	16,000
Shares	144,000	205,000
Equipment and share pledge	6,291	10,000

Maturity Profile of Loan Portfolio

As of 31 December 2019, our maturity profiles within one year and over one year accounted for 72.7% and 20.1% of the total principal amount of outstanding loans, respectively. The following table sets forth the maturity profile of our loans based on the contractual maturity date of the principal amount as of the dates indicated:

	As of 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Principal amount of outstanding loans:				
Past due	80,156	7.2 ⁽¹⁾	76,851	7.7 ⁽¹⁾
Due within three months	207,318	18.8	313,562	31.3
Due between three months and one year	597,946	53.9	604,861	60.5
Due over one year	<u>223,255</u>	<u>20.1</u>	<u>5,044</u>	<u>0.5</u>
Total	<u>1,108,675</u>	<u>100.0</u>	<u>1,000,318</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 RMB76.9 million and RMB80.2 million as of 31 December 2018 and 2019, respectively, accounting for 7.7% and 7.2% of the total principal amount of our outstanding loans as of the same dates.

We had 21 past due loans with an aggregate amount of RMB76.9 million as of 31 December 2018. As of 31 December 2019, RMB14.0 million of the principal amount of these past due loans as of 31 December 2018 had been settled and RMB9.9 million of the principal amount of these past due loans as of 31 December 2018 had been written off. As of 31 December 2019, the remaining portion of principal amount of past due loans as of 31 December 2018 was RMB53.0 million and the allowance for impairment losses for these loans was RMB25.8 million.

As of 31 December 2019, we had 23 past due loans with an aggregate principal amount of RMB80.2 million, and our allowance for impairment losses for these past due loans as of the same date was RMB42.8 million.

The principal amount of our past due loans increased from RMB76.9 million as of 31 December 2018 to RMB80.2 million as of 31 December 2019, mainly due to (i) the addition of 7 past due loans of JJHX with an aggregate amount of RMB22.8 million resulting from the consolidation of JJHX; and (ii) the increase of 5 past due loans of the Company with an aggregate amount of RMB4.4 million, which is partly offset by the collection of 9 past due loans of the Company with an aggregate amount of RMB15.0 million.

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					
	2019		2018			
	<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	3,088	134,420	12.1	3,558	152,116	15.2
Over RMB1.0 million to RMB3.0 million (inclusive)	108	203,801	18.4	103	196,232	19.6
Over RMB3.0 million to RMB5.0 million (inclusive)	101	476,474	43.0	101	446,145	44.6
Over RMB5.0 million to RMB10.0 million (inclusive)	21	160,980	14.5	8	55,275	5.5
Over RMB10.0 million	9	133,000	12.0	9	150,550	15.1
Total	3,327	1,108,675	100.0	3,779	1,000,318	100.0

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			
	2019		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Normal	730,870	65.9	896,886	89.7
Special-mention	304,499	27.5	48,481	4.8
Substandard	13,333	1.2	41,970	4.2
Doubtful	46,723	4.2	12,072	1.2
Loss	13,250	1.2	909	0.1
Total	<u>1,108,675</u>	<u>100.0</u>	<u>1,000,318</u>	<u>100.0</u>

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. 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 “doubtful” loans increased from RMB12.1 million as of 31 December 2018 to RMB46.7 million as of 31 December 2019 mainly because (i) part of the past due loans of the Company categorized as “substandard” in 2018 with an aggregate amount of RMB30.2 million were downgraded to “doubtful”; and (ii) RMB12.8 million of past due loans of JJHX were categorized as “doubtful”.

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	
	2019	2018
	<i>(RMB'000, except for percentage)</i>	
Impaired loan ratio⁽¹⁾	6.5%	5.4%
Balance of impaired loans receivable	73,306	54,951
Balance of gross loans receivable	1,129,136	1,023,706
Allowance coverage ratio⁽²⁾	89.0%	64.9%
Allowance for impairment losses ⁽³⁾	65,262	35,651
Balance of impaired loans receivable	73,306	54,951
Provision for impairment losses ratio⁽⁴⁾	5.8%	3.5%
Loss ratio⁽⁵⁾	23.0%	11.7%
Net charge of impairment allowance on loans receivable	38,042	18,235
Interest income	165,400	155,941

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 RMB55.0 million as of 31 December 2018 to RMB73.3 million as of 31 December 2019. Our impaired loan ratio increased from 5.4% as of 31 December 2018 to 6.5% as of 31 December 2019. Such increases were primarily due to the consolidation of JJHX and 3 loans of the Company being recognized as impaired loans during the Reporting Period.

Our Finance Leasing Business

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			
	2019		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Collateral-backed leases:				
— with guarantee	21,899	55.8	29,802	52.0
— without guarantee	17,330	44.2	26,996	48.0
Total	<u>39,229</u>	<u>100.0</u>	<u>56,798</u>	<u>100.0</u>

Gross and Net Amounts of Lease Receivables

The following table sets forth the expected gross and net amounts of lease receivables as of the date indicated:

	As of 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Lease receivables	39,229	56,798
— Due within one year	26,466	25,303
— Due in one year to two years	11,914	23,097
— Due in two years to three years	849	8,398
Net lease receivables	35,482	49,675
— Due within one year	23,469	20,714
— Due in one year to two years	11,194	20,908
— Due in two years to three years	819	8,053

We categorize our lease receivables according to our “Five-Tier Principle”. As of 31 December 2019, the past due portion of our lease receivables was categorized as “substandard”, and the remaining lease receivables were categorized as “normal”.

Both the lease receivables due in one year to two years and due in two years to three years decreased from RMB23.1 million and RMB8.4 million as of 31 December 2018 to RMB11.9 million and RMB0.8 million as of 31 December 2019, mainly because the repayments of the previously issued financial leases have been gradually received.

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 2019:

Key requirements

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

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

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.

Compliance status

Our Group complied with such requirement for the year ended 31 December 2019.

Our Group complied with such requirement for the year ended 31 December 2019.

Our Group complied with such applicable requirement for the year ended 31 December 2019.

Our Group complied with such requirement for the year ended 31 December 2019.

Key requirements

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.

Upon the listing of the H shares of the Company on the main board (the “**Main Board**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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.

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.

Compliance status

Our Group complied with such requirement for the year ended 31 December 2019.

Our Group complied with the Amended 70% Requirement for the year ended 31 December 2019.

Our Group complied with such requirement for the year ended 31 December 2019.

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

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on:		
Loans receivable	165,400	155,941
Finance lease receivables	5,414	848
Interest expense on:		
Bank loans	(8,892)	(10,618)
Lease Liabilities	(161)	—
	<u>161,761</u>	<u>146,171</u>
Interest income, net	<u>161,761</u>	<u>146,171</u>

Interest Income

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

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

	Year ended 31 December	
	2019	2018
Average balance:		
— outstanding performing loans ⁽¹⁾ (<i>RMB'000</i>)	1,097,755	952,610
— interest-generating finance lease receivables (<i>RMB'000</i>)	49,332	47,632
Average effective interest rate per annum:		
— performing loans ⁽²⁾	15.07%	16.37%
— interest-generating finance lease receivables ⁽³⁾	10.97%	10.69%

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 for the year by the average balance of outstanding performing loans for the year indicated.

- (3) Calculated by dividing the annualised interest income derived from our interest-generating finance lease receivables for the period by the average balance of our finance lease receivables not impaired for the relevant period.

Our loan business and finance leasing business are primarily funded by our share capital as well as our bank borrowings. Our interest income increased by 8.9% from RMB156.8 million for the year ended 31 December 2018 to RMB170.8 million for the year ended 31 December 2019. The average balance of our outstanding performing loans increased by 15.2% from RMB952.6 million in 2018 to RMB1,097.8 million in 2019. Such increases were primarily attributable to the consolidation of JJHX. The average balance of our finance lease receivables was RMB49.3 million for the year ended 31 December 2019 mainly because we commenced our finance leasing business since October 2018. For the year ended 31 December 2018 and 2019, our average effective interest rate per annum on our performing loans decreased from 16.37% to 15.07%. Such decrease was primarily due to (i) the increase of the proportion of collateral-backed loans with lower interest rates; and (ii) the charging of lower interest rates 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	
	2019	2018
Average balance of bank borrowings ⁽¹⁾ (RMB'000)	150,194	185,361
Effective interest rate per annum ⁽²⁾	5.92%	5.73%

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 the average balance of bank borrowings for the year.

Our average balance of bank borrowing slightly decreased from RMB185.4 million as of 31 December 2018, to RMB150.2 million as of 31 December 2019, which was generally in line with our business development.

Net Charge of Impairment Allowance on Loans and Accounts Receivable

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

We review our loan portfolios and finance leases 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 year ended 31 December 2018 and 2019 were RMB18.3 million and RMB37.8 million, respectively. Such increase was primarily because (i) the consolidation of JJHX; and (ii) the increase in the impairment allowance on loans receivable in relation to the existing impaired loans.

Operating and Administrative Expenses

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Tax and surcharges	1,783	1,282
Staff costs:		
Salaries, bonuses and allowances	13,650	10,250
Other social welfare	2,342	1,661
Depreciation and amortization	4,366	645
Leasing expenses	—	1,571
Auditor's remuneration	1,367	1,244
Others	9,690	8,508
	<u>33,198</u>	<u>25,161</u>
Total operating and administrative expenses		

Our tax and surcharges primarily comprise city maintenance and construction tax and additional education fees, accounting for 5.1% and 5.4% of our operating and administrative expenses for the years ended 31 December 2018 and 2019, respectively. Staff costs, including salaries, bonuses and allowances paid to employees, other social welfare insurance and benefits, accounted for 47.3% and 48.2% of our operating and administrative expenses for the years ended 31 December 2018 and 2019, respectively.

Our operating and administrative expenses increased from RMB25.2 million for the years ended 31 December 2018 to RMB33.2 million for the year ended 31 December 2019 mainly because (i) JJHX was consolidated into our Group's consolidated financial statements; (ii) the staff costs increased; and (iii) the new intangible assets were amortized since 2019.

Other Income and Gains, Net

Our net other income and gains consist of gains from financial assets at fair value through profit or loss, government grants, interest from bank deposits, gains/losses on disposal of items of property and equipment and other gains and losses. Our net other income and gains increased from RMB3.1 million for the year ended 31 December 2018 to RMB6.6 million for the year ended 31 December 2019 mainly due to the consolidation of JJHX.

The following table sets forth the details of our net other income and gains for the years indicated:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Gains from financial assets		
at fair value through profit or loss	3,505	921
Government grants	1,260	2,000
Interest from bank deposits	152	198
Gains/(losses) on disposal of items of property and equipment	22	(2)
Others	1,621	(3)
	<u>1,621</u>	<u>(3)</u>
Total	<u>6,560</u>	<u>3,114</u>

Income Tax Expense

During the years ended 31 December 2018 and 2019, we were subject to the general tax rate of 25% pursuant to the *Enterprise Income Tax Law* (企業所得稅法) which became effective from 1 January 2008, and was amended on 24 February 2017 and 29 December 2018. Our income tax expense for the years ended 31 December 2018 and 2019 was RMB26.3 million and RMB23.6 million, respectively, and our effective tax rate for the same years was 23.0% and 24.1%.

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 RMB88.0 million and RMB74.5 million for the years ended 31 December 2018 and 2019, respectively.

Liquidity and Capital Resources

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.

Our gearing ratio which presented the percentage of our net debt divided by the aggregate of our capital and net debt, decreased from 12.4% as of 31 December 2018 to 3.2% as of 31 December 2019, mainly because of the decrease in bank borrowings.

Cash Flows

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

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from operating activities	140,665	3,258
Net cash flows from investing activities	19,275	21,361
Net cash flows (used in)/from financing activities	(175,652)	15,537
Net (decrease)/increase in cash and cash equivalents	(15,712)	40,156
Cash and cash equivalents at beginning of year	<u>51,718</u>	<u>12,291</u>
Effect of foreign exchange rate changes, net	<u>113</u>	<u>(729)</u>
Cash and cash equivalents at end of year	<u><u>36,119</u></u>	<u><u>51,718</u></u>

Net cash flows from 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 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 charge on 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 from operating activities for the year ended 31 December 2019 was RMB140.7 million. Net cash flows generated from operating activities before working capital adjustment was RMB139.9 million. Cash outflows arising from changes in working capital primarily consisted of: (i) a decrease in loans and accounts receivable of RMB103.2 million as a result of the decline of the Company's loan business; (ii) an increase in financial assets at fair value through profit or loss of RMB38.4 million; (iii) an increase in the purchases of financial assets held under resale agreements of RMB29.9 million; (iv) a decrease in other assets of RMB0.5 million; and (v) a decrease in other payables of RMB3.7 million mainly attributable to the decrease in taxes payable, performance deposit, etc.

Net cash flows from investing activities

For the year ended 31 December 2019, our net cash flows from investing activities was RMB19.3 million, which was mainly due to (i) the dividends received from JJHX of RMB7.2 million in January 2019; and (ii) the net increase in cash of RMB12.5 million as a result of the consolidation of JJHX and Anshenghe.

Net cash flows used in financing activities

For the year ended 31 December 2019, our net cash flows used in financing activities was RMB175.7 million, which is mainly due to (i) the repayment of bank borrowing of RMB200.0 million; (ii) payments of interest of RMB9.1 million; (iii) payments of the principal of the office building lease of RMB2.2 million; and (iv) the payment of dividend of RMB34.0 million. Such cashflows were partly offset by (i) the capital injection by non-controlling shareholders of RMB20.0 million; and (ii) the proceeds from bank borrowings of RMB70.0 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 2018 and 2019, the total cash and cash equivalents amounted to RMB51.7 million and RMB36.1 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	
	2019	2018
	RMB'000	RMB'000
Assets		
Cash and cash equivalents	36,119	51,718
Securities purchased under agreements to re-sell	29,900	—
Financial assets at fair value through profit or loss	118,279	53,000
Loans and accounts receivable	1,098,824	1,036,985
Investment in an associate	—	131,533
Property and equipment	921	1,549
Right-of-use assets ⁽¹⁾	1,930	—
Goodwill	14,729	2,221
Other Intangible assets	1,583	140
Deferred tax assets	3,182	2,116
Other assets	<u>15,321</u>	<u>13,072</u>
Total assets	<u>1,320,788</u>	<u>1,292,334</u>
Liabilities		
Interest-bearing bank borrowings	70,108	200,337
Lease liabilities	1,647	—
Income tax payable	7,441	11,585
Deferred tax liabilities	116	—
Other payables	<u>12,610</u>	<u>14,185</u>
Total liabilities	<u>91,922</u>	<u>226,107</u>
Net assets	<u>1,228,866</u>	<u>1,066,227</u>

Note:

(1) The right-of-use assets mainly consist of the leases of properties.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of our cash on hand and cash at banks. As of 31 December 2018 and 2019, we had cash and cash equivalents of RMB51.7 million and RMB36.1 million, respectively. Such decrease in our cash and cash equivalents was primarily due to the decrease in our interest-bearing bank borrowings of RMB130.2 million, and an increase in financial assets at fair value through profit or loss of RMB65.3 million.

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	
	2019	2018
	RMB'000	RMB'000
Net lease receivables:		
— Performing	35,298	49,675
— Non-performing	184	—
Loans receivable:		
— Performing ⁽¹⁾	1,055,830	968,755
— Non-performing ⁽²⁾	73,306	54,951
Total loans and accounts receivable	1,164,618	1,073,381
Less: Allowance for impairment losses		
— Individual assessed	(43,439)	(18,961)
— Collective assessed	(22,355)	(17,435)
Total allowance for impairment losses	(65,794)	(36,396)
Net loans and accounts receivable	1,098,824	1,036,985

Notes:

(1) Performing loans are collectively assessed for impairment.

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

Our net loans receivable increased from RMB1,037.0 million as of 31 December 2018 to RMB1,098.8 million as of 31 December 2019 due to the consolidation of JJHX.

As of 31 December 2019, our maturity profiles within one year and over one year accounted for 73.1% and 19.8% of the total loans respectively. The following table sets forth a maturity portfolio of our gross loans receivable as of the dates indicated:

	As of 31 December			
	2019		2018	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Past due	80,156	7.1	76,851	7.5
Due within three months	227,779	20.1	336,950	32.9
Due between three months and six months	311,509	27.6	357,093	34.9
Due between six months and one year	286,437	25.4	247,768	24.2
Due over one year	223,255	19.8	5,044	0.5
Total	<u>1,129,136</u>	<u>100.0</u>	<u>1,023,706</u>	<u>100.0</u>

The majority of our loans during the years ended 31 December 2018 and 2019 were guaranteed loans and collateral-backed loans, which accounted for 41.7% and 53.7% of our loans receivables as of 31 December 2018 and 38.8% and 60.7% of our loans receivables as of 31 December 2019, respectively. The following table sets forth the balance of our gross loans receivable as of the dates indicated:

	As of 31 December			
	2019		2018	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Credit loans	6,094	0.5	47,141	4.6
Guaranteed loans	437,676	38.8	427,198	41.7
Collateral-backed loans				
— with guarantee	461,062	40.8	368,725	36.0
— without guarantee	224,304	19.9	180,642	17.7
Total	<u>1,129,136</u>	<u>100.0</u>	<u>1,023,706</u>	<u>100.0</u>

Goodwill

Our goodwill increased from RMB2.2 million as of 31 December 2018 to RMB14.7 million as of 31 December 2019 mainly because we deemed to be interested in Quanzhou Yuanpeng's equity interest in JJHX through the acting in concert agreement with Quanzhou Yuanpeng on 18 April 2019, which resulted in JJHX being accounted for a subsidiary of the Company. For details, please refer to the announcement of discloseable transaction relating to the acting in concert agreement dated 18 April 2019.

Other Intangible Assets

Other intangible assets increased from RMB0.1 million as of 31 December 2018 to RMB1.6 million as of 31 December 2019, mainly due to the purchase of a financial software by the Company, and this software has been put into use in 2019.

Deferred Tax Assets

The deferred tax assets increased from RMB2.1 million as of 31 December 2018 to RMB3.2 million as of 31 December 2019, mainly due to the consolidation of JJHX.

Other Assets

Our other assets primarily consist of repossessed assets, deferred and prepaid expenses and other receivables.

Our other assets increased from RMB13.1 million as 31 December 2018 to RMB15.3 million as of 31 December 2019 mainly due to the consolidation of JJHX. The following table sets forth a breakdown of our other assets as of the dates indicated:

	As of 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Repossessed assets	12,856	8,060
Deferred and prepaid expenses	773	3,563
Other receivables	<u>1,692</u>	<u>1,449</u>
Total other assets	<u><u>15,321</u></u>	<u><u>13,072</u></u>

Income tax payable

Our income tax payable, which represents our current income tax liabilities, was RMB11.6 million and RMB7.4 million, respectively, as of 31 December 2018 and 2019.

Other payables

Our other payables mainly include payrolls payable, value-added tax and surcharges payable, deposits and others. As of 31 December 2018 and 2019, our other payables were RMB14.2 million and RMB12.6 million, respectively.

Indebtedness

Interest-bearing bank borrowings

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

	As of 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Guaranteed bank loans:		
— repayable within one year	<u>70,108</u>	<u>200,337</u>
Total	<u>70,108</u>	<u>200,337</u>

Contingent Liabilities

As of 31 December 2019, we had no material contingent liabilities or guarantees.

Asset-backed Securities

On 3 April 2019, a proposed issue of asset-backed securities in the PRC with an aggregate principal amount of not more than RMB500.0 million had been approved by the Board and the shareholders at the annual general meeting of the Company on 12 June 2019.

On 30 December 2019, the Shenzhen Stock Exchange approved the Company's proposed issue of asset-backed securities in relation to the securitisation of credit assets of the Company, in the aggregate principal amount of not more than RMB300.0 million. The approval is valid for 12 months. As at the date hereof, no such asset-backed securities have been issued by the Company.

For more details, please refer to the announcement of the Company dated 3 April 2019, the circular of the Company dated 24 April 2019 and the poll results announcement of the Company dated 12 June 2019.

Capital Expenditures

Our capital expenditures consist primarily of expenditures for (i) fixtures and the purchase of office furniture and equipment; and (ii) intangible assets. The following table sets forth our capital expenditures for the years indicated:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Capital expenditures		
— Micro-credit business	2,926	390
— Finance lease	—	41
	<u> </u>	<u> </u>
Total	<u>2,926</u>	<u>431</u>

Related Party Transactions

None of the related party transactions set out in note 29 to the consolidated financial statements constitutes connected transactions or continuing connected transactions which are subject to the reporting, annual review, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Commitment and Contractual Obligations

Capital Commitments

We had a capital commitment of approximately RMB556,553 and RMB767,000, contracted but not provided for in the financial statements, in respect of a software as of 31 December 2018 and 31 December 2019.

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
	2019	2018
Return on equity ⁽¹⁾	6.0%	8.4%
Return on assets ⁽²⁾	5.6%	6.8%
Gross loans to total assets ⁽³⁾	88.2%	83.1%
Gearing ratio ⁽⁴⁾	3.2%	12.4%

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 parent as of the indicated date multiplied by 100%.
- (2) Return on assets is calculated by dividing net profit 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 receivable amount as of the indicated date divided by the total assets as of the same date and multiplied by 100%. Gross loans 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 decreased from 8.4% for the year ended 31 December 2018 to 6.0% for the year ended 31 December 2019 primarily due to the slight decrease of the net profit as a result of the increase in provision for loan impairment loss in 2019. Our return on assets reflecting our profitability decreased from 6.8% for the year ended 31 December 2018 to 5.6% for the year ended 31 December 2019 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 an increase from 83.1% as of 31 December 2018 to 88.2% as of 31 December 2019, which reflects our high capital utilization ratio. Our gearing ratios reflecting our financial leverage decreased from 12.4% as of 31 December 2018 to 3.2% as of 31 December 2019, mainly due to the decrease in the amount of outstanding bank borrowings.

Off-balance Sheet Arrangements

As of 31 December 2019, 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 2019.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no material investments or acquisitions by our Group for the year ended 31 December 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

Other than bank loans we obtained from commercial banks, we also consider issuing bonds or asset-backed securities in the PRC or conducting income rights transfer and repurchase financing or other investments plans or options. 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 2019.

CHARGE ON OUR GROUP'S ASSETS

As of 31 December 2019, we did not have any charges on our assets.

EMPLOYMENT AND EMOLUMENTS

As of 31 December 2019, our Group had 85 employees, all of whom were based in Fujian province. 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 the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance.

CONTINUING DISCLOSURE REQUIREMENTS UNDER THE LISTING RULES

As of 31 December 2019, our Group was not involved in any circumstances that would give rise to a disclosure requirement under Rules 13.12 to 13.19 of the Listing Rules.

PROSPECTS

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

During the Reporting Period, we applied to Quanzhou Market Supervision and Administration Bureau (泉州市市場監督管理局) for the change of our business scope to "conducting microfinance business in Quanzhou city" and obtained its approval on 25 June 2019. This allows us to further expand our customer base.

While the expansion of our business scope brought both opportunities and challenges to the Company, the outbreak of novel coronavirus in 2020 has adversely affected China's economy. In order to equip ourselves against risks in our business operation, we have taken certain measures as described below.

Enhancing our employees' service capabilities. Based on our understanding of our employees' projected career path and capability profile, we have streamlined our personnel training system and mentor system, and introduced customized courses developed by external professionals as well as internal sessions on business practices sharing for our employees, with a view to enhancing the quality of our employees and their service capabilities.

Optimizing our asset structure. From a macro-economic perspective, we see both complexity and uncertainty in traditional businesses as well as opportunities in other areas of businesses. As such, we have made certain adjustments to our plan for future asset structure and have started to increase the proportion of our non-credit assets.

Adopting new operation model. On-site operation model does not suit our needs during the period of the novel coronavirus outbreak. As such, we have been actively developing our business on-line with the use of our online information system, which we have been developing all along, in order to build up an online operation model and approval system to gradually replace the traditional operation model.

USE OF PROCEEDS FROM GLOBAL OFFERING

The H Shares 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 2019, the net proceeds from global offering, which were applied in the manners as set out in the announcement of change in use of proceeds of the Company dated 29 August 2017, has been used up in the manner as set out below:

Item No.	Purposes	Revised allocation (amounts adjusted on a pro-rata basis) ⁽¹⁾	The remaining balance as of 31 December 2018 ⁽¹⁾	Amount utilized during the Reporting Period ⁽¹⁾	The remaining balance as of 31 December 2019
(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%)	—	—	—
(ii)	For strategic acquisitions and investments in financial services providers	Approximately HK\$43.8 million (approximately 15%)	—	—	—
(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%)	—	—	—
(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\$0.4 million	Approximately HK\$0.4 million	—
(v)	For working capital and general corporate purpose	Approximately HK\$17.5 million (approximately 6%)	Approximately HK\$0.1 million	Approximately HK\$0.1 million	—
Total		Approximately <u>HK\$292.3 million</u>	Approximately <u>HK\$0.5 million</u>	Approximately <u>HK\$0.5 million</u>	—

Note:

(1) The numbers in the table are approximate figures. Any discrepancies in the numbers are due to roundings.

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 and Corporate Governance Report 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.

UPDATES ON DIRECTORS’ AND SUPERVISORS’ INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, there was no change in information of the Directors and supervisors of the Company since the Company’s last published interim report up to the date of this announcement.

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 2019.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.05 per share for the year ended 31 December 2019 to shareholders whose names appear on the Company’s register of members on Friday, 26 June 2020 (the “**Proposed Final Dividend**”). Subject to the approval of the shareholders at the Company’s forthcoming annual general meeting to be held on Friday, 12 June 2020 (the “**AGM**”), the Proposed Final Dividend is expected to be paid on or around Monday, 17 August 2020.

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 Wednesday, 13 May 2020 to Friday, 12 June 2020, 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 Tuesday, 12 May 2020.

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 Sunday, 21 June 2020 to Friday, 26 June 2020, 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 our Group's H Share Registrar in Hong Kong, 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 Friday, 19 June 2020.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the note 37 to the consolidated financial statements, no event needs to be disclosed 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 Friday, 12 June 2020. 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 audited financial statements for the year ended 31 December 2019.

This Annual Results announcement is based on our Group's audited consolidated financial statements for the year ended 31 December 2019 which has been agreed with the auditor of the Company.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The Annual Results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and our Group (www.qzhuixin.net). The annual report for the year ended 31 December 2019 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.

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

Hong Kong, 26 March 2020

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*