2018
Annual Report

TaiHe

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited
揚州市廣陵區泰和農村小額貸款股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

Stock Code: 8252

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Company Profile

DIRECTORS

Executive Directors

Mr. Bo Wanlin *(Chairman)*
Ms. Bai Li
Ms. Zhou Yinqing

Non-executive Directors

Mr. Bo Nianbin
Mr. Zuo Yuchao

Independent non-executive Directors

Mr. Bao Zhenqiang
Mr. Wu Xiankun
Mr. Chan So Kuen

Supervisors

Ms. Wang Chunhong
Mr. Zhang Yi
Ms. Li Guoyan

BOARD COMMITTEES

Audit committee

Mr. Chan So Kuen *(Chairman)*
Mr. Wu Xiankun
Mr. Bao Zhenqiang

Remuneration committee

Mr. Bao Zhenqiang *(Chairman)*
Mr. Chan So Kuen
Mr. Wu Xiankun

Nomination committee

Mr. Bo Wanlin *(Chairman)*
Mr. Wu Xiankun
Mr. Bao Zhenqiang

Joint company secretaries

Mr. Xu Lei
Mr. Lau Kwok Yin *(HKICPA)*

Authorised representatives for the Hong Kong Stock Exchange

Mr. Bo Wanlin
Mr. Xu Lei

Compliance Officer

Ms. Bai Li

Headquarters and registered office in the PRC

Beizhou Road, Lidian Town, Guangling District
Yangzhou City, Jiangsu Province, the PRC

Principal place of business in Hong Kong

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

Company website address

www.gltaihe.com

Stock code

8252

Auditors and reporting accountants

Ernst & Young
Certified public accountant
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Principal bankers

Agricultural Bank of China
(Yangzhou Jiangwang Branch)
Room B6, Wanduwujinjidiancheng
Jiangwang Town
Hanjiang District
Yangzhou City
Jiangsu Province
PRC

Bank of Communications Co., Ltd.
(Hong Kong Branch)
20 Pedder Street
Central, Hong Kong

Legal adviser as to Hong Kong law

Chungs Lawyers
28/F, Henley Building
5 Queen's Road Central
Central
Hong Kong

Legal adviser as to PRC law

Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Beijing, China 100022

Compliance adviser

China Galaxy International Securities
(Hong Kong) Co., Limited
20/F Wing On Centre
111 Connaught Road Central
Hong Kong

H Share registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Financial Highlights

	2018 *RMB'000*	2017 *RMB'000*	Changes
OPERATING RESULTS			
Interest income	**108,333**	91,338	18.6%
Profit for the year attributable to owners of the Company	**68,755**	45,834	50.0%
Basic earnings per share	**0.11**	0.08	37.5%
FINANCIAL POSITION			
Bank balances and cash	**4,337**	10,579	-59.0%
Loans receivable	**814,276**	787,399	3.4%
Share capital	**600,000**	600,000	—
Total assets	**827,458**	804,692	2.8%
Net assets	**811,311**	790,556	2.6%
Dividends			
– Proposed final dividend (per share)	**—**	0.08	N/A

Dear Shareholders,

On behalf of the board of Directors of the Company (the "**Board**"), I am pleased to present the results of the Company for the year ended 31 December 2018 to the shareholders of the Company (the "**Shareholder(s)**").

After successful listing of the Company on the Stock Exchange, our corporate image in the industry and liquidity position is further enhanced. The listing status of the Company exemplifies our commitment to maintaining and ensuring high standards of corporate governance, internal control and risk management, which are essential for the sustainability and long-term success of the Company.

The Company achieved encouraging results during the year under review. For the year ended 31 December 2018, the Company recorded gross interest income of approximately RMB108.3 million, representing an increase of approximately 18.6% as compared to approximately RMB91.3 million in the previous year; and profit after tax of approximately RMB68.8 million, representing an increase of approximately 50.0% as compared to approximately RMB45.8 million in the previous year. As at 31 December 2018, the Company's balance of outstanding loans (before allowance for impairment losses) was approximately RMB841.5 million, representing an increase of approximately 3.6% as compared to approximately RMB812.0 million in the previous year. Total assets as at 31 December 2018 were approximately RMB827.5 million, representing an increase of approximately 2.8% as compared to approximately RMB804.7 million in the previous year.

During 2018, the Company continues to promote the implementation of the strategic plan and meticulous management initiatives to further strengthen the Company's competitive advantages. In terms of business strategies, the Company has expanded our customer base by further penetrating the existing market, while expanding and strengthening our back-office operation support. In 2018, our Company has been accredited as "National Excellent Microfinance Company (全國優秀小額貸款公司)" by China Micro-credit Companies Association in recognition of our quality micro and small loan business. We have also been awarded "Top Ten Best Microfinance Companies (十佳明星小貸公司)" in Yangzhou City by Yangzhou Finance Office for seven consecutive years from 2012 to 2018.

Looking ahead, the Board and all staff of the Company will make pioneering and innovative efforts and keep pace with the times to create greater values for our customers, employees and Shareholders.

Lastly, on behalf of the Board, I would like to extend my gratitude to all Shareholders for their continuous support, and I would also like to express my sincere thanks to all employees for their dedication and contributions to the Company.

Best regards,
Bo Wanlin
Chairman
Yangzhou Guangling District Taihe Rural Mico-finance Company Limited

Hong Kong, 25 March 2019

BUSINESS REVIEW

During the year ended 31 December 2018, the Company continued to pursue business opportunities, strengthen its market position and achieve stable operating results. For the year ended 31 December 2018, the Company recorded gross interest income of approximately RMB108.3 million, representing an increase of approximately 18.6% as compared to approximately RMB91.3 million for the year ended 31 December 2017; and profit after tax of approximately RMB68.8 million, representing an increase of approximately 50.0% as compared to approximately RMB45.8 million for the year ended 31 December 2017. As at 31 December 2018, the Company's balance of outstanding loans (before allowance for impairment losses) was approximately RMB841.5 million, representing an increase of approximately 3.6% as compared to approximately RMB812.0 million as at 31 December 2017. Total assets as at 31 December 2018 were approximately RMB827.5 million, representing an increase of approximately 2.8% as compared to approximately RMB804.7 million as at 31 December 2017, and net assets were approximately RMB811.3 million as at 31 December 2018, representing an increase of approximately 2.6% as compared to approximately RMB790.6 million as at 31 December 2017.

The number of customers

We have a relatively broad customer base comprising primarily small and medium-sized enterprises ("**SMEs**"), microenterprises and individual proprietors situated or resided in Yangzhou City. Our customers are engaged in a variety of industries, and a majority of which are also under the classification of AFR (三農) of the People's Bank of China. We consider the diversity of industries and businesses of our customers, coupled with our relatively small individual loan size, serve to alleviate our risk of concentration and position us to better withstand periodic business and economic cycles of different industries. For the year ended 31 December 2017 and 2018, we granted loans to 500 and 513 customers, respectively. The following table sets forth the number of customers to whom we have granted loans for the periods indicated:

	Year ended 31 December			
	2018		2017	
	No. of Customers	***%***	*No. of Customers*	*%*
Customer by type				
SMEs and microenterprises	**28**	**5.5**	38	7.6
Individual proprietors	**485**	**94.5**	462	92.4
Total	**513**	**100.0**	500	100.0

Loan portfolio by size

The following table sets forth our outstanding loans by size as at the dates indicated:

	As at 31 December 2018		As at 31 December 2017	
	RMB'000	*%*	*RMB'000*	*%*
Less than or equal to RMB0.5 million				
– Guaranteed loans	21,088	2.5	18,989	2.3
– Collateralized loans	7,613	0.9	10,486	1.3
	28,701	3.4	29,475	3.6
Over RMB0.5 million but less than or equal to RMB1 million				
– Guaranteed loans	95,789	11.4	58,650	7.2
– Collateralized loans	704	0.1	1,522	0.2
	96,493	11.5	60,172	7.4
Over RMB1 million but less than or equal to RMB2 million				
– Guaranteed loans	317,150	37.6	319,849	39.4
– Collateralized loans	10,792	1.3	14,262	1.8
	327,942	38.9	334,111	41.2
Over RMB2 million but less than or equal to RMB3 million				
– Guaranteed loans	367,322	43.7	367,128	45.2
– Collateralized loans	21,058	2.5	21,088	2.6
	388,380	46.2	388,216	47.8
Total	841,516	100.0	811,974	100.0

Loan portfolio by security

We accept (i) loans backed by guarantees, (ii) loans secured by collaterals, or (iii) loans backed and secured by both guarantees and collaterals. The following table sets forth the balance of our outstanding loans by security as at the dates indicated:

	As at 31 December 2018		As at 31 December 2017	
	RMB'000	*%*	*RMB'000*	*%*
Guaranteed loans	**801,349**	**95.2**	764,616	94.2
Collateralized loans	**40,167**	**4.8**	47,358	5.8
included: Guaranteed and collateralized loans	**37,989**	**4.5**	44,376	5.5
Total	**841,516**	**100.0**	811,974	100.0

The following table sets forth the details of the number of our loans granted for the years indicated by security:

	Year ended 31 December	
	2018	2017
Guaranteed loans	**522**	528
Collateralized loans	**42**	55
included: Guaranteed and collateralized loans	**41**	55
Total	**564**	583

Asset quality

We adopt a loan classification approach to manage our loan portfolio. 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 China Banking and Insurance Regulatory Commission . According to the "Five-Tier Principle", our loans are categorized as "normal", "special-mention", "substandard", "doubtful" or "loss" according to their levels of risk. The following table sets forth our outstanding loans by the "Five-Tier Principle" category as at the dates indicated:

	As at 31 December 2018		As at 31 December 2017	
	RMB'000	*%*	*RMB'000*	*%*
Normal	**826,672**	**98.2**	800,985	98.6
Special-Mention	**3,301**	**0.5**	2,030	0.3
Substandard	**3,237**	**0.4**	—	0.0
Doubtful	**1,165**	**0.1**	3,668	0.5
Loss	**7,141**	**0.8**	5,291	0.6
Total	**841,516**	**100.0**	811,974	100.0

The following table sets forth our loan quality analysis as at the dates indicated:

	As at 31 December 2018	As at 31 December 2017
Impaired loan ratio(1)	**1.4%**	1.1%
Balance of impaired loans (RMB'000)	**11,543**	8,959
Total amount of loans receivable (RMB'000)	**841,516**	811,974

	As at 31 December 2018	As at 31 December 2017
Allowance coverage ratio(2)	**236.0%**	274.3%
Allowance for impairment losses (RMB'000)(3)	**27,240**	24,574
Balance of impaired loans (RMB'000)	**11,543**	8,959
Provisions for impairment losses ratio(4)	**3.2%**	3.0%

	As at 31 December 2018	As at 31 December 2017
Balance of overdue loans (RMB'000)	**14,694**	10,989
Total amount of loans receivable (RMB'000)	**841,516**	811,974
Overdue loan ratio(5)	**1.7%**	1.4%

Notes:

(1) Represents the balance of impaired loans divided by the total amount of loans receivable.

(2) Represents the allowance for impairment losses on all loans divided by the balance of impaired loans. The allowance for impairment losses on all loans include provisions provided for loans which are assessed collectively and provisions provided for impaired loans 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 total amount of loans receivable. Provisions for impairment losses ratio measures the cumulative level of provisions.

(5) Represents the overdue loans, being loans with whole or part of the principal and/or interest that was overdue for one day or more, divided by the total amount of loans receivable.

Management Discussion and Analysis

FINANCIAL REVIEW

Interest income

Our gross interest income increased by approximately 18.6% from approximately RMB91.3 million for the year ended 31 December 2017 to approximately RMB108.3 million for the year ended 31 December 2018. This increase was mainly attributable to an increase in the average daily balance of our loans receivable by approximately 17.6% from approximately RMB698.9 million for the year ended 31 December 2017 to approximately RMB822.3 million for the year ended 31 December 2018 and an increase in the average interest rate per annum from 13.1% for the year ended 31 December 2017 to 13.2% for the year ended 31 December 2018.

Interest expense

There was no interest expense for the year ended 31 December 2018 (for the year ended 31 December 2017: approximately RMB0.1 million), primarily because the external borrowing of 2017 had been repaid in November 2017. The Company entered into an instalment loan arrangement in respect of purchasing motor vehicles at the end of 2018, the loan has not started accruing interest as of 31 December 2018.

Accrual of provision for impairment losses

We had accrual of provision for impairment losses of approximately RMB7.3 million and RMB3.0 million for the year ended 31 December 2017 and 2018, respectively. The decrease in accrual of provision for impairment losses is mainly due to the decrease of the amount of new loans granted in 2018 .

Accrual of provision for guarantee losses

During the years ended 31 December 2017 and 2018, we had provided financing guarantee services on an occasional basis, upon our customers request and at our sole discretion. We had accrued the provisions for guarantee losses provided for our outstanding financing guarantee obligation of RMB58,000 and RMB25,852 for the years ended 31 December 2017 and 2018, respectively.

Administrative expenses

Our administrative expenses decreased by approximately 26.2% from approximately RMB20.7 million for the year ended 31 December 2017 to approximately RMB15.3 million for the year ended 31 December 2018. This was primarily due to a decrease in listing expense.

Income tax expense

Income tax expense increased by approximately 54.6% from approximately RMB15.2 million for the year ended 31 December 2017 to approximately RMB23.5 million for the year ended 31 December 2018. Such increase was mainly attributable to an increase in profit before tax.

Profit and total comprehensive income

As a result of the foregoing, our profit and total comprehensive income increased by approximately 50.0% from approximately RMB45.8 million for the year ended 31 December 2017 to approximately RMB68.8 million for the year ended 31 December 2018.

Significant investments

The Company has no significant investment during the year ended 31 December 2018.

Material acquisitions or disposals of subsidiaries, affiliated companies and joint ventures

The Company has no material acquisition or disposal of subsidiaries, affiliated companies and joint ventures during the year ended 31 December 2018.

Future plans for material investments or capital assets and expected sources of funding

The Company has no specific future plans for material investments or capital assets as at 31 December 2018.

Foreign exchange risk

The Company operates principally in the People's Republic of China (the "**PRC**") with only limited exposure to foreign exchange rate risk. Certain bank deposits denominated in HKD after being listed on GEM in Hong Kong on 8 May 2017 (the "**Listing**"), the balance of which is approximately HK$2,655 as at 31 December 2018. The Company will continue to monitor the situation to ensure the foreign exchange risk is under control.

Liquidity, financial resources and capital structure

As at 31 December 2018, the Company had bank balances and cash of approximately RMB4.3 million (31 December 2017: approximately RMB10.6 million). The Company had no interest-bearing borrowings as at 31 December 2017. As at 31 December 2018, the Company had instalment loan payable and the balance of which was RMB421,000. The gearing ratio, representing the ratio of total borrowings to total assets of the Company, was nil as at 31 December 2018 (31 December 2017: nil).

During the year ended 31 December 2018, the Company did not use any financial instruments for hedging purposes.

Indebtedness and charges on assets

During the year of 2018, the Company entered into an instalment loan arrangement in respect of purchasing motor vehicles. As at 31 December 2018, the balance of the instalment loan was RMB 421,000, and was secured by the motor vehicles as collateral.

Contingent liabilities

Contingent liabilities not provided for in the financial statements were as follows:

	As at 31 December	
	2018	2017
Financial guarantee contracts	**4,000,000**	5,800,000

Use of proceeds

The actual net proceeds from the Listing (after deducting underwriting fees and commissions and listing related expenses) amounted to approximately HK$ 185.4 million (equivalent to approximately RMB161.1 million). As at 31 December 2018, the Company had utilized approximately RMB$145.1 million of the actual net proceeds to expand our loan portfolio for our micro and small loan business, and approximately RMB16.0 million as general working capital. As at 31 December 2018, all the proceeds had been used up. The following table sets out the status of our deployment of actual net proceeds as at 31 December 2018:

	Allocated net proceeds *(RMB million)*	**Funds deployed as at 31 December 2018** *(RMB million)*	**Unutilized funds as at 31 December 2018** *(RMB million)*
Expand our loan portfolio in the following markets			
Hanjiang District and Guangling District	83.0	83.0	—
Jiangdu District	10.4	10.4	—
Yizheng (county-level city)	20.9	20.9	—
Gaoyou (county-level city)	14.5	14.5	—
Baoying (county-level city)	16.3	16.3	—
Subtotal:	145.1	145.1	—
Working capital and other general corporate purposes	16.0	16.0	—
Total:	161.1	161.1	—

DIVIDEND POLICY

The Board adopted a dividend policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the articles of the association of the Company (the "**Articles of Association**") and all applicable laws and regulations and the factors set out below.

The Company has adopted a dividend policy pursuant to which it may declare and pay annual dividends to shareholders of not less than 30% of the profit available for distribution, subject to, in each case, the Board's decision after a comprehensive review of the Company's financial results, cash flow situation, business conditions and strategies,future operations and earnings, capital requirements and expenditure plans, interests of shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant, and there is no assurance that dividends may be declared or paid in any given amount for any given financial year.

Depending on the financial conditions of the Company and the conditions and factors of the Company as set out above, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board may deem appropriate. Any proposed dividend for a financial year will be subject to shareholders' approval. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles of Association.

FINAL DIVIDEND

Having duly considered the anticipated incurrence of one-off professional fees and expenses for the purpose of the Company's proposed transfer to a main Board listing and its interim impact on the cash flow of the Company, the Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

During the year ended 31 December 2018 and up to the date of this annual report, there is no arrangement under which any Shareholder has waived or agreed to waive any dividend.

MATERIAL LITIGATION AND ARBITRATION

As at 31 December 2018, the Company was not involved in any material litigation or arbitration.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Company had 32 full-time employees (31 December 2017: 33 full-time employees). Quality of our employees is the most important factor in maintaining a sustained development and growth of the Company and in improving its profitability. We offer a base salary with bonuses based on our employees' performance, as well as benefits and allowances to all our employees as an incentive. Total remuneration of the Company for the year ended 31 December 2018 was approximately RMB4.5 million (for the year ended 31 December 2017: approximately RMB4.1 million).

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible corporation, the Company is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. The Company has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Company understands a better future depends on everyone's participation and contribution. It has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Company maintains strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

Please also refer to the Environmental, Social and Governance Report in this report for further details of the Company's environmental performance and relationship with its employees, suppliers and customers.

OUTLOOK

During the year of 2018, the Gross Domestic Product ("the **GDP**") of Jiangsu Province exceeded RMB9.0 trillion for the first time, ranking second in China and representing a year-on-year growth rate of 6.7%. For the same period, the GDP of Yangzhou City was approximately RMB546.6 billion, representing a year-on-year growth rate of 7.9%. The steady growth of the economy of Jiangsu Province and Yangzhou City provided a good external economic environment for the business development of the Company. In 2018, the Chinese government introduced a series of policies that were conducive to improving the multi-level credit market and developing inclusive finance. The introduction of these policies has created a fair, transparent and sustainable policy environment and system basis for the development of microfinance companies.

With the successful listing of the Company on GEM of the Stock Exchange on 8 May 2017, the capital base of the Company has been further expanded. Meanwhile, the Company continues to promote the implementation of the strategic plan and meticulous management initiatives to further strengthen the Company's competitive advantages. In terms of business strategies, the Company has expanded our customer base by further penetrating the existing market, while expanding and strengthening our back-office operation support.

The objective of the Company is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, micro-enterprises and individual proprietors. Looking ahead, the Board and all staff of the Company will make pioneering and innovative efforts and keep pace with the times to create greater values for our customers, employees and Shareholders.

DIRECTORS

Executive Directors

Mr. Bo Wanlin (柏萬林), aged 70, is the chairman of the Board and executive Director. He is primarily responsible for corporate strategic planning and overall business development and management of the Company. He is also the chairman of the nomination committee. Mr. Bo has been the chairman and executive Director since the incorporation of the Company in November 2008. Mr. Bo is the father of Mr. Bo Nianbin and Ms. Bai Li.

From February 1973 to December 1990, Mr. Bo was the director and the secretary of branch of the Party of Yangzhou Zhenxing Garment Factory (揚州市振興服裝廠) (a garment manufacturing and sales company), and was fully responsible for company's operations and management as well as the Party and political works. From January 1991 to July 1996, Mr. Bo was the chairman and general manager of Jiangsu Qinman Group Limited (江蘇琴曼集團有限公司), and was fully responsible for company's operations and management. From August 1996 to November 2014, Mr. Bo Wanlin was the chairman of Jiangsu Botai Group Co., Ltd. (江蘇柏泰集團有限公司) ("**Botai Group**") (a garment manufacturing, import and export, sales, and investment management company), formulating the company's operational development strategy and planning, overseeing the operations and management of the company. From November 2009 to September 2014, Mr. Bo was a director of Jiangsu Hanjiang Mintai Rural Bank Co., Ltd. (江蘇邗江民泰村鎮銀行股份有限公司), involved in the formulation of the company's operational development strategy and planning. From October 2013 to January 2015, Mr. Bo served as a supervisor of Yangzhou Guangling Zhongcheng Rural Bank Co., Ltd. (揚州廣陵中城村鎮銀行股份有限公司) to supervise the performance of the board of directors of the company.

Mr. Bo once served as the chairman and legal representative of揚州唯一制衣有限公司(Yangzhou Weiyi Garment Manufactory Co., Ltd.), a company incorporated in the PRC. Its business scope includes manufactory and sale of luxury garment. Since this company no longer carried on business and did not conduct annual inspection, the business license of this company was revoked on 16 April 2008. Mr. Bo once served as the supervisor of 江蘇凱昌服裝有限公司(Jiangsu Kaichang Garment Co., Ltd.), a company incorporated in the PRC. Its business scope includes manufacture and sale of garment. Since this company no longer carried on business and did not conduct annual inspection, the business license of this company was revoked on 2 December 2010.

Mr. Bo completed his secondary school education in Jiangsu Province Hanjiang Middle School (江蘇省邗江中學) in the PRC in 1968.

Ms. Bai Li (柏莉), aged 43, is the executive Director and the general manager of the Company. She is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and participating in the day-to-day management of our business operations. Ms. Bai was appointed as the executive Director on 23 August 2012. She joined the Company on 1 July 2010 as a deputy general manager and was subsequently promoted as a general manager on 6 May 2013 responsible for overall management and operations. Ms. Bai is the daughter of Mr. Bo Wanlin and the sister of Mr. Bo Nianbin.

From August 1998 to March 2010, Ms. Bai was a customer manager of the Bank of Communications Co., Ltd. Yangzhou Branch (交通銀行股份有限公司揚州分行) (stock code: 601328.SH, 3328.HK), responsible for loan investigation and issue. From March 2010 to August 2012, Ms. Bai was a supervisor of Botai Group, supervising the performance of the board of directors of the company.

Ms. Bai graduated from Yangzhou University (揚州大學) in the PRC in July 1997 majoring in international business.

Ms. Zhou Yinqing (周吟青), aged 40, is the executive Director and the deputy general manager. She is primarily responsible for overseeing the financial management of the Company. Ms. Zhou was appointed as the executive Director on 6 May 2013 and as a deputy general manager on 10 March 2014.

From March 1996 to March 2014, Ms. Zhou was the financial controller (last position) of Botai Group and was responsible for the financial management of Botai Group.

Ms. Zhou graduated from Central Radio and Television University (中央廣播電視大學, currently known as The Open University of China (國家開放大學)) majoring in financial accounting in the PRC in July 2007.

Non-executive Directors

Mr. Bo Nianbin (柏年斌), aged 44, was appointed as non-executive Director in November 2008. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. Mr. Bo has been the non-executive Director since the incorporation of the Company in November 2008. Mr. Bo is the son of Mr. Bo Wanlin and the brother of Ms. Bai Li.

Since April 1995, Mr. Bo has served as a director of Botai Group. He was responsible for formulating the company's operational development strategy and planning. Since July 2001, Mr. Bo has served as a director and general manager of Yangzhou Bo Tai Garment Company Limited (揚州柏泰制衣有限公司), a company that manufactures and sells garments, fully responsible for the company's operation and management. From November 2004 to the present day, Mr. Bo served as a supervisor of Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd. (江蘇聯泰時尚購物廣場置業有限公司), a company principally engaged in the business of household building materials, supervising the company. From November 2014 to the present day, Mr. Bo served as a supervisor of Shanghai Boke Fashion Co.,Ltd. (上海柏可時裝有限公司), a garment sales company, supervising the performance of the board of directors of the company. Since December 2014, Mr. Bo has been the chairman of Botai Group and is responsible for the formulation of the company's operational development strategy and planning and overseeing the company's operation and management. Since March 2017, Mr. Bo has been the chairman and the general manager of Jiangsu Botai Company Limited (江蘇柏泰股份有限公司), a company that manufactures and sells garment, and is fully responsible for the operation and management of the company.

Mr. Bo completed his secondary school education in Jiangsu Province Yangzhou Middle School (江蘇省揚州中學) in the PRC in May 1992.

Mr. Zuo Yuchao (左玉潮), aged 47, was appointed as non-executive Director in November 2008. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. Mr. Zuo joined the Company in 12 November 2008 as a non-executive Director.

From July 1992 to December 1999, Mr. Zuo served as a loan officer of Agricultural Bank of China Limited Yangzhou Guangling Branch (中國農業銀行揚州廣陵支行) (stock code: 601288.SH) for loan review. Since December 1999, Mr. Zuo has been the general manager (last position) of Botai Group and is fully responsible for the company's operation and management. From March 2017 to the present, Mr. Zuo served as chairperson of the supervisory committee of board in Jiangsu Botai Company Limited (江蘇柏泰股份有限公司), a company that manufactures and sales garment, supervising the performance of the board of directors of the company.

Mr. Zuo graduated from Suzhou Urban Construction and Environmental Protection Institute (蘇州城建環保學院) (currently known as Suzhou University of Science and Technology (蘇州科技學院)) in July 1992 majoring in real estate management.

Independent non-executive Directors

Mr. Bao Zhenqiang (包振強), aged 56, was appointed as an independent non-executive Director in May 2016. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. He is also the chairman of the remuneration committee, the member of audit committee and the nomination committee.

Mr. Bao has over 35 years of teaching experience in the field of academic research and teaching. From February 1982 to July 2004, Mr. Bao was a teacher at Yangzhou University (揚州大學) and from July 2004 until now, he was a professor at Yangzhou University (揚州大學) and engaged in academic research and teaching.

Mr. Bao graduated from Yangzhou Industrial College (揚州工業專科學校) (currently known as Yangzhou University (揚州大學)) in December 1981 majoring in mechanical manufacturing. He obtained a doctorate degree in electric engineering from the Nanjing University of Aeronautics and Astronautics (南京航空航太大學) in December 2003.

Mr. Wu Xiankun (吳賢坤), aged 68, was appointed as an independent non-executive Director in January 2015. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. He is also the member of the remuneration committee, audit committee and the nomination committee.

Mr. Wu has over 36 years of experience in teaching and administrative management. From February 1981 to July 1983, Mr. Wu was a teacher in Hanjiang County Middle School (邗江縣中學). From September 1983 to September 2000, Mr. Wu was the principal of Guangling Beizhou Middle School (廣陵北洲中學) and engaged in teaching and administrative work. From September 2000 to June 2010, Mr. Wu was the Party secretary of Hanjiang Secondary School (邗江中等專科學校) and was responsible for the party and government work.

Mr. Wu graduated from Yang Zhou Normal College (揚州師範學院) (currently known as Yangzhou University (揚州大學)) in January 1981 majoring in Chinese.

Mr. Chan So Kuen (陳素權), aged 39, was appointed as an independent non-executive Director in January 2015. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. He is also the chairman of the audit committee and the member of remuneration committee.

Mr. Chan has over 15 years of experience in accounting, auditing and finance industry. He is also a member of the Hong Kong Institute of Certified Public Accountants. From June 2001 to October 2003, Mr. Chan was a semi-senior audit clerk of Ho and Ho & Company (何錫麟會計師行). From January 2004 to July 2009, Mr. Chan was appointed as a manager (the last position) of KPMG, and was responsible for the project audit. From November 2009 to October 2012, Mr. Chan was the chief financial officer and the company secretary of China Great Wall Electric Holdings Limited (中國長城電氣控股有限公司), responsible for compliance and overall financial and accounting activities. Since December 2013, Mr. Chan has been the chief financial officer and the company secretary of Huazhang Technology Holdings Limited (華章科技控股有限公司) (stock code: 1673.HK) and is responsible for internal control and overseeing financial and accounting activities. Since October 2014, Mr. Chan has served as an independent non-executive director of Link Holdings Limited (華星控股有限公司) (stock code: 8237.HK), providing independent judgment on the issues of strategy, performance, resources and standard of conduct.

Mr. Chan obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University (香港理工大學) in November 2001.

Biographical Details of Directors, Supervisors and Senior Management

SUPERVISORS

Ms. Wang Chunhong (王春宏), aged 69, was appointed as the chairman of the supervisory committee and the supervisor of the Company (the "**Supervisor**") with effective from January 2015.

Ms. Wang graduated from the long-distance learning courses of the Long Distance Learning School of China Central Party School (中共中央黨校函授學院) in the PRC in December 1999.

From August 1988 to July 2005, Ms. Wang Chunhong was a teacher of Hanjiang Professional Education Centre (邗江職教中心) where she engaged in teaching and research. Ms. Wang has retired since August 2005 and has not been engaged in any employment until her current position with the Company.

Ms. Li Guoyan (李國彥), aged 39, was appointed as the Supervisor with effective from January 2015. Ms. Li graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in June 2001 majoring in engineering management, and obtained a master's degree in technical economics and management from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in the PRC in April 2005.

From July 2005 till now, Ms. Li worked as a teacher at Nanjing University of Aeronautics and Astronautics, engaging in teaching.

Mr. Zhang Yi (張翼), aged 33, was appointed as the employee Supervisor with effective from May 2013. Mr. Zhang obtained a bachelor's degree in international business from Yangzhou University (揚州大學) in the PRC in June 2009.

Mr. Zhang joined our Company on December 2011 as account manager, and currently serves as a department manager of the Customer service department in our Company and he is responsible for preliminary review of loan applications.

From August 2010 to November 2011, Mr. Zhang was the product R&D personnel in Jiangsu Ruilian Electronic Technology Co., Ltd. (江蘇瑞聯電子科技有限公司) where he engaged in new product development.

SENIOR MANAGEMENT

Ms. Bai Li (柏莉), is the executive Director and the general manager of the Company. Please refer to her biography above for details.

Ms. Zhou Yinqing (周吟青), is the executive Director and the deputy general manager of the Company. Please refer to her biography above for details.

Mr. Xu Lei (許磊), aged 34, is the deputy general manager and secretary to the Board and joint company secretary of the Company.

From August 2007 to March 2010, Mr. Xu was the senior auditor in PricewaterhouseCoopers Zhong Tian LLP. From March 2010 to April 2014, Mr. Xu was the internal audit controller and investor relationship manager in Huiyin Smart Community Co., Ltd. (匯銀智慧社區有限公司) (formerly known as Huiyin Household Appliances (Holdings) Co., Ltd. (匯銀家電 (控股) 有限公司)) (stock code:1280.HK).

The Board hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the important roles of its Board in providing effective leadership and direction to the Company's business, and ensuring transparency and accountability of the Company's operations. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Company's business.

The Company has applied and complied with the principles and code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 15 to the GEM Listing Rules during the year ended 31 December 2018.

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of the Shareholders and investors.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES

The Company has adopted a code of conduct regarding securities transactions by Directors and Supervisors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made all reasonable enquires, all the Directors and Supervisors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors and Supervisors adopted by the Company throughout the year under review.

Corporate Governance Report

A. THE BOARD

A.1 Board of Directors

The Company is governed by the Board which has the responsibility for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Board set strategies and directions for the Company's activities with a view to developing its business and enhancing shareholder value.

Except for what has been disclosed in this annual report, to the best knowledge of the Directors of, there is no financial, business, family or other relationship amongst the Directors, the Supervisors, the chairman of the Board, the president of the Company and the senior management of the Company.

A.2 Board composition

The Board currently comprises the following Directors:

Executive Directors

Mr. Bo Wanlin *(Chairman)*
Ms. Bai Li
Ms. Zhou Yinqing

Non-executive Directors

Mr. Bo Nianbin
Mr. Zuo Yuchao

Independent non-executive Directors

Mr. Bao Zhenqiang
Mr. Wu Xiankun
Mr. Chan So Kuen

The biographical details of the Directors and senior management are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report. The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive corporate and strategic planning experiences that can contribute to the business of the Company.

During the year ended 31 December 2018, the Company has complied with Rules 5.05(1) and (2) and 5.05A of the GEM Listing Rules relating to the appointment of at least three independent non-executive directors representing more than one-third of the Board and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors also meet the guidelines for assessment of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board has received an annual confirmation of independence from each of the independent non-executive Directors. The Company considers all the independent non-executive Directors to be independent.

A.3 The Board

The Board is responsible for the leadership and control of, and promoting the success of the Company. This is achieved by setting up corporate and strategic objectives and policies, and the monitoring and evaluations of operating activities and financial performance of the Company.

All the Directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its Shareholders at all times.

Formal service agreements and letters of appointment have been entered into with the executive Directors, non-executive Directors and the independent non-executive Directors respectively setting out the key terms and conditions of their respective appointments. Every term of a Director is three years.

The insurance cover in respect of legal action against the Company's Directors and senior officers is covered by the existing Directors & Officers Liability Insurance Policy of the Company.

A.4 Chairman and Chief Executive Officer

The position of the chairman of the Board is held by Mr. Bo Wanlin, who provides leadership and is responsible for the effective functioning and leadership of the Board. Ms. Bai Li has been acting as the chief executive of the Company. She focuses on the Company's business development and daily management and general operations.

A.5 Responsibilities and delegation of functions

The Company has formalised and adopted written terms on the division of functions reserved to the Board and those delegated to the management of the Company. The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary (the "**Company Secretary**") and senior management of the Company, with a view to ensuring compliance with the Board procedures and all applicable laws and regulations. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request being made to the Board. The day-to-day management, administration and operations of the Company are delegated to the executive Directors and senior management of the Company. The Board has delegated a schedule of responsibilities to these officers for the implementation of the Board decisions. The Board periodically reviews the delegated functions and work tasks. Prior to entering into any significant transactions, the aforesaid officers have to obtain the Board's approval.

No corporate governance committee has been established by the Company and the Board is responsible for performing the corporate governance duties, which included:

(1) developing and reviewing the policies and practices on corporate governance of the Company;

(2) to review and monitor the training and continuous professional development of Directors and senior management;

(3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

(5) to review the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

A.6 Appointment, re-election and removal of directors

Pursuant to Article 103 of the Articles of Association, all current Directors were re-elected at the extraordinary general meeting on 9 January 2018 and served a term of three years.

A.7 Board meeting, general meeting and procedures

During the year ended 31 December 2018, the Board convened a total of nine Board meetings and two general meetings. The following is the Directors' attendance record of meetings held by the Board and general meeting:

	Number of meetings attended in person/ attended by proxy/ number of Board meeting	Number of meetings attended in person/ number of general meeting
Mr. Bo Wanlin	9/0/9	2/2
Ms. Bai Li	9/0/9	2/2
Ms. Zhou Yinqing	9/0/9	2/2
Mr. Bo Nianbin	9/0/9	1/2
Mr. Zuo Yuchao	9/0/9	1/2
Mr. Bao Zhenqiang	9/0/9	2/2
Mr. Wu Xiankun	9/0/9	2/2
Mr. Chan So Kuen	9/0/9	1/2

During the year ended 31 December 2018, the chairman of the Board held one meeting with the non-executive Directors (including independent non-executive Directors) without the executive Directors present.

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly.

Schedules for regular Board meetings and draft agenda of each Board meetings are sent to all Directors in advance. Notice of at least 14 days is given for a regular Board meeting. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are dispatched to all Directors at least three days before each regular Board meeting to ensure that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting.

The Company Secretary is responsible to keep minutes of all Board and committee meetings. Draft minutes are normally circulated to all Directors for comments within a reasonable time after each meeting and the final version is open to Directors for inspection. The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

A.8 Continuous professional development

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Company and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to Directors will be arranged whenever necessary.

During the year ended 31 December 2018, all Directors had participated in continuous professional development in the following manner in compliance with Paragraph A.6.5 of the Code:

	Type of training
Mr. Bo Wanlin	A,B
Ms. Bai Li	A,B
Ms. Zhou Yinqing	A,B
Mr. Bo Nianbin	A,B
Mr. Zuo Yuchao	A,B
Mr. Bao Zhenqiang	A,B
Mr. Wu Xiankun	A,B
Mr. Chan So Kuen	A,B

A: attending seminars/courses/conference to develop professional skills and knowledge

B: reading materials in relation to regulatory update

A.9 Corporate governance functions

The Board is responsible for performing the corporate governance duties and has reviewed the Company's policies and practices on corporate governance and compliance with the Code, reviewed and monitored the continuous professional development of the Directors and reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements during the year as well as the disclosures in this report.

B. BOARD COMMITTEES

During the year ended 31 December 2018, the Board has established three Board committees, namely, the audit committee (the "**Audit Committee**"), the nomination committee (the "**Nomination Committee**") and the remuneration committee (the"**Remuneration Committee**") with written terms of reference, which are available for viewing on the websites of the Company and the Stock Exchange, to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees.

B.1 Audit Committee

The Audit Committee was established by the Board on 31 January 2015 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the Code. The terms of reference was amended on 8 November 2018. The primary duties of the Audit Committee are mainly to (i) review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function or external auditors before submission to the Board; (ii) review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditors; and (iii) review the adequacy and effectiveness of the Company's financial reporting system, risk management and internal control systems and associated procedures.

As at 31 December 2018, the Audit Committee has three members comprising Mr. Chan So Kuen (Chairman), Mr. Wu Xiankun and Mr. Bao Zhenqiang, all of whom are independent non-executive Directors. During the year ended 31 December 2018, the Audit Committee had reviewed the annual results and reports of the Company for the year ended 31 December 2017, the interim results and report of the Company for the six months ended 30 June 2018 and first and third quarterly results and reports of the Company for the periods ended 31 March 2018 and 30 September 2018 respectively. Subsequent to 31 December 2018 and up to the date of this report, all members of the Audit Committee attended a meeting to review the Company's risk management and internal controls for the year ended 31 December 2018. The Company's final results and the annual results announcement for the year ended 31 December 2018 and this annual report had been reviewed by the Audit Committee before submission to the Board for approval. Members of the Audit Committee were of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and that adequate disclosure have been made.

During the year ended 31 December 2018, four meetings of the Audit Committee were held and the attendance of each member of the Audit Committee is contained in the following table:

	Number of attendance/ number of meetings
Mr. Chan So Kuen	4/4
Mr. Wu Xiankun	4/4
Mr. Bao Zhenqiang	4/4

B.2 Nomination Committee

The Company has established the Nomination Committee on 31 January 2015 with written terms of reference in compliance with the Code. The terms of reference was amended on 8 November 2018. The primary duties of the Nomination Committee are mainly to (i) review the structure, size and composition (including but not limited to the perspectives, skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, having due regard to the board diversity policy and nomination policy of the Company; (iii) assess the independence of independent non-executive Directors of the Company; (iv) make recommendations to the Board on the appointment or re-appointment of Directors of the Company and succession planning for Directors of the Company, in particular the chairman and the chief executive; and (v) review the board diversity policy and nomination policy of the Company regularly.

As at 31 December 2018, the Nomination Committee has three members comprising of one executive Director, Mr. Bo Wanlin (Chairman) and two independent non-executive Directors, Mr. Wu Xiankun and Mr. Bao Zhenqiang. During the year ended 31 December 2018, one meeting of the Nomination Committee was held to review the structure and composition of the Board and assess the independence of independent non-executive Directors. The attendance of each member of the Nomination Committee is contained in the following table:

	Number of attendance/ number of meetings
Mr. Bo Wanlin	1/1
Mr. Wu Xiankun	1/1
Mr. Bao Zhenqiang	1/1

Board Diversity Policy

The Board adopted on 31 January 2015 a Board diversity policy (the "**Board Diversity Policy**") (amended on 8 November 2018). With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company commits to selecting the best person for the role. Selection and nomination of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge, views, time contribution and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. Nomination Committee had made recommendations to the Board on the measurable objectives for implementing the Board Diversity Policy and nomination policy.

The Nomination Committee has considered measurable objectives based on four focus areas: gender, age, professional experience and length of service to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committtee will review the Board Diversity Policy, as appropriate to ensure its continued effectiveness from time to time.

Nomination Procedures

The Committee identifies individuals suitably qualified to become Board members, having due regard to the Board Diversity Policy, nomination policy and the needs of the Company by making reference to the perspectives skills, knowledge, experience, etc. of the proposed candidate and assesses the independence of the proposed independent non-executive director, as the case may be. Qualified candidates will then be recommended to the Board for approval of appointment or Board's recommendation to stand for election at a general meeting. The Board shall have the ultimate responsibility for all matters relating to the selection and appointment of directors.

B.3 Remuneration Committee

The Company established the Remuneration Committee on 31 January 2015 with written terms of reference in compliance with the Code. The Remuneration Committee adopted the approach under Paragraph B.1.2(c) (ii) of the Code and primary duties of the Remuneration Committee are mainly to (i) make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; and (iii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

As at 31 December 2018, the Remuneration Committee has three members comprising three independent non-executive Directors, Mr. Bao Zhenqiang (Chairman), Mr. Chan So Kuen and Mr. Wu Xiankun. The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Company and general market conditions. During the year ended 31 December 2018, one meeting of the Remuneration Committee was held to review the remuneration package of the Directors and senior management of the Company, the attendance of each member of the Remuneration Committee is contained in the following table:

	Number of attendance/ number of meetings
Mr. Bao Zhenqiang	1/1
Mr. Chan So Kuen	1/1
Mr. Wu Xiankun	1/1

C. REMUNERATION OF SENIOR MANAGEMENT

The biographical details of the senior management are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report.

The remuneration paid/payable to senior management other than the Directors of the Company for the year ended 31 December 2018 fell within the following band:

	Number of individuals
Nil to HK$300,000	1

D. DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial year and to ensure that the financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The statement by the auditor of the Company about their responsibilities for the financial statements is set out in the Independent Auditor's Report on page 59 of this annual report. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

E. RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 2018, the Company has complied with Principle C.2 of the Corporate Governance Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Company adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted in 2018, no significant risk was identified.

Internal Control System

The Company has in place an internal control system which enables the Company to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the internal control system framework are shown as follow:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Company.
- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Company's objectives, forming a basis for determining how risks should be managed.
- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- Information and Communication: Internal and external communication to provide the Company with the information needed to carry out day-to-day controls.

- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Company's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Company also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality agreements are in place when the Company enters into significant negotiations.

- The Executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted in 2018, no significant control deficiency was identified.

Internal Audit Function

The Company has established Internal Audit Department ("**IA Department**") , which is responsible for formulating annual audit plans, conducting internal audits according to the annual audit plans, and if applicable, liaising with and assisting external audit consultant in conducting internal audits. IA Department is independent of the Company's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Company and ensuring review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Company's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by IA department and Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

F. INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid/payable to the auditors of the Company for the year ended 31 December 2018 is set out as follows:

Services rendered	Paid/payable *RMB'000*
Audit services	1,527
Non-audit services	15
Total	1,542

G. COMPANY SECRETARY

Mr. Wong Yat Tung, a manager of SWCS Corporate Services Group (Hong Kong) Limited, resigned as joint Company Secretary on 30 May 2018 and Mr. Lau Kwok Yin was appointed as joint Company Secretary on the same day.

Mr. Lau Kwok Yin has over 10 years' experience in corporate secretarial services, finance and banking operations. He joined SWCS Corporate Services Group (Hong Kong) Limited (a corporate service provider) in March 2018 as a manager and responsible for assisting in providing company secretary services. Mr. Lau holds a bachelor of business administration degree in accounting and finance from The University of Hong Kong, and is a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst charter holder. Mr. Lau currently serves as the company secretary and joint company secretary of several companies listed on the Stock Exchange.

Mr. Xu Lei has been our joint Company Secretary since 31 January 2015. The biographical details of Mr. Xu are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report.

The Company has applied for, and the Stock Exchange has granted, a new waiver to the Company from strict compliance with the requirements under Rules 5.14 and 11.07(2) of the GEM Listing Rules in relation to the eligibility of Mr. Xu to act as the joint Company Secretary for a period from the date of appointment of Mr. Lau as the joint Company Secretary: i.e. 30 May 2018 to 7 May 2020. For details. Please refer to the announcement of the Company dated 30 May 2018.

According to the requirements of Rule 5.15 of the GEM Listing Rules, Mr. Xu and Mr. Lau have taken no less than 15 hours of relevant professional training during the year ended 31 December 2018. Mr. Xu is the primary corporate contact person of the joint Company Secretary.

H. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that a transparent and timely disclosure of the Company's information will enable the Shareholders and investors to make the best investment decision and to have better understanding on the Company's business performance and strategies. It is also vital for developing and maintaining continuing investor relations with the Company's potential and existing investors.

The Company maintains a website at www.gltaihe.com as a communication platform with the Shareholders and investors, where the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

The Shareholders and investors may also write directly to the Company's principal place of business in Hong Kong at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong or via email to ray@gltaihe.com for any inquiries. Inquiries are dealt with in an informative and timely manner.

The Board considers that general meetings of the Company provide an important channel for the Shareholders to exchange views with the Board. The Chairman of the Board as well as the chairmen and/or other members of the Board committees will endeavor to be available at the meetings to answer any questions raised by the Shareholders.

The Company continues to enhance communication and relationship with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them informed of the Company's developments.

I. SHAREHOLDERS' RIGHTS

Procedures for convening extraordinary meeting or class meeting on requisition

The Shareholders of the Company shall follow the following procedures as prescribed in Article 85 of the Articles of Association of the Company to convene an extraordinary general meeting or class meeting of the Company:

(1) The Shareholders who jointly hold 10% or more of the voting shares at the proposed meeting may make a proposal to the Board on holding an extraordinary general meeting or class meeting by signing one or several written requests with same contents in the same format and define the meeting agenda. The Board shall convene such meeting as soon as possible upon receipt of the aforesaid written request. The aforesaid number of shares shall be calculated as of the date of written request;

(2) If the Board fails to send notification of the meeting within 30 days from the date of the receipt of such request, requesting Shareholders may call the meeting within 4 months of the date of the receipt of such request by the Board, and the procedures for calling the meeting shall remain as the Board would call the meeting.

Where the Shareholders convene a meeting due to the failure by the Board to duly convene the same, all reasonable expenses so incurred shall be reimbursed by the Company, and any sum so reimbursed shall be set-off against such sums owed by the Company to the defaulting directors.

Procedures for raising enquiries

The Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's H share registrar in Hong Kong, Tricor Investor Services Limited, details of which are as follows:

Tricor Investor Services Limited
Address: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
Email: is-enquiries@hk.tricorglobal.com
Tel: (852) 2980 1333
Fax: (852) 2810 8185

The Shareholders may at any time raise any enquiry in respect of the Company at the following designated contacts, correspondence addresses, email addresses and enquiry hotlines of the Company:

Attention: Board of Directors/Company Secretary
Address: Beizhou Road, Lidian Town, Guangling District, Yangzhou City, Jiangsu Province, the PRC
Email: ray@gltaihe.com
Tel: (86) 514-87947629
Fax: (86) 514-87948990

The Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

Procedures for the Shareholders to put forward proposals at general meeting

According to the Article 66 of the Articles of Association of the Company, when a general meeting is convened by the Company, the Shareholders who individually or collectively hold 3% or more of the total voting shares of the Company shall be entitled to propose new resolutions in writing to the Company. Such Shareholders shall submit ad hoc proposals in writing to the Board 10 days before the convening of the general meeting. The Board shall notify other Shareholders within 2 days upon receipt of the proposals and submit the ad hoc proposals to the general meeting for consideration. The Company shall place such proposals on the agenda for such meeting if they are matters falling within the scope of duties of the general meeting.

J. CONSTITUTIONAL DOCUMENTS

Pursuant to resolutions of the Shareholders passed on 31 January 2015, the Articles of Association were adopted with effect from the listing date. In 2018, certain amendments were made to the Articles of Association to align with current condition of the Company's management. These amendments were passed by the Shareholders at the extraordinary general meeting of the Company held on 9 January 2018 and the amended version of the Articles of Association has been adopted since then.

The Articles of Association are available on the websites of the Stock Exchange and the Company.

Report of the Board of Directors

The Board of Directors of the Company is pleased to present the annual report and the audited financial statements of the Company for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company's strategic goal is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, microenterprises and individual proprietors. With the successful listing of Taihe Micro-finance on the Stock Exchange on 8 May 2017, the Company had further strengthen the competitive advantages and provided the services to more SMEs, microenterprises and individual proprietors. As at 31 December 2018, the Company's balance of outstanding loans (before allowance for impairment losses) was approximately RMB841.5 million, representing an increase of approximately 3.6% as compared to approximately RMB812.0 million in the previous year. For the year ended 31 December 2018, we granted loans to 513 customers, representing an increase of approximately 3.0% as compared to 498 customers for the year ended 31 December 2017.

PRINCIPAL RISKS AND UNCERTAINTIES

As a microfinance company dedicated to serving the interim business financing needs of SMEs, microenterprises and individual proprietors, credit risk is the most significant risk inherent to our business. With the aim of addressing credit risks, we have put in place a standardized and centralized risk management system, and adopted a policy of "separation of due diligence and approval (審貸分離)". While our risk management system is designed to manage our credit risk, there can be no assurance that such system will be effective in avoiding all undue credit risk. Meanwhile, the business operation of the Company is subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Company closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company's operations are mainly carried out in Hong Kong and the PRC while the Company itself is listed on the Stock Exchange. The Company's establishment and operations accordingly shall comply with all PRC laws and applicable laws in the jurisdictions where it has operations. During the year ended 31 December 2018 and up to the date of this annual report, the Company has complied with all the relevant laws and regulations in the PRC and Hong Kong.

The Directors are not aware of any laws and regulations which are industry specific, and have material implication or impact to the business and operation of the Company.

RESULTS

The Company's results for the year ended 31 December 2018 and the state of affairs of the Company and the Company at that date are set out in the financial statements on pages 64 to 111.

PROFIT DISTRIBUTION PLAN AND DIVIDENDS

The profit distribution plan of the Company for the year ended 2018 was as follows: (i) 10% of 2018 net profit amounting to RMB6,875,471 is appropriated to the statutory surplus reserve; and (ii) RMB293,659 is appropriated to the general reserve. The above profit distribution proposal for 2018 is subject to the approval of the Shareholders at the 2018 annual general meeting of the Company.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

The 2018 annual general meeting (the "**AGM**") of the Company will be held at 10 a.m. on Wednesday, 12 June 2019 at 2/F, No. 1 Hongqi Avenue, Jiangwang Town, Hanjiang District, Yangzhou City, Jiangsu Province, the PRC. In order to determine the shareholders' eligibility to attend the AGM, the register of members of the Company will be closed from Saturday, 11 May 2019 to Wednesday, 12 June 2019, both days inclusive, during which no transfer of shares will be registered. Only Shareholders whose names appear on the register of members of the Company on Wednesday, 12 June 2019 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's H share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares), or the Company's principal place of business in the PRC at 2/F, No. 1 Hongqi Avenue, Jiangwang Town, Hanjiang District, Yangzhou City, Jiangsu Province, the PRC (for holders of domestic shares) not later than 4:30 p.m. on Friday, 10 May 2019.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the past five financial years is set out in the financial summary on page 112 of this annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the Statement of Changes in Equity section of this annual report.

Report of the Board of Directors

PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing Shareholders in proportion to their shareholdings.

FIXED ASSETS

Details of movements in fixed assets of the Company during the year ended 31 December 2018 are set out in note 15 to the financial statements.

DISTRIBUTABLE RESERVES

Details of movements in reserves of the Company during the year ended 31 December 2018 are set out in the Statement of Changes in Equity section of this annual report. As at 31 December 2018, the Company's retained earnings amounted to approximately RMB108 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the percentage of revenue attributable to the Company's major customers is set out below:

Revenue	
– The largest customer	1.5%
– The total of five largest customers	6.1%

As far as the Directors aware, neither the Directors nor their respective close associates nor any Shareholder (which to the knowledge of Directors own more than 5% of the Company's issued shares) had any interest in the five largest customers of the Company.

Due to the business nature of the Company, the Company does not have major suppliers.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors

Mr. Bo Wanlin *(Chairman)*
Ms. Bai Li
Ms. Zhou Yinqing

Non-executive Directors

Mr. Bo Nianbin
Mr. Zuo Yuchao

Independent non-executive Directors

Mr. Bao Zhenqiang
Mr. Wu Xiankun
Mr. Chan So Kuen

Pursuant to Article 103 of the Company's Articles of Association, all current Directors were re-elected at the extraordinary general meeting on 9 January 2018 and served a term of three years.

The Company has received annual confirmations of independence from all three independent non-executive Directors pursuant to the Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report.

DIRECTORS' SERVICE AGREEMENTS

No Director or Supervisor has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

CHANGES IN DIRECTORS' INFORMATION

There were no changes to the Directors' information since the date of the 2018 third quarterly report of the Company required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Directors or Supervisors, or entity connected with any Directors or Supervisors had material interest, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of the Company during the year ended 31 December 2018.

CONTRACT OF SIGNIFICANCE WITH A CONTROLLING SHAREHOLDER OR ANY OF ITS SUBSIDIARIES

Apart from the leasing agreement between the Company (as leasee) and Liantai Guangchang (as leasor), details of which are disclosed on page 99 of this annual report, there was neither contract of significance between the Company and a controlling Shareholder (as defined in the GEM Listing Rules) or any of its subsidiaries, nor contract of significance for the provision of services to the Company by a controlling Shareholder or any of its subsidiaries during the year ended 31 December 2018.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except as disclosed in this annual report, none of the Directors or Supervisors or any of their respective associates was granted by the Company any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

PERMITTED INDEMNITY

During the year ended 31 December 2018, the Company has purchased liability insurance for Directors and Supervisors which provides proper insurance for the Directors and Supervisors in respect of liabilities from legal actions against them arising from corporate activities.

DONATIONS

During the year ended 31 December 2018, the Company has made a total of donations of RMB10,000 (2017: RMB10,000).

RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Company are set out in note 23 to the financial statements. None of the related party transactions constitutes a connected transaction that is required to be disclosed under Chapter 20 of the GEM Listing Rules.

EMOLUMENT POLICY

The Remuneration Committee was set up for reviewing the Company's emolument policy and structure of all remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance and comparable market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five individuals with highest emoluments are set out in note 8 and note 9 to the financial statements.

EMPLOYEE RETIREMENT SCHEMES

The Company participates in pension scheme organized by the municipal government of Yangzhou City, Jiangsu for the Company's employees based in the PRC.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

As at the date of this report, each of Botai Group and Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd. (江蘇聯泰時尚購物廣場置業有限公司) ("**Liantai Guangchang**") (both are our "Controlling Shareholders" (as defined in the GEM Listing Rules)) held 10% interest in Jiangsu Hanjiang Mintai Rural Bank Co., Ltd.* (江蘇邗江民泰村鎮銀行股份有限公司) ("**Mintai Bank**") as passive investors, and Botai Group held 8% interest in Yangzhou Guangling Zhongcheng Rural Bank Co., Ltd.* (揚州廣陵中成村鎮銀行股份有限公司) ("**Zhongcheng Bank**") in the capacity as passive investor.

Mintai Bank principally engages in certain banking business such as taking public deposit; providing short term, medium term and long term loans; domestic exchange settlement; notes acceptance and discount; interbank borrowing; debit card issuing; issuing and cashing agency, undertaking governmental bond; accounts receivable and payable agency; and other business approved by China Banking Regulatory Commission ("**Banking Business**") in Hanjiang District of Yangzhou.

Zhongcheng Bank principally engages in the Banking Business in Guangling District of Yangzhou City.

For further details on the general information of Mintai Bank and Zhongcheng Bank and the reasons that our Directors are of the view that the competition between the principal businesses of Mintai Bank and Zhongcheng Bank and the Company is limited and not extreme, please refer to the paragraph titled "Relationship with the Controlling Shareholders - other Businesses Invested by our Controlling Shareholders" in the Company's prospectus dated 24 April 2017.

Save as disclosed above, as at 31 December 2018, none of the controlling Shareholders of the Company, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with our principal business, which would require disclosure under Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION UNDERTAKING

As disclosed in the Company's prospectus, Botai Group, Liantai Guangchang, Mr. Bo Wanlin (柏萬林), Ms. Wang Zhengru (王正茹) (spouse of Mr. Bo Wanlin), Mr. Bo Nianbin (柏年斌), Ms. Bai Li (柏莉) and Ms. Zhu Wenying (朱文英) (mother of Mr. Bo Wanlin), have executed a non-competition agreement (the "**Non-competition Agreement**") with the Company on 6 April 2017.

Save for what has been disclosed in the paragraph headed "Directors' and Controlling Shareholders' Interest in Competing Business", each of them has confirmed in writing to the Company of his/her compliance with the Non-competition Agreement for disclosure in this report during the year ended 31 December 2018 and up to the date of this report. The independent non-executive Directors have also reviewed the status of compliance by each of Botai Group, Liantai Guangchang, Mr. Bo Wanlin (柏萬林), Ms. Wang Zhengru (王正茹), Mr. Bo Nianbin (柏年斌), Ms. Bai Li (柏莉) and Ms. Zhu Wenying (朱文英) with the undertakings in the Non-competition Agreement and have confirmed that, as far as he can ascertain, there is no breach of any of the undertakings in the Non-competition Agreement. As at 31 December 2018, Ms. Zhu Wenying had ceased to be interested in Botai Group and Liantai Guangchang, and hence the Company after her disposal of shareholdings in Botai Group and Liantai Guangchang in July 2018.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2018, interests or short positions of the Directors, the Supervisors and chief executive of the Company and their associates in any of the shares (the "**Shares**") and debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") (Chapter 571 of the Laws of Hong Kong)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including circumstance of interests or short positions deemed or taken to have under such provisions of the SFO), or interests or short positions in the underlying shares and debt securities of the Company recorded in the register required to be kept pursuant to Section 352 of the SFO or share transaction as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules were as follows:

Shares of the Company

Director/Supervisor	Nature of interest	Number of shares held[1]	Approximate shareholding percentage in the relevant class of shares[2]	Approximate percentage of shareholding in the total issued shares of the Company[3]
Mr. Bo Wanlin	Interest in controlled corporation[4][5]	430,100,000 Domestic Shares (L)	95.58%	71.68%
Ms. Bai Li	Beneficial owner	10,000,000 Domestic Shares (L)	2.22%	1.67%
Mr. Zuo Yuchao	Beneficial owner	2,600,000 Domestic Shares (L)	0.58%	0.43%
Ms. Zhou Yinqing	Beneficial owner	700,000 Domestic Shares (L)	0.16%	0.12%

Notes:

(1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the domestic shares of the Company (the "**Domestic Shares**").

(2) The calculation is based on the percentage of shareholding in Domestic Shares (namely, ordinary shares in the Company capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC-incorporated entities).

(3) The calculation is based on the total number of 600,000,000 Shares in issue.

(4) Botai Group is directly interested in approximately 40.03% in the Company. The disclosed interest represents the interest in the Company held by Botai Group which is in turn held as to approximately 33.33% by Mr. Bo Wanlin, approximately 25.01% by Mr. Bo Nianbin, approximately 25.01% by Ms. Bai Li and approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin). Mr. Bo Wanlin and his spouse control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in the Company by virtue of the SFO.

(5) Liantai Guangchang is directly interested in approximately 31.65% in the Company. The disclosed interest represents the interest in the Company held by Liantai Guangchang which is in turn held as to approximately 48.67% by Botai Group, approximately 26.33% by Mr. Bo Wanlin, approximately 20.00% by Mr. Bo Nianbin and 5.00 % by Ms. Bai Li. On 12 December 2017, Botai Group and Liantai Guangchang, the Controlling Shareholders of the Company, pledged 45,000,000 and 35,000,000 domestic shares of the Company in favour of an independent commercial bank as securities for bank facilities in the amount of RMB40,000,000 and RMB30,000,000 respectively. As at 31 December 2018, Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO, and Mr. Bo Wanlin and his spouse Ms. Wang Zhengru, control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in Liantai Guangchang and the Company by virtue of the SFO, so Mr. Bo Wanlin is deemed to be interested in 45,000,000 and 35,000,000 Domestic Shares which Botai Group and Liantai Guangchang were deemed to have a security interest. Details are set out in the announcement dated 12 December 2017.

Associated Corporation

Director/Supervisor	Associated Corporation	Nature of interest	Approximate shareholding percentage in the relevant class of Shares in the Associated Corporation
Mr. Bo Wanlin	Botai Group	Beneficial owner(1)	33.33%
		Family interest of spouse(2)	16.67%
Ms. Bai Li	Botai Group	Beneficial owner(1)	25.01%
Mr. Bo Nianbin	Botai Group	Beneficial owner(1)	25.01%

Notes:

(1) The disclosed interest represents the interests in Botai Group, the associated corporation which is wholly owned as to approximately 33.33% by Mr. Bo Wanlin, approximately 25.01% by Mr. Bo Nianbin, approximately 25.01% by Ms. Bai Li and approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin).

(2) Mr. Bo Wanlin is the spouse of Ms. Wang Zhengru and is deemed to be interested in Ms. Wang Zhengru's interest in Botai Group by virtue of the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors, Supervisors and chief executive of the Company nor their associates had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept pursuant to section 352 of the SFO, or transactions of shares and debt securities otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2018, so far as the Directors are aware, each of the following persons have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be entered into the register referred to in section 336 of the SFO:

Shareholders	Nature of interest	Number of Shares held[1]	Approximate shareholding percentage in the relevant class of Shares	Approximate percentage of shareholding in the total issued shares of the Company[3]
Botai Group[8]	Beneficial owner	240,200,000 Domestic Shares (L)	53.38%[2]	40.03%
	Interest in controlled corporation[4]	189,900,000 Domestic Shares (L)	42.20%[2]	31.65%
Mr. Bo Wanlin[8]	Interest in controlled corporation[5]	430,100,000 Domestic Shares (L)	95.58%[2]	71.68%
Ms. Wang Zhengru[8]	Family interest of spouse[6]	430,100,000 Domestic Shares (L)	95.58%[2]	71.68%
Liantai Guangchang[8]	Beneficial owner	189,900,000 Domestic Shares (L)	42.20%[2]	31.65%
Mr. Suen Cho Hung, Paul	Beneficial owner	23,646,000(L) H Shares	15.76%[7]	3.94%
Mr. Lai Ming Wai	Beneficial owner	8,458,000(L) H Shares	5.64%[7]	1.41%

* *For identification purpose only*

Notes:

(1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Shares of the Company.

(2) The calculation is based on the percentage of shareholding in the Domestic Shares.

(3) The calculation is based on the total number of 600,000,000 Shares in issue after the Listing.

(4) As at 31 December 2018, Liantai Guangchang is held as to approximately 48.67% by Botai Group, approximately 26.33% by Mr. Bo Wanlin, approximately 20.00% by Mr. Bo Nianbin and approximately 5.00% by Ms. Bai Li. Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO.

(5) As at 31 December 2018, Botai Group is held as to approximately 33.33% by Mr. Bo Wanlin, approximately 25.01% by Mr. Bo Nianbin, approximately 25.01% by Ms. Bai Li and approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin). Mr. Bo Wanlin and his spouse control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in the Company by virtue of the SFO.

(6) Ms. Wang Zhengru, the spouse of Mr. Bo Wanlin, is deemed to be interested in Mr. Bo Wanlin's interest in the Company by virtue of the SFO.

(7) The calculation is based on the percentage of shareholding in the H Shares.

(8) On 12 December 2017, Botai Group and Liantai Guangchang, the Controlling Shareholders of the Company, pledged 45,000,000 and 35,000,000 Domestic Shares of the Company in favour of an independent commercial bank as securities for bank facilities in the amount of RMB40,000,000 and RMB30,000,000 respectively. As at 31 December 2018, Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO, and Mr. Bo Wanlin and his spouse Ms. Wang Zhengru, control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in Liantai Guangchang and the Company by virtue of the SFO, so Mr. Bo Wanlin and Ms. Wang Zhengru are deemed to be interested in 45,000,000 and 35,000,000 Domestic Shares which Botai Group and Liantai Guangchang were deemed to have a security interest. Details are set out in the announcement dated 12 December 2017.

Save as disclosed above, as at 31 December 2018, so far as known to the Directors, no interests or short positions of substantial Shareholders of the Company and other persons in any Shares and debentures or underlying Shares of the Company were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or were required to be entered into the register referred to in section 336 of the SFO.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

On 12 December 2017, Botai Group and Liantai Guangchang, the Controlling Shareholders of the Company, pledged 45,000,000 and 35,000,000 domestic shares of the Company in favour of an independent commercial bank as securities for bank facilities in the amount of RMB40,000,000 and RMB30,000,000 respectively. The pledged Domestic Shares represent approximately 18.6% of the aggregate Domestic Shares held by Botai Group and Liantai Guangchang, approximately 17.8% of the total number of Domestic Shares in issue, and approximately 13.3% of the total issued shares of the Company on 12 December 2017. Details are set out in the announcement of the Company dated 12 December 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

ANNUAL FINANCIAL BUDGET FOR 2019

Considering the macro-economic situation, financial condition and the business growth of the Company in last three years, the Company has formulated the annual financial budget for 2019 after detailed calculation and analysis and collecting different opinions. The details are set out as follows:

I. The estimated maximum total administrative expenses will be RMB30 million;

II. According to the needs of strategic development and business expansion, the planned maximum capital expenditure of the Company will be RMB4 million, mainly including the expenses for properties renovation, IT system development and purchasing other fixed assets.

The annual financial budget for 2019 of the Company was considered and approved by the Board on 25 March 2019 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

AUDIT COMMITTEE

The Audit Committee was established by the Board on 31 January 2015. The role, function and composition of the Audit Committee are set out in the paragraph headed "Audit Committee" of the Corporate Governance Report of this annual report.

The Company's results and the results announcement for the year ended 31 December 2018 have been reviewed by the Audit Committee. The Audit Committee and Board is of opinion that the preparation of such financial information complied with the applicable accounting standards, the requirements under the GEM Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE AND COMPLIANCE OFFICER

The Company has complied with the requirements of the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules since 8 May 2017 being the date of listing of the Company's H shares (the "**H Shares**") on the Stock Exchange and up to the date of this report.

The compliance officer of the Company is Ms. Bai Li, whose biographical details are set out on page 15 of this annual report.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the year of 2018 and up to the date of this report, at least 25% of the issued shares of the Company was held by public Shareholders.

AUDITOR

The financial statements of the Company for the year ended 31 December 2018 have been audited by Ernst & Young, who will retire and a resolution to re-appoint Ernst & Young as auditor of the Company will be proposed at the annual general meeting of the Company.

The Company did not change its auditors in the preceding 3 years.

INTEREST OF THE COMPLIANCE ADVISER

As confirmed by the Company's compliance adviser, China Galaxy International Securities (Hong Kong) Co., Limited ("**China Galaxy**"), save for the compliance adviser agreement dated 16 August 2016 and the supplemental agreement dated 31 March 2017 entered into between the Company and China Galaxy for acting as a compliance adviser and the joint sponsor agreement dated 30 November 2018 entered into between the Company and China Galaxy for acting as a joint sponsor for the Company's proposed transfer of listing from GEM to the Main Board of the Stock Exchange, none of China Galaxy or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Company or in the share capital of any member of the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules during the year of 2018 and up to the date of this report.

On behalf of the Board
Bo Wanlin
Chairman

Hong Kong, 25 March 2019

Report of the Board of Supervisors

The board of Supervisors has executed its duties earnestly, safeguarded the rights and interests of the Company and Shareholders, complied with the principle of good faith and carried out its work in a diligent and proactive manner pursuant to the provisions of the Company Law of the PRC, other relevant laws and regulations and the Articles of Association.

During the year of 2018, the board of Supervisors reviewed cautiously the operation and development plans of the Company and put forward reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the significant policies and specific decisions made by the management of the Company to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association, and in the interests of the Shareholders.

The board of Supervisors have reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming annual general meeting. We are of the opinion that the Board, chief executive and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association. Up to the date of this report, none of the Directors, chief executive or senior management of the Company has been found to have been in breach of any laws or regulations or the Articles of Association and damaged the interests of the Company or the Shareholders.

The board of Supervisors is satisfied with the various tasks carried out by the Company in 2018 and the economic benefits generated there from. It has full confidence in the future development outlook of the Company.

By order of the Board of Supervisors of
Yangzhou Guangling District Taihe Rural Micro-Finance Company Limited
Wang Chunhong
Chairman of the Board of Supervisors

Hong Kong, 25 March 2019

Environmental, Social and Governance Report

ABOUT THIS REPORT

This Environmental, Social and Governance report (the "**ESG Report**") is prepared in compliance with the requirements of Appendix 20 Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") to the Rules and Guidance Governing the Listing of Securities on the GEM of the Stock Exchange. This ESG report intends to give insight into the approach adopted and actions taken by the Company regarding its operations and sustainability that have implication for the Company and the interest to stakeholders.The Company understands the importance of the ESG report and is committed to make continuous improvements in corporate social responsibility into its business in order to better meet the changing needs of an advancing society.

REPORTING PERIOD AND SCOPE OF THE REPORT

This ESG Report covers the environmental and social performance within the operational boundaries of the Company that includes the Company's offices in Yangzhou, Guangling District. The ESG Report covers the period from 1 January 2018 to 31 December 2018 (the "**Reporting Period**").

STAKEHOLDER ENGAGEMENT

With the goal to strengthen the sustainability approach and performance of the Company; the Company put in tremendous effort to listen to both its internal and external stakeholders. The Company actively collects feedback from its stakeholders to maintain a high standard of sustainability within the Company, while also building a trustful and supportive relationship with them. The Company connects with its stakeholders through their preferred communication channels as listed in the table below.

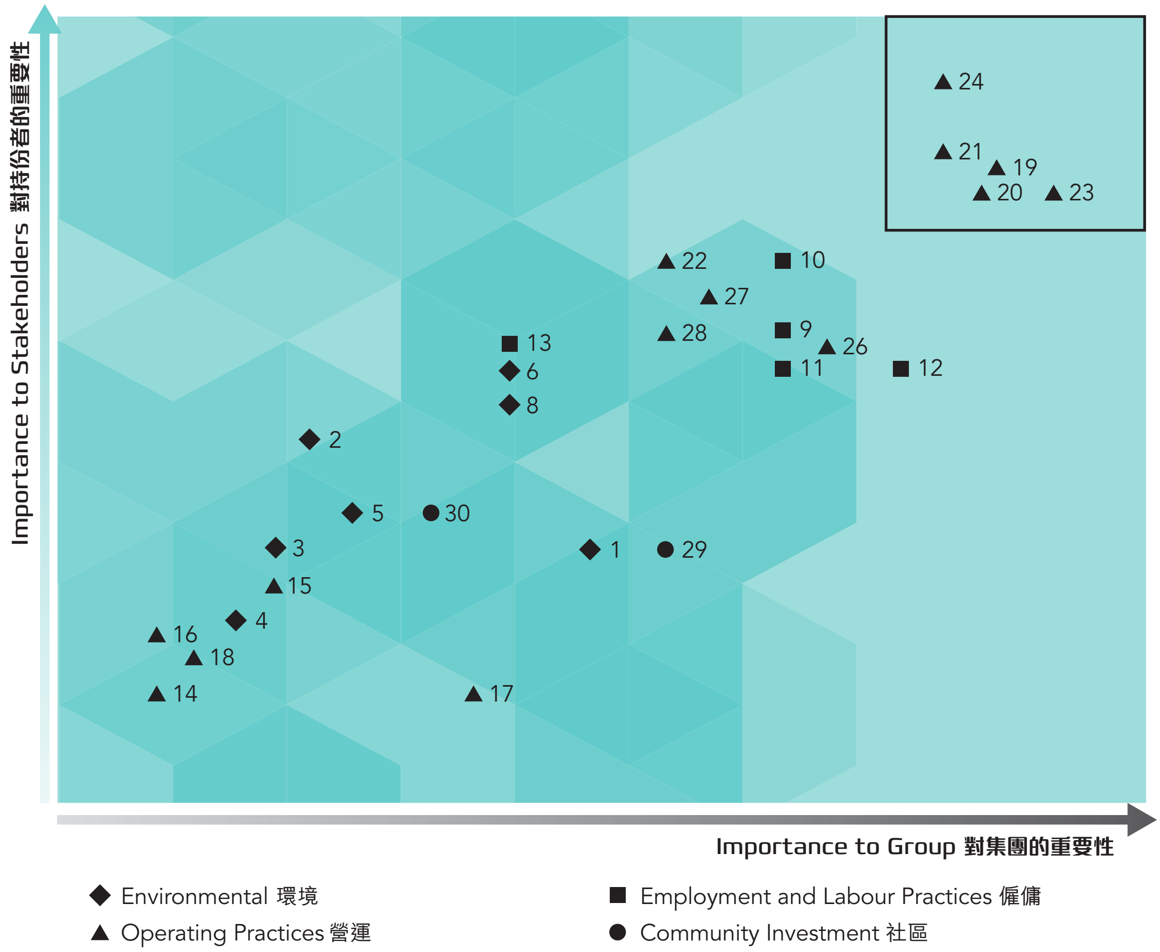
Table 1. Communication with Stakeholders

Stakeholders	Expectations and concerns	Communication Channels
Government and regulatory authorities	– Compliance with laws and regulations – Support economic development	– Supervision on complying with local laws and regulations – Routing reports and taxes paid
Shareholders	– Return on investments – Corporate governance – Business compliance	– Regular reports and announcements – Regular general meetings – Official website
Employees	– Employees'compensation and benefits – Career development – Health and safety working environment	– Performance reviews – Regular meetings and trainings – Emails, notice boards, hotline, caring activities with management
Customers	– High quality products and services – Protect the rights of customers	– Customer satisfaction survey – Face-to-face meetings and on-site visits – Customer service hotline and email
Suppliers	– Fair and open procurement – Win-win cooperation	– Open tendering – Suppliers' satisfactory assessment – Face-to-face meetings and on-site visits – Industry seminars
General public	– Involvement in communities – Business compliance – Environmental protection awareness	– Media conferences and responses to enquiries – Public welfare activities – Face-to-face interview

Materiality Assessment

The Company undertakes annual review in identifying and understanding its stakeholders' main concerns and material interests for the ESG Report. During the Reporting Period, the Company engaged its stakeholders to conduct a materiality assessment survey. Both internal and external stakeholders were selected based on their influence and dependence on the Company. Stakeholders with high level of influence and dependence on the Company were selected by the management of the Company. The selected stakeholders were then invited to express their views and concerns on a list of sustainability issues via an online survey. As a result, the Company was able to prioritise the issues for discussion. The result from the materiality assessment survey was mapped and presented as below.

Stakeholders Engement Materiality Matrix 重要性分析矩陣



1 Air and greenhouse gas emissions
2 Sewage treatment
3 Land use, pollution and restoration
4 Solid waste treatment
5 Energy use
6 Water use
7 Use of other raw/packaging materials
8 Mitigation measures to protect natural resources
9 Composition of employees
10 Employee remuneration and benefits
11 Occupational health and safety
12 Employee development and training
13 Preventing child and forced labour
14 Suppliers by geographical region
15 Selection of suppliers and assessment of their product/services
16 Environmental protection assessment of the suppliers
17 Social risks assessment of the suppliers
18 Procurement Practices
19 Compliance with operation
20 Customers satisfaction
21 Marketing and promotion
22 Observing and protecting intellectual property rights
23 Product quality control and management
24 Protection of consumer information and privacy
25 Labelling relating to products/services
26 Information disclosure
27 Preventing bribery, extortion, fraud and money laundering
28 Anti-corruption policies and whistle-blowing procedure
29 Understanding local communities' need
30 Public welfare and charity

The Company built a materiality analysis matrix and prioritised the 30 issues accordingly. With respect to this ESG Report, the Company identified health and safety relating to products/services, customer satisfaction, marketing and promotion, product quality assurance and recall percentage, and protection of customer information and privacy as issues of the highest importance to its stakeholders and the Company. This review helped the Company to prioritise its corresponding sustainability issues and highlight the material and relevant aspects to align them with stakeholders' expectations.

Stakeholders Feedback

As the Company strives for excellence, stakeholders' feedback is always welcomed, especially on topics listed as high importance in the materiality assessment. Readers are also welcome to share their views with the Company at "ray@gltaihe.com".

ENVIRONMENTAL SUSTAINABILITY

The Company believes saving energy is key to long-term sustainability of the environment, the community, and thus the Company's business. The Company stringently controls its emissions and consumption of resources, and complies with all relevant environmental laws and regulations in the PRC in its daily operation. All offices of the Company implemented effective energy conservation measures to reduce emissions and resource consumption.

This section primarily discloses the policies and practices of the Company on emissions, use of resources, and the environment and natural resources during the Reporting Period.

Emissions

The Company strictly adheres to emission related laws and regulations in the PRC. It is included in the Company's policy to reduce the impacts of these emissions on the environment by controlling energy consumption and reducing the Company's travel by private vehicles.

Air Emissions & Greenhouse Gase Emissions ("GHG")

During the Reporting Period, the Company's direct emissions came from the use of company vehicles. The driving of company vehicles generated air emissions and released GHG emissions.

The Company adopted policy to focus its purchase on environmentally friendly vehicles, and to lower the frequency of vehicles use in its daily operation. In addition, the Company encourages its employees to take electricity fuelled public transports when commuting for work to keep the amount of air and GHG emissions at a low level.

Meanwhile, GHG emissions were also generated through the Company's use of purchased electricity. Since the amount of GHG emissions indirectly emitted depends on the amount of electricity used, the Company has made it a goal to reduce electricity consumption in its daily operation. Specific measures the Company adopted to reduce electricity consumption are set out in the section headed "Use of Resources-Electricity" of this ESG Report.

During the Reporting Period, the Company's GHG emissions under Scope 1 (Direct Emissions), Scope 2 (Energy Indirect Emissions), and Scope 3 (Paper Waste Indirect Emissions) were 74.9 tonnes CO_2e, 67.8 tonnes CO_2e and 0.3 tonnes CO_2e, respectively. The Company's total GHG emissions amounted to 143.0 tonnes CO_2e and the GHG intensity for the Company was 4.5 tonnes CO_2e/employee.

Wastewater

No hazardous wastewater was generated by the Company in 2018, as the only type of wastewater produced was domestic wastewater from its daily office operation. Domestic wastewater was directly discharged into the sewage pipe network and treated at a local municipal wastewater treatment plant. During the Reporting Period, the Company generated 0.3 tones of domestic wastewater. Since the amount of wastewater generated depends on the amount of water consumed, the Company has adopted specific measures to reduce the water consumption, which are further explained in the section headed "Use of Resources-Water" of this ESG Report.

Solid Wastes

Solid wastes produced by the Company in its daily operation include only domestic solid wastes. No hazardous solid waste was generated during the Reporting Period. The Company has adopted recycling policy to require its employees to source separate and recycle recyclables such as wasted paper and canned drinks. The non-recyclables were collected and properly sent to the land fill. The Company also encourages its employees to reduce the consumption of paper and stationary in its daily operation. During the Reporting Period, the Company generated 0.6 tones of non-hazardous solid wastes.

During the year under review, the Company was not in violation of any relevant laws and regulations, which have a significant impact on the Company, related to emissions.

Total Emissions of the Company

			Year ended 31 December			
			2018		2017	
Emissions	Key Performance Indicator (KPI)	Unit	Amount	Intensity* (Peremployee)	Amount	Intensity* (Peremployee)
GHG emissions	Scope 1 (Direct Emission)	Tonnes CO2e	74.9	—	73.1	—
	Scope 2 (Energy		67.8	—		
	Indirect Emissions)	Tonnes CO2e			66.3	—
	Scope 3 (Paper Waste		0.3	—		
	Indirect Emissions)	Tonnes CO2e			0.3	—
	Total (Scope 1 & 2 & 3)	Tonnes CO2e	143.0	4.5	139.7	4.7
Non-hazardous waste	Non-hazardous wastewater	Tonnes	0.3	0.01	0.3	0.01
	Non-hazardous solid waste	Tonnes	0.6	0.02	0.6	0.02

* *Intensity = amount ÷ annual average workforce of the Company*

USE OF RESOURCES

The Company complied with the relevant laws and regulations in relation to the Company's use of resources during the year under review. Since the Company did not engage in manufacturing business, it did not have any issue in sourcing water that is fit for purpose and did not use any packaging materials. During the Reporting Period, resources used by the Company were mainly electricity, water and gasoline.

Electricity

The Company pays close attention to save energy in its daily operation as the Company understands reduction in electricity consumption will reduce GHG emissions indirectly. The Company has forminlated internal policies to keep the average electricity use per employee at a low level with expectations that all employees of the Company stringently comply with the Company's policy on saving energy. The Company strive to achieve its goal by educating its employees regularly about energy conservation and emission reduction.

To strengthen each individual employee's awareness on environmental protection and energy saving, the Company placed stickers "Saving electricity, switch off the light when leaving" in prominent places in the office. The Company included environmental protection topics in its regular meetings with the aim to have employees supervise themselves, and urge each other to help achieve the overall goal of the Company in terms of reducing electricity use and GHG emissions.

All electricity consumption by the Company came directly from daily office operation. During the Reporting Period, the total electricity consumption of the Company amounted to 96,374 kWh'000. To reduce electricity consumption, the Company has implemented the following measures:

- Switch off all lights and electronic equipment in the office at the end of the day;
- Modify the set temperature of air conditioners in the office based on the season;
- Clean office equipment regularly and make sure they are working efficiently; and
- Replace office lightings with electricity saving LED lights.

Water

The Company educated its employees on saving water during the daily working hours. During the Reporting Period, the total water consumption of the Company was 293 m^3. The amount of water consumed was minimal and need-based. The policy also requests the Company's employees to change their consumption behavior including, but not limited to the followings:

- Regularly educate and promote employees to save water;
- Use water-saving taps to increase the efficiency of water usage;
- Place water saving slogans in prominent places to encourage water conservation; and
- Fix dripping taps immediately when the taps are broken.

Gasoline

The Company owns vehicles that consume gasoline for transportation purpose. The Company encourages energy saving through simple measures, such as fully utilise the space to avoid unnecessary transport, lowering the frequency of using vehicles in its daily operation and replacing heavy-polluting vehicles with more environmental-friendly vehicles. Apart from saving energy consumed by the Company's vehicles, the Company also highly encourages its staff to take public transportation or environmental-friendly buses instead of driving to work. The Company is dedicated to reducing the GHG emissions due to transportation. During the Reporting Period, the gasoline consumed by the Company's vehicles amounted to 31,753 litres.

Total Use of Resources by the Company

			Year ended 31 December			
			2018		2017	
Use of Resources	Key Performance Indicator (KPI)	Unit	Amount	Intensity* (Peremployee)	Amount	Intensity* (Peremployee)
Electricity consumption	Electricity	KWh'000	96,374	3,011.7	94,237	3,141.2
Water consumption	Water	m^3	293	9.2	266	8.9
Gasoline consumption	Gasoline	L	31,753	992.3	31,003	1,033.4

* *Intensity = amount ÷ annual average workforce of the Company*

The Environment and Natural Resources

"Protect the environment, operate in a green manner" (節約能源,綠色經營) has always been the Company's vision for environmental protection. To firmly adhere to this vision, the Company set a series of policies to encourage its employees to operate with a minimum impact to the environment. Since paper is the main resource used in the Company's office, the Company has taken the following measures to reduce overall paper consumption:

- Choose more environmental friendly paper suppliers, to indirectly minimise tree loss while consuming the same amount of paper;
- Achieve paperless office, electronically distributes information (i.e. via email or e-bulletin boards) as much as possible;
- Set duplex printing as the default mode for most network printers when printing is needed;
- Promote the idea of "Think before print" by using posters and stickers in the offices to remind the staff to avoid unnecessary printing;
- Place boxes and trays beside photocopiers as containers to collect single-sided printing for reuse and double-sided printing for recycling; and
- Use the back of used single-sided documents for printing or as draft paper.

In addition, the Company requires choosing environmental-friendly vehicles when purchasing new vehicles, and encourages its employees to reduce the frequency of vehicle use, so to reduce carbon emissions. The Company will educate its employees to ensure employees are helping the Company to achieve its environmental goals.

SOCIAL RESPONSIBILITIES

Employees

Employees is not only a component of operation, but also a foundation for establishing long term relationship with customers. Everything they carry out represents the corporate image of the Company at all times. The core duties of human resource are attracting and retaining talented employees. The Company facilitated the staff career development through comprehensive performance assessments and effective communication mechanisms, and improve their skills through staff training.

The Company strictly complied with the relevant legislations and regulations such as the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》).

The Company respects gender, age and religion of every individual employee. Discrimination against individual difference between employee is strictly prohibited. The Company complied with the relevant legislations and regulations and strictly prohibited the employment of child labor or forced labor. As at 31 December 2018, the Company did not employ any child labor or forced labor.

Statistics of employee	Unit	As at 31 December 2018	As at 31 December 2017
Male employee	person	17	18
Female employee	person	15	15
Total	**person**	**32**	**33**
Within Jiangsu province	person	32	33
Outside Jiangsu province	person	—	—
Total	**person**	**32**	**33**
Contracted employee	person	32	33
Bachelor's Degree	person	16	17
Higher education	person	7	8
Below higher education (exclusive)	person	9	8
Total	**person**	**32**	**33**
Under 30 years old (inclusive)	person	12	14
31-40 years old	person	8	10
41-50 years old	person	7	5
Above 50 years old	person	5	4
Total	**person**	**32**	**33**

Environmental, Social and Governance Report

Statistics of staff turnover rate	Unit	As at 31 December 2018	As at 31 December 2017
Staff turnover	person	2	5
Staff turnover rate	%	6.3	15.1
Turnover rate of male employee	%	3.1	12.1
Turnover rate of female employee	%	3.1	3.0
Turnover rate of employee under 30 years old (inclusive)	%	3.1	12.1
Turnover rate of employee between 31-40 years old	%	3.1	3.0
Turnover rate of employee within Jiangsu Province	%	6.3	15.1

Training

The Company devotes adequate resources to staff training on professional skills, operation process, knowledge, corporate culture and morality every year in order to enhance our staff's abilities and the social influence of the Company, including staff induction trainings and several professional skill trainings after induction every year. During the Reporting Period, the Company organised staff training on law, finance, micro-credit practices, time management and etc.

Staff training	Unit	2018	2017
Total training time	hours	648	645
Training time per capita	hours	20.3	19.5
Number of senior management	person	4	4
Training time of senior management per capita	hours	32.0	30.0
Number of junior employee	person	20	21
Training time of junior employee per capita	hours	26.0	25.0
Number of male employee	person	14	15
Training time of male employee per capita	hours	27.7	25.7
Number of female employee	person	10	10
Training time of female employee per capita	hours	26.0	26.0

Occupational Health and Safety

Occupational health and safety of the employee are always concerns of the Company. During the Reporting Period, the Company provided body checks for all employees and encouraged them to participate in cultural and sports activities for their health. The Company formulated regulations and organised staff training to increase their abilities of prevention from and emergency of fire, thus lowering the risk of occupational safety of the staff.

Suppliers

The Company only has very few suppliers due to the business nature. Our suppliers are mainly from Jiangsu Province. The Company selected a list of suppliers for office and computer equipment, stationary and promotion activities gifts. The Company has set up a procurement policy to select reliable suppliers and service providers to support its business operation. The Company takes into account the suppliers' reputation and their track record when selecting them to ensure purchased items are complied with national standard.

Customers

For the purpose for improving the service quality of the Company, the Company conducts site visits and regular visits in order to understand the actual demands and development targets of our customers. By forming long-term and good relationships with customers, the Company efficiently supports the economic development of the regions of operation and indirectly facilitates employment of those regions. Meanwhile, the Company proactively acquires customer feedbacks, including surveys and feedbacks on phone interviews.

The opinions of customers are mainly gathered by staff of each business unit. By setting procedures of customer complaints, the Company ensures customers opinions are efficiently collected and handled. Senior management will regularly review the suggestions from customers to learn from experience and recommend improvements to our staff, thereby improving the quality of service of our Company.

The Company insists to provide clear, transparent and comprehensive information to our customers. The Company introduces the clauses, articles and categories of our products in details.

Protection of Customer's Data

The Company handles significant amounts of personal data and credit information of customers. It has implemented rigorous policy and procedures to ensure confidentiality and privacy when collecting, processing and using customers data. As specified in the "Staff Hand Book", the Company's employees are required to sign a confidentiality agreement acknowledging receipt and agreement of their obligation and responsibility regarding protection and non-disclosure of customer data. Also, access to confidential information or documents is restricted and granted on a need-to-know basis. During the reporting period, the Company has not received any complaints from customers related to breach of the confidentiality of personal information.

Anti-Corruption and Anti-Money Laundering

The Company is committed to maintain the ethics and integrity throughout its operations and does not tolerate corruption or bribery in any form, and the Company has strictly complied with "The Anti-money laundering Law of the People's Republic of China" and other relevant laws and regulations relating to anticorruption, bribery, extortion, fraudulent behavior and money-laundering in the reporting period. The Company has established an "Anti-money Laundering Policy" with reference to the above laws and regulations which requires its business department officers to fully understand the background of potential customers through documentation and communication in accordance with relevant internal guidelines before doing business with them. The Company's risk management department also gathers information on our existing customer's use of proceeds, the source of funding for repayment, the operating condition of our customers, from time to time in obtaining their updated status and promptly reports any abnormal situation for the purpose of risk management. The Company has included in the "Staff Handbook" a whistle-blowing policy and promotes integrity and prevents unethical conducts. The Company encourages the reporting of suspected business irregularities and provides clear channels specifically for this purpose.

Rewarding the Society

The Company has devoted in providing grants for low income university students since its incorporation. During the Reporting Period, the Company granted RMB10,000 tuition Fee for 10 low income students in Yangzhou City. The Company hopes not only to help people in need through participation in social activities, but also help to cultivate employees to contribute to the community. The Company will continue to uphold the principle of being responsible for its customers, employees, business partners, shareholders and the society, and will seek further opportunities to develop a harmonious relationship with its stakeholders.

Number	Details	Place of Disclosure
A1.1	The types of emissions and respective emissions data	Page 50-51
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Page 51
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	N/A
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Page 51
A1.5	Description of measures to mitigate emissions and results achieved	Page 50-51
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Page 51
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Page 53
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Page 53
A2.3	Description of energy use efficiency initiatives and results achieved	Page 52-53
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Page 52
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Page 52
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Page 50-53
B1.1	Total workforce by gender, employment type, age group and geographical region	Page 54
B1.2	Employee turnover rate by gender, age group and geographical region	Page 55
B2.1	Number and rate of work-related fatalities	N/A
B2.2	Lost days due to work injury	N/A

Number	Details	Place of Disclosure
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Page 55
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	Page 55
B3.2	The average training hours completed per employee by gender and employee category	Page 55
B4.1	Description of measures to review employment practices to avoid child and forced labour	N/A
B4.2	Description of steps taken to eliminate such practices when discovered	N/A
B5.1	Number of suppliers by geographical region	Page 56
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Page 56
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	N/A
B6.2	Number of products and service related complaints received and how they are dealt with	Page 56
B6.3	Description of practices relating to observing and protecting intellectual property rights	N/A
B6.4	Description of quality assurance process and recall procedures	N/A
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Page 56
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	N/A
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Page 56
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Page 57
B8.2	Resources contributed (e.g. money or time) to the focus area	Page 57

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the members of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the financial statements of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the "Company") set out on pages 64 to 111, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"), and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants* ("Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Allowance for loans receivable	
The adoption of IFRS 9 has changed the Company's assessment model for allowance for loans receivable by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. The measurement of ECL requires the application of significant judgement and estimate which include the identification of exposures with a significant increase in credit risk, and assumptions used in the ECL models (for exposures assessed individually or collectively), such as the expected future cash flows and forward-looking macroeconomic factors. Due to the significance of the loans receivable (representing 98.4% of total assets as at 31 December 2018) and the corresponding uncertainty inherent in such estimates, we considered this as a key audit matter. The disclosures relating to the loans receivable and allowance for loans receivable are included in Note 4 and Note 14 to the financial statements.	We understood and assessed the controls over the approval, recording and monitoring of loans receivable. We also assessed the design and execution of the key controls over the application of the impairment methodology. For the collectively assessed ECL, we assessed the Company's ECL models, including the model design, model input and model performance. We assessed the Company's criteria for assessing if there has been a significant increase in credit risk and the qualitative assessment, and we assessed the forward-looking adjustments. For exposures that was subject to individual impairment assessment, we specifically reviewed the Company's assumptions on the expected future cash flows, valuation of underlying collateral and estimates of recoverable amounts. We also assessed the adequacy of the disclosures relating to the loans receivable and allowance for loans receivable.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Certified Public Accountants
Hong Kong
25 March 2019

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

(Amounts expressed in RMB unless otherwise stated)

	Notes	Year ended 31 December 2018	2017
Interest income	5	**108,332,583**	91,337,808
Interest expense	5	**—**	(97,502)
Interest income, net	5	**108,332,583**	91,240,306
Accrual of provision for impairment losses	14/17	**(3,037,970)**	(7,260,191)
Accrual of provision for guarantee losses	18	**(25,852)**	(58,000)
Administrative expenses	6	**(15,291,369)**	(20,728,037)
Other income/(expenses), net	7	**2,271,534**	(2,161,792)
PROFIT BEFORE TAX		**92,248,926**	61,032,286
Income tax expense	10	**(23,494,218)**	(15,198,399)
PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**68,754,708**	45,833,887
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**0.11**	0.08
Diluted		**0.11**	0.08

Statement of Financial Position

31 December 2018

(Amounts expressed in RMB unless otherwise stated)

	Notes	As at 31 December 2018	2017
ASSETS			
Cash and cash equivalents	13	**4,337,348**	10,578,504
Loans receivable	14	**814,275,722**	787,399,240
Property and equipment	15	**2,324,103**	2,010,562
Deferred tax assets	16	**5,003,496**	4,465,859
Other assets	17	**1,516,837**	238,158
TOTAL ASSETS		**827,457,506**	804,692,323
LIABILITIES			
Deferred income		**112,070**	397,701
Income tax payable		**8,044,735**	6,642,307
Liabilities from guarantees	18	**83,852**	58,000
Other liabilities	19	**7,905,770**	7,037,944
TOTAL LIABILITIES		**16,146,427**	14,135,952
EQUITY			
Share capital	20	**600,000,000**	600,000,000
Reserves	21	**103,074,536**	95,905,406
Retained earnings		**108,236,543**	94,650,965
TOTAL EQUITY		**811,311,079**	790,556,371
TOTAL EQUITY AND LIABILITIES		**827,457,506**	804,692,323

Bai Li
Director

Zhou Yinqing
Director

Statement of Changes in Equity

Year ended 31 December 2018

(Amounts expressed in RMB unless otherwise stated)

	Paid-in capital	Reserves			Retained earnings	Total
		Capital reserve	Surplus reserve	General reserve		
Balance as at 1 January 2017	450,000,000	40,477,627	28,820,340	6,195,009	55,289,944	580,782,920
Profit and total comprehensive income for the year	—	—	—	—	45,833,887	45,833,887
H shares issued	150,000,000	13,939,564	—	—	—	163,939,564
Appropriation to surplus reserve	—	—	4,583,389	—	(4,583,389)	—
Appropriation to general reserve	—	—	—	1,889,477	(1,889,477)	—
Balance as at 31 December 2017	600,000,000	54,417,191	33,403,729	8,084,486	94,650,965	790,556,371
Profit and total comprehensive income for the year	**—**	**—**	**—**	**—**	**68,754,708**	**68,754,708**
Appropriation to surplus reserve	**—**	**—**	**6,875,471**	**—**	**(6,875,471)**	**—**
Appropriation to general reserve	**—**	**—**	**—**	**293,659**	**(293,659)**	**—**
Dividends paid (Note 11)	**—**	**—**	**—**	**—**	**(48,000,000)**	**(48,000,000)**
Balance as at 31 December 2018	**600,000,000**	**54,417,191**	**40,279,200**	**8,378,145**	**108,236,543**	**811,311,079**

Statement of Cash Flows

Year ended 31 December 2018
(Amounts expressed in RMB unless otherwise stated)

	Notes	Year ended 31 December 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**92,248,926**	61,032,286
Adjustments for:			
Depreciation and amortisation	15	**822,688**	828,382
Accrual of provision for impairment losses	14/17	**3,037,970**	7,260,191
Accrual of provision for guarantee losses	18	**25,852**	58,000
Accreted interest on impaired loans	5	**(285,704)**	(604,784)
Net (gain)/loss on disposal of property and equipment and other assets	7	**(107,864)**	9,998
Interest expense	5	**—**	97,502
Foreign exchange loss, net		**(103)**	64,415
		95,741,765	68,745,990
Increase in loans receivable		**(29,542,265)**	(212,592,542)
Decrease in other assets		**181,568**	134,444
Increase/(decrease) in other liabilities		**161,195**	(2,589,936)
Net cash flows from/(used in) operating activities before tax		**66,542,263**	(146,302,044)
Income tax paid		**(22,629,427)**	(13,982,293)
Net cash flows from/(used in) operating activities		**43,912,836**	(160,284,337)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other long-term assets		**(2,248,679)**	(1,554,345)
Proceeds from disposal of property and equipment		**107,864**	24,515
Net cash flows used in investing activities		**(2,140,815)**	(1,529,830)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**—**	178,049,820
Proceeds from borrowings		**—**	10,000,000
Repayment of borrowings		**(13,280)**	(10,000,000)
Interest paid on borrowings		**—**	(97,502)
Dividends paid		**(48,000,000)**	—
Cash paid for other financing activities		**—**	(9,048,059)
Net cash flows (used in)/from financing activities		**(48,013,280)**	168,904,259
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(6,241,259)**	7,090,092
Cash and cash equivalents at beginning of the year		**10,578,504**	3,552,827
Effect of foreign exchange rate changes, net		**103**	(64,415)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	13	**4,337,348**	10,578,504

1. CORPORATE INFORMATION

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited ("**Taihe Micro-credit**" or the "**Company**") was established as a limited liability company in the People's Republic of China (the "**PRC**") on 12 November 2008 based on "Su Jin Rong Ban Fa 2008 No 47" issued by the Pilot Leading Group Office for Rural Micro-finance Organisations of Jiangsu province.

According to the resolution of the shareholders' meeting on 8 August 2012 and "Yang Fu Jin 2012 No 77" approved by the Yangzhou Municipal Government Financial Office, the Company was converted from a limited liability company to a joint stock company on 10 August 2012. Upon its conversion, the Company issued 260 million shares at a par value of RMB1 each to its shareholders, based on the asset appraisal result of RMB300.48 million in respect of its net assets in the financial statements as at 31 July 2012.

In May 2017, the Company conducted a public offering of overseas listed foreign shares ("**H shares**"). Upon the completion of the H share offering, the issued capital was increased to RMB600 million. The Company's H shares are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and trading of its H shares commenced on 8 May 2017.

The Company obtained its business licence with Unified Social Credit No. 91330200711192037M. The legal representative of the Company is Bo Wanlin. Its registered office is located at Beizhou Road, Lidian Village, Guangling District, Yangzhou City.

The principal activities of the Company are the granting of loans to "Agriculture, Rural Areas and Farmers", provision of financial guarantees, acting as a financial institution agent and other financial businesses.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Jiangsu Botai Group Co., Ltd., which is incorporated in the People's Republic of China.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") except when otherwise indicated.

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in Accounting Policies and Disclosures

The Company has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 2, amendments to IFRS 4, amendments to IAS 40 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Company's financial statements, the nature and the impact of the new and revised IFRSs are described below.

(a) IFRS 9 *Financial Instruments* replace IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. After adoption of IFRS 9, the Company continues measuring loans receivable, cash and cash equivalents and other receivables as amortised cost, and the new impairment requirement does not have significant impact as most of the Company's financial assets are short term. Therefore, the adoption of IFRS 9 did not have a material impact on the company's financial performance and condition.

(b) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The Company's principal revenue is the interest from the granted loans to customers. The impact arising from the adoption of IFRS 15 on the Company is immaterial.

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Changes in Accounting Policies and Disclosures (continued)

(c) IFRIC-Int 22, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Company's financial statements as the Company's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

3.2 Impact of Issued But Not Yet Effective International Financial Reporting Standards

The Company has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements:

Amendments to IFRS 3	*Definition of a Business* [2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation* [1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4]
IFRS 16	*Leases* [1]
IFRS 17	*Insurance Contracts* [3]
Amendments to IAS 1 and IAS 8	*Definition of Material* [2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement* [1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures* [1]
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments* [1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS12 and IAS 23 [1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of Issued But Not Yet Effective International Financial Reporting Standards (continued)

Further information about those IFRSs that are expected to be relevant to the Company is as follows:

IFRS 16, replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees– leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Company will adopt IFRS 16 from 1 January 2019. The Company plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Company plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date of initial application. The right-of-use asset will be 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 the date of initial application. During 2018, the Company has performed a detailed assessment on the impact of adoption of IFRS 16. As at 31 December 2018, the Company has non-cancellable operating lease commitments of RMB1,496,920 as disclosed in note 26. Other than the recognition of lease liabilities and right-of-use assets, the Company expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies

Revenue recognition

Interest income

Interest income on loans is measured on an accrual basis using the effective interest method by applying the rate that exactly 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.

Guarantee fee income(applicable from 1 January 2018)

Revenue from the provision of guarantee services is recognised over the period of the guarantee on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Company.

Guarantee fee income (applicable before 1 January 2018)

Guarantee fee income is recognised when guarantee contracts have been entered into and the related guarantee obligation has been accepted, the economic benefits associated with the guarantee contracts will probably flow to the Company, and the amount of revenue associated with guarantee contracts can be measured reliably. Guarantee income is determined based on the total agreed fee in the guarantee contracts and is recognised in the statement of profit or loss and other comprehensive income over the period of the guarantee.

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.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss and other comprehensive income by way of a reduced depreciation charge.

Where the Company receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

Income tax

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

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

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

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

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Company 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.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present 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.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

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
Motor vehicles	4 to 10 years	0%	10% - 25%
Fixtures and furniture	5 to 10 years	0%	10% - 20%
Leasehold improvements	Over the shorter period of the lease terms and the useful lives of the assets		

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

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 depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including 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.

Operating leases

Leases where substantially all the rewards and risks of assets remain with the lessor are accounted for as operating leases. Where the Company 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.

Borrowing costs

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

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency. Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of the advance consideration.

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

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus transaction costs.

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

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Initial recognition and measurement

The Company's financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company 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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

The Company 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 the Company 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, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

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

General approach (continued)

The Company may consider a financial asset to be in default taking into account quantitative and qualitative criteria as disclosed in Note 29. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 other receivables 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

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

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

Financial assets carried at amortised cost

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

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

Financial assets carried at amortised cost (continued)

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

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

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

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

The Company's financial liabilities are classified, at initial recognition, as loans and borrowings, 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.

The Company's financial liabilities include interest-bearing borrowings and other payables.

Subsequent measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest 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 interest expense in the statement of profit or loss and other comprehensive income.

Financial guarantee contracts (policies under IFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Company measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under IAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, 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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

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 the Company's cash management.

Provisions

A provision is recognised when a present (legal or constructive) obligation 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 each 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Summary of Significant Accounting Policies (continued)

Employee benefits

Employee retirement scheme

The employees of the Company 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. The Company has no obligation for the payment of pension benefits beyond the contributions described above.

Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the shareholders and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Company. Dividends for the year/period that are approved after the end of the reporting period is disclosed as an event after the reporting period.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Company;

  (ii) has significant influence over the Company; or

  (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Company are members of the same company;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Company are joint ventures of the same third party;

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

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

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

  (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).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Impairment losses on loans receivable

The measurement of impairment losses both under IFRS 9 and IAS 39 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal rating grade model, which assigns probabilities of default to the individual grades;
- The Company's criteria for assessing if there has been a significant increase in credit risk and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between the forecast economic conditions and the effect on probabilities of default (PDs), losses given default (LGDs) and exposures at default (EADs).

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. The Company 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 prevailing conditions affecting the Company.

(Amounts expressed in RMB unless otherwise stated)

5. INTEREST INCOME, NET

	Year ended 31 December	
	2018	2017
Interest income on:		
Loans receivable	**108,265,708**	91,250,415
Cash at banks	**25,281**	19,805
Cash at a third party	**41,594**	67,588
Subtotal	**108,332,583**	91,337,808
Interest expense on:		
Borrowing from other institutions	**—**	97,502
Subtotal	**—**	97,502
Interest income, net	**108,332,583**	91,240,306
Included: Interest income on impaired loans (Note 14)	**285,704**	604,784

6. ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2018	2017
Staff costs	**4,513,331**	4,072,934
Tax and surcharges	**700,155**	469,650
Depreciation (Note 15)	**822,688**	828,382
Leasing expense	**622,784**	576,355
Auditor's remuneration	**1,527,123**	1,864,975
Office expenses	**126,670**	185,844
Entertainment expenses	**1,779,576**	2,584,175
Listing expenses	**—**	5,221,535
Service fee	**3,880,966**	3,163,636
Others	**1,318,076**	1,760,551
Total	**15,291,369**	20,728,037

(Amounts expressed in RMB unless otherwise stated)

7. OTHER INCOME/(EXPENSES), NET

	Year ended 31 December	
	2018	2017
Other income:		
Guarantee fee income	**414,063**	61,921
Government grants	**1,877,500**	1,186,400
Others	**9,758**	8,526
Gain on disposal of fixed assets	**107,864**	—
Subtotal	**2,409,185**	1,256,847
Other expenses:		
Loss on disposal of fixed assets	**—**	(9,998)
Foreign exchange gain or loss	**(104,052)**	(3,325,704)
Fee and commission expense	**(23,599)**	(72,937)
Charitable contributions	**(10,000)**	(10,000)
Subtotal	**(137,651)**	(3,418,639)
Other income/(expenses), net	**2,271,534**	(2,161,792)

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

		Year ended 31 December 2018			
Name	**Position**	**Fees**	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total**
Mr. Bo Wanlin	Executive director	—	500,000	—	500,000
Ms. Bai Li	Executive director and chief executive	—	150,000	59,366	209,366
Ms. Zhou Yinqing	Executive director	—	120,000	47,496	167,496
Mr. Bo Nianbin	Non-executive director	—	—	—	—
Mr. Zuo Yuchao	Non-executive director	—	—	—	—
Mr. Chan So Kuen	Non-executive director	—	100,867	—	100,867
Mr. Wu Xiankun	Non-executive director	—	20,000	—	20,000
Mr. Bao Zhenqiang	Non-executive director	—	20,000	—	20,000
Mr. Zhang Yi	Supervisor	—	168,571	38,765	207,336
Ms. Wang Chunhong	Supervisor	—	20,000	—	20,000
Ms. Li Guoyan	Supervisor	—	20,000	—	20,000
		—	1,119,438	145,627	1,265,065

(Amounts expressed in RMB unless otherwise stated)

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

Year ended 31 December 2017

Name	Position	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
Mr. Bo Wanlin	Executive director	—	500,000	—	500,000
Ms. Bai Li	Executive director and chief executive	—	150,000	59,598	209,598
Ms. Zhou Yinqing	Executive director	—	120,000	47,648	167,648
Mr. Bo Nianbin	Non-executive director	—	—	—	—
Mr. Zuo Yuchao	Non-executive director	—	—	—	—
Mr. Chan So Kuen	Non-executive director	—	67,953	—	67,953
Mr. Wu Xiankun	Non-executive director	—	13,000	—	13,000
Mr. Bao Zhenqiang	Non-executive director	—	13,000	—	13,000
Mr. Zhang Yi	Supervisor	—	192,052	34,319	226,371
Ms. Wang Chunhong	Supervisor	—	13,000	—	13,000
Ms. Li Guoyan	Supervisor	—	13,000	—	13,000
		—	1,082,005	141,565	1,223,570

No director, supervisor or senior management has waived or agreed to waive any emoluments for the year ended 31 December 2018.

During the year, there was no amount paid or payable by the Company to the directors, the supervisors as the discretionary bonuses.

During the year, there was no amount paid or payable by the Company to the directors, the supervisors, senior management or any of the five highest paid individuals set out in Note 9 below as an inducement to join or upon joining the Company or as compensation for loss of office.

(Amounts expressed in RMB unless otherwise stated)

9. FIVE HIGHEST PAID INDIVIDUALS

Three directors (one was also the chief executive) were amongst the five highest paid individuals during the year (2017: three directors (one was also the chief executive)), details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining two (2017: two) highest paid employees for the year who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2018	2017
Salaries, allowances and benefits in kind	**307,618**	291,225
Pension scheme contributions	**97,155**	58,130
Discretionary bonus	**—**	—
	404,773	349,355

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

	Year ended 31 December	
	2018	2017
Nil – HKD1,000,000	**2**	2

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
Current income tax	**24,031,855**	14,955,054
Deferred income tax (Note 16)	**(537,637)**	243,345
	23,494,218	15,198,399

(Amounts expressed in RMB unless otherwise stated)

10. INCOME TAX EXPENSE (continued)

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

	Year ended 31 December	
	2018	2017
Profit before tax	**92,248,926**	61,032,286
Tax at the applicable tax rate	**23,062,231**	15,258,072
Income not subject to tax	**—**	(315,080)
Adjustments in respect of current income tax of previous years	**187,500**	—
Expenses not deductible for tax	**244,487**	255,407
Total tax expense for the year at the Company's effective tax rate	**23,494,218**	15,198,399

11. DIVIDENDS

	Year ended 31 December	
	2018	2017
Declared and paid dividends	**48,000,000**	—

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue as follows:

	Year ended 31 December	
	2018	2017
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**68,754,708**	45,833,887
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (i)	**600,000,000**	547,808,219
Basic earnings per share	**0.11**	0.08

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

(i) Weighted average number of ordinary shares

	Year ended 31 December	
	2018	2017
Issued ordinary shares at the beginning of the year	**600,000,000**	450,000,000
Weighted average number of ordinary shares at the end of the year	**600,000,000**	547,808,219

There were no dilutive potential ordinary shares during the reporting period, and therefore, the diluted earnings per share amount was the same as the basic earnings per share amount.

13. CASH AND CASH EQUIVALENTS

	31 December	
	2018	2017
Cash at a third party	**6,253**	53,874
Cash at banks	**4,331,095**	10,524,630
	4,337,348	10,578,504

At the end of the reporting period, the cash and cash equivalents of the Company denominated in RMB amounted to RMB 4,335,026 (2017: RMB9,497,826).

14. LOANS RECEIVABLE

	31 December	
	2018	2017
Loans receivable	**841,515,947**	811,973,682
Less: Allowance for loans receivable	**27,240,225**	24,574,442
	814,275,722	787,399,240

(Amounts expressed in RMB unless otherwise stated)

14. LOANS RECEIVABLE (continued)

The types of loans receivable are as follows:

	31 December 2018	2017
Guaranteed loans	**801,348,948**	764,615,334
Collateral-backed loans	**40,166,999**	47,358,348
	841,515,947	811,973,682
Less: Allowance for loans receivable	**27,240,225**	24,574,442
	814,275,722	787,399,240

Movements of allowance for loans receivable are as follows:

	Individually assessed	Collectively assessed	Total
As at 1 January 2017	6,158,384	12,678,430	18,836,814
Charge for the year	1,760,243	4,582,169	6,342,412
Accreted interest on impaired loans (Note 5)	(604,784)	—	(604,784)
As at 31 December 2017	**7,313,843**	**17,260,599**	**24,574,442**

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's internal credit rating system (Five-Tier Principle) and year-end stage classification.

	31 December 2018				2017
Internal rating grades	Stage 1	Stage 2	Stage 3	Total	Total
Normal	**826,671,468**	—	—	**826,671,468**	800,984,711
Special mention	—	**3,301,005**	—	**3,301,005**	2,029,650
Sub-standard	—	—	**3,237,467**	**3,237,467**	—
Doubtful	—	—	**1,164,800**	**1,164,800**	3,668,315
Loss	—	—	**7,141,207**	**7,141,207**	5,291,006
Total	**826,671,468**	**3,301,005**	**11,543,474**	**841,515,947**	811,973,682

(Amounts expressed in RMB unless otherwise stated)

14. LOANS RECEIVABLE (continued)

An analysis of changes in the outstanding exposures and the corresponding expected credit losses ("ECLs") is as follows:

	Stage 1	Stage 2	Stage 3	
	(12-month ECL) Collectively assessed	(Lifetime ECL) Collectively assessed	(Lifetime ECL – impaired) Individually assessed	Total
Outstanding exposure as at 31 December 2017	800,984,711	2,029,650	8,959,321	811,973,682
New exposures	826,671,468	670,162	3,000,000	830,341,630
Exposure repaid	(798,116,401)	(864,850)	(1,818,114)	(800,799,365)
Transfers to Stage 2	(2,630,843)	2,630,843	—	—
Transfers to Stage 3	(237,467)	(1,164,800)	1,402,267	—
At 31 December 2018	**826,671,468**	**3,301,005**	**11,543,474**	**841,515,947**

	Stage 1	Stage 2	Stage 3	
	(12-month ECL) Collectively assessed	(Lifetime ECL) Collectively assessed	(Lifetime ECL – impaired) Individually assessed	Total ECL allowance
ECLs as at 31 December 2017	17,057,494	203,105	7,313,843	24,574,442
New exposures	17,816,241	65,346	1,165,867	19,047,454
Exposures repaid	(16,996,410)	(87,237)	(1,742,836)	(18,826,483)
Transfers to Stage 2	(56,026)	56,026	—	—
Transfers to Stage 3	(5,057)	(116,561)	121,618	—
Net remeasurement of ECL arising from transfer of stage	—	197,783	676,830	874,613
Changes to inputs used for ECL	—	—	1,855,903	1,855,903
Accreted interest on impaired loans (Note 5)	—	—	(285,704)	(285,704)
At 31 December 2018	**17,816,242**	**318,462**	**9,105,521**	**27,240,225**

(Amounts expressed in RMB unless otherwise stated)

15. PROPERTY AND EQUIPMENT

	Motor vehicles	Fixtures and furniture	Leasehold improvements	Total
Cost:				
At 1 January 2017	605,783	860,568	7,290,632	8,756,983
Additions	1,067,207	10,464	312,000	1,389,671
Disposals	(243,500)	—	—	(243,500)
At 31 December 2017	1,429,490	871,032	7,602,632	9,903,154
Additions	844,670	112,141	179,417	1,136,228
Disposals	(248,526)	—	—	(248,526)
At 31 December 2018	**2,025,634**	**983,173**	**7,782,049**	**10,790,856**
Accumulated depreciation:				
At 1 January 2017	472,369	397,203	6,403,625	7,273,197
Depreciation charge for the year	282,322	133,702	412,358	828,382
Disposals	(208,987)	—	—	(208,987)
At 31 December 2017	545,704	530,905	6,815,983	7,892,592
Depreciation charge for the year	321,858	121,193	379,637	822,688
Disposals	(248,526)	—	—	(248,526)
At 31 December 2018	**619,036**	**652,097**	**7,195,620**	**8,466,753**
Net carrying amount:				
At 31 December 2017	883,786	340,127	786,649	2,010,562
At 31 December 2018	**1,406,598**	**331,076**	**586,429**	**2,324,103**

As at 31 December 2018, one of the Company's motor vehicles with net carrying amounts of RMB670,574 was pledged to secure the instalment loan payable of the Company (2017: Nil).

(Amounts expressed in RMB unless otherwise stated)

16. DEFERRED TAX ASSETS

(a) Analysed by nature

	31 December			
	2018		2017	
	Deductible temporary differences	**Deferred income tax assets**	Deductible temporary differences	Deferred income tax assets
Impairment allowance	**19,818,063**	**4,954,516**	17,407,735	4,351,934
Liabilities from guarantees	**83,852**	**20,963**	58,000	14,500
Deferred income	**112,070**	**28,017**	397,701	99,425
Deferred income tax	**20,013,985**	**5,003,496**	17,863,436	4,465,859

(b) Movements of deferred tax assets

	Impairment allowance	**Liabilities from guarantees**	**Deferred income**	**Total**
At 1 January 2017	4,709,204	—	—	4,709,204
Recognised in profit or loss (Note 10)	(357,270)	14,500	99,425	(243,345)
At 31 December 2017	4,351,934	14,500	99,425	4,465,859
Recognised in profit or loss (Note 10)	602,582	6,463	(71,408)	537,637
At 31 December 2018	**4,954,516**	**20,963**	**28,017**	**5,003,496**

17. OTHER ASSETS

	31 December	
	2018	2017
Prepayments	**1,384,071**	—
Other receivables	**1,088,749**	1,155,937
Less:Allowance for doubtful debt	**955,983**	917,779
	1,516,837	238,158

(Amounts expressed in RMB unless otherwise stated)

17. OTHER ASSETS (continued)

Movements of allowance for doubtful debts are as follows:

	31 December	
	2018	2017
As at 1 January	**917,779**	—
Charge for the year	**86,483**	917,779
Amount written off as uncollectible	**(48,279)**	—
As at 31 December	**955,983**	917,779

As comparable companies with credit ratings for most of the counterparties are hard to identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Company based on an ageing analysis of other receivables. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

Set out below shows the maximum exposure to credit risk and expected credit losses of other receivables based on the ageing analysis.

	31 December 2018			
Ageing analysis	**Gross carrying amount**		**Expected credit loss**	
	Amount	**Percentage**	**Amount**	**Expected credit loss rate**
Up to 90 days	**29,817**	**2.74%**	**—**	**—**
91 to 365 days	**167,899**	**15.42%**	**64,950**	**38.68%**
Over 365 days	**891,033**	**81.84%**	**891,033**	**100.00%**
Total	**1,088,749**	**100.00%**	**955,983**	**87.81%**

(Amounts expressed in RMB unless otherwise stated)

18. LIABILITIES FROM GUARANTEES

Liabilities from the guarantees are provision made for guarantees. The table below shows the credit quality and the maximum exposure to credit risk based on the Company's internal credit rating system (Five-Tier Principle) and year-end stage classification.

	31 December 2018				2017
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Total
Normal	**4,000,000**	**—**	**—**	**4,000,000**	5,800,000

An analysis of changes in the outstanding exposures and the corresponding expected credit losses ("ECLs") is, as follows:

	Stage 1 (12-month ECL) Collectively assessed	**Total**
Outstanding exposure as at 31 December 2017	5,800,000	5,800,000
New exposure	4,000,000	4,000,000
Exposure derecognised	(5,800,000)	(5,800,000)
At 31 December 2018	**4,000,000**	**4,000,000**

(Amounts expressed in RMB unless otherwise stated)

18. LIABILITIES FROM GUARANTEES (continued)

	Stage 1 (12-month ECL) Collectively assessed	Total ECL allowance
ECLs as at 31 December 2017	58,000	58,000
New exposure	83,852	83,852
Exposure derecognised	(58,000)	(58,000)
At 31 December 2018	**83,852**	**83,852**

19. OTHER LIABILITIES

	31 December	
	2018	2017
Payrolls payable	**652,207**	661,573
Installment loan payable	**421,000**	—
Other payables	**6,832,563**	6,376,371
	7,905,770	7,037,944

20. SHARE CAPITAL

	31 December	
	2018	2017
Issued and fully paid	**600,000,000**	600,000,000

Movements in the Company's share capital are as follows:

	Number of shares in issue	Share capital
At 1 January 2017,	450,000,000	450,000,000
H shares issued	150,000,000	150,000,000
At 31 December 2017, 1 January 2018 and 31 December 2018	**600,000,000**	**600,000,000**

No movement occurred during the year of 2018.

21. RESERVES

The amounts of the Company's reserves and the movements therein for the reporting period are presented in the statement of changes in equity.

Capital reserve

Capital reserve comprises share premium arising from the difference between the par value of the shares issued by the Company and the net asset value in the financial statements as at 31 July 2012 during the conversion of the Company into a joint stock company and the difference between the par value of the shares of the Company and the proceeds received from the issuance of the shares of the Company.

Surplus reserve

Surplus reserve represents statutory surplus reserve.

The Company is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles of Association of the Company to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Company, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

General reserve

According to the <Financial regulations of micro-finance rural companies in Jiangsu (Trial)> (Su Cai Gui 2009 No.1), the Company is required to set aside a general reserve which is not less than 1% of the ending balance of loans receivable through equity.

For the year ended 31 December 2018, the Company made appropriation to the general reserve amounting to RMB 293,659.

(Amounts expressed in RMB unless otherwise stated)

22. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Company entered into an instalment loan arrangement in respect of purchasing motor vehicles, with a total capital value at the inception of the loan of RMB 434,280 (2017: Nil).

(b) Changes in liabilities arising from financing activities are as follows:

	Borrowing from other institutions
At 1 January 2017	—
Proceeds from borrowings	10,000,000
Repayment of borrowings	(10,000,000)
Interest paid	(97,502)
Interest expense	97,502
At 1 January 2018	—
New instalment loan	434,280
Repayment of the instalment loan	(13,280)
At 31 December 2018	**421,000**

23. RELATED PARTY DISCLOSURES

(a) Leasing

	Year ended 31 December	
	2018	2017
Leasing expense	**571,429**	525,000

Leasing expense was paid to an entity with significant influence over the Company in respect of the Company's office. As at 28 December 2017, the Company agreed with the lessor and renewed the lease contract, the leasing period is from 1 January 2018 to 31 December 2020. The leasing expense of year 2018 is RMB 571,429 (2017: RMB 525,000) (not including VAT).

(Amounts expressed in RMB unless otherwise stated)

23. RELATED PARTY DISCLOSURES (continued)

(b) Key management personnel's remuneration

	Year ended 31 December	
	2018	2017
Key management personnel's remuneration	**1,432,563**	1,391,217

Remuneration for key management personnel includes amounts paid to certain directors and the chief executive of the Company as disclosed in Note 8.

24. SEGMENT INFORMATION

Almost all of the Company's revenue was generated from the provision of loans to small and medium sized and micro enterprises (SMEs) located at Yangzhou, Jiangsu Province in Mainland China during the reporting period. There is no other main segment except the loan business.

25. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	31 December	
	2018	2017
Financial guarantee contracts	**4,000,000**	5,800,000

26. OPERATING LEASES

The Company leases office premises under various operating lease agreements as the lessee. Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December	
	2018	2017
Within one year	**681,355**	651,355
In the second year	**712,855**	681,355
In the third year	**51,355**	712,855
After three years	**51,355**	102,710
	1,496,920	2,148,275

(Amounts expressed in RMB unless otherwise stated)

27. COMMITMENTS

The Company had the following capital commitments at the end of the reporting period:

	31 December	
	2018	2017
Contracted, but not provided for:		
– Property and equipment	**199,999**	—
– Leasehold improvements	**791,613**	—
	991,612	—

28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	31 December 2018
Financial assets	
Financial assets at amortised cost	
– Cash at banks and a third party	**4,337,348**
– Loans receivable	**814,275,722**
– Other receivables	**132,766**
	818,745,836

	31 December 2017
Financial assets	
Loans and receivables	
– Cash at banks and a third party	10,578,504
– Loans receivable	787,399,240
– Other receivables	238,158
	798,215,902

(Amounts expressed in RMB unless otherwise stated)

28. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

	31 December 2018
Financial liabilities	
Financial liabilities at amortised cost	
– Other payables	**2,142,882**
	2,142,882

	31 December 2017
Financial liabilities	
Financial liabilities at amortised cost	
– Other payables	1,254,643
	1,254,643

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The main risks arising from the Company's financial instruments include credit risk, foreign currency risk, interest rate risk and liquidity risk. The Company 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. The Company manages the loans granted to SMEs, micro-enterprises and individual proprietors with the same rules and procedures. There is also credit risk in off-balance sheet financial instruments, which mainly consist of financial guarantees.

The principal features of the Company's credit risk management function include:

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

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

A loan classification approach has been adopted to manage loan portfolio risk. The 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: borrowers' ability to service their loans is in question and cannot rely entirely on normal business revenues to repay the principal and interest. Losses may ensue even when collateral items 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, the Company also launches training programs periodically for credit officers at different levels.

Financial guarantees carry similar credit risk to loans and the Company takes a similar approach on risk management.

The Company's financial assets include cash at banks, loans receivable and other receivables. The credit risk of these assets mainly arose from the counterparties' failure to discharge their contractual obligations, with major exposure equal to the carrying amounts.

Credit risk measurement

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

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

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Criteria for judging significant increases in credit risk

The Company 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, the Company takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Company, 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, the Company 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.

The Company 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 the 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.

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Definition of credit-impaired financial asset

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

- Significant financial difficulty of the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- It is becoming probable that the debtor 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, the Company measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of PD, LGD and EAD. The Company takes into account the quantitative analysis of historical statistics (such as internal rating grade, manners of guarantees and types of collateral, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Company'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 PD under the current macroeconomic environment;
- LGD refers to the Company'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 the Company should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

(Amounts expressed in RMB unless otherwise stated)

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Forward-looking information

The assessment of both a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Company 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 Company implements guidelines on the acceptability of specific classes of collateral from customers. The principal collateral types for loans to customers are:

- Real estate, including residential and commercial properties; and
- Equipment.

The Company also focuses on ascertaining legal ownership, condition and the valuation of the collateral. A collateral backed loan is granted on the basis of the fair value of the collateral. The Company continues to monitor the value of the collateral throughout the loan period.

The following table sets out a breakdown of the Company's overdue loans by security as of the dates indicated:

31 December 2018	Overdue within 3 months	Overdue more than 3 to 12 months	Overdue more than 1 year	Total
Guaranteed loans	17,743	3,104,816	2,566,106	5,688,665
Collateral-backed loans	3,132,392	132,652	5,739,900	9,004,944
	3,150,135	3,237,468	8,306,006	14,693,609

31 December 2017	Overdue within 3 months	Overdue more than 3 to 12 months	Overdue more than 1 year	Total
Guaranteed loans	1,185,000	52,500	1,993,076	3,230,576
Collateral-backed loans	844,650	—	6,913,745	7,758,395
	2,029,650	52,500	8,906,821	10,988,971

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of risk concentration

The Company manages its exposure to the concentration of credit risk by customer, geographic region and industry. The customers of the Company are located mainly in rural areas, and they are concentrated in a geographic region, Yangzhou, but the Company provides loans to a wide variety of customers that operate in different industries to mitigate its exposure to such risks. Given the regulatory restriction on the Company's geographical area of operation, there is credit risk arising from the geographic concentration.

Write-off policy

The Company writes off loans and other receivables, in whole or in part, when it was exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectations of recovery include bankrupt, termination or the expected cost significantly greater than the carrying amount of loans and other receivables. The Company may write off loans and other receivables that are still subject to enforcement activity. Where recoveries are made, these are recognised in the statement of profit or loss.

(b) Foreign currency risk

The Company operates principally in the PRC with only limited exposure to foreign exchange rate risk arising primarily from certain bank deposits denominated in HKD.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets).

	Year ended 31 December	
	2018	2017
Changes in HKD exchange rate	**Impact on profit before tax**	Impact on profit before tax
+5%	**116**	53,942
-5%	**(116)**	(53,942)

(Amounts expressed in RMB unless otherwise stated)

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Interest rate risk

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

The following table demonstrates the sensitivity as at the end of each reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate of cash at banks and a third party). The Company's equity is not affected, other than the consequential effect on retained earnings (a component of the Company's equity) affected by the changes in profit before tax.

	Year ended 31 December	
	2018	2017
Changes in RMB interest rate	**Impact on profit before tax**	Impact on profit before tax
+ 50 basis points	**21,687**	52,893
– 50 basis points	**(21,687)**	(52,893)

(d) Liquidity risk

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

The Company seeks to manage its liquidity risk by circulating liquidity facilities, considering the maturity date of financial instruments and estimated cash flows from operation.

(Amounts expressed in RMB unless otherwise stated)

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

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

	31 December 2018					
	On demand	Past due	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets:						
Cash at banks and a third party	4,337,348	—	—	—	—	4,337,348
Loans receivable	—	14,693,609	133,786,542	756,629,225	—	905,109,376
Other assets	1,088,749	—	—	—	—	1,088,749
Subtotal	5,426,097	14,693,609	133,786,542	756,629,225	—	910,535,473
Financial liabilities:						
Other liabilities	—	—	1,553,150	308,799	280,933	2,142,882
Subtotal	—	—	1,553,150	308,799	280,933	2,142,882
Net	5,426,097	14,693,609	132,233,392	756,320,426	(280,933)	908,392,591
Off-balance sheet guarantee	—	—	—	4,000,000	—	4,000,000

	31 December 2017					
	On demand	Past due	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets:						
Cash at banks and a third party	10,578,504	—	—	—	—	10,578,504
Loans receivable	—	10,988,971	148,483,631	712,900,652	—	872,373,254
Other assets	1,155,937	—	—	—	—	1,155,937
Subtotal	11,734,441	10,988,971	148,483,631	712,900,652	—	884,107,695
Financial liabilities:						
Other liabilities	—	—	1,104,699	139,944	10,000	1,254,643
Subtotal	—	—	1,104,699	139,944	10,000	1,254,643
Net	11,734,441	10,988,971	147,378,932	712,760,708	(10,000)	882,853,052
Off-balance sheet guarantee	—	—	—	5,800,000	—	5,800,000

(Amounts expressed in RMB unless otherwise stated)

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(e) Capital management

According to the Opinions on Supporting and Restricting the Rural Micro-Finance Companies in Jiangsu Province (Provisional) (Su Jin Rong Ban Fa 2013 No. 103), the liabilities of micro-finance rural companies should not exceed 100% of net capital and the contingent liabilities should not exceed 250% of the net capital.

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company 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 years ended 31 December 2018 and 2017.

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

	31 December	
	2018	2017
Instalment loan payable	**421,000**	—
Less: Cash and cash equivalents	**4,337,348**	10,578,504
Net debt	**(3,916,348)**	(10,578,504)
Share capital	**600,000,000**	600,000,000
Reserves	**103,074,536**	95,905,406
Retained earnings	**108,236,543**	94,650,965
Capital	**811,311,079**	790,556,371
Capital and net debt	**807,394,731**	779,977,867
Gearing ratio	**N/A**	N/A

30. FAIR VALUE 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.

The Company's financial assets mainly include cash at banks and a third party and loans receivable.

The Company's financial liabilities mainly include other payables.

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

31. EVENTS AFTER THE REPORTING PERIOD

As approved at the board of directors' meeting held on 25 March 2019, the profit distribution plan of 2018 was as follows:

1. 10% of 2018 net profit amounting to RMB6,875,471 is appropriated to the statutory surplus reserve;

2. RMB293,659 is appropriated to the general reserve;

Except for the above, there were no significant events after the reporting period.

32. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved and authorised for issue by the Company's board of directors on 25 March 2019.

Financial Summary

Below is a summary of the Company's results for the last five financial years and the assets and liabilities of the Company as at 31 December 2018, 2017, 2016, 2015 and 2014, as extracted from the published audited financial statements for the years ended 31 December 2018, 2017, 2016, 2015 and 2014. The amounts set out in this financial summary are prepared as if the current structure of the Company had been in existence throughout the years presented.

	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest income	**108,333**	91,338	74,495	95,947	98,107
Interest expense	**—**	(98)	(596)	(1,442)	(1,433)
Interest income, net	**108,333**	91,240	73,899	94,505	96,674
Reversal/(accrual) of provision for impairment losses	**(3,037)**	(7,260)	2,374	849	1,555
Reversal/(accrual) of provision for guarantee losses	**(26)**	(58)	—	74	110
Administrative expenses	**(15,291)**	(20,728)	(22,593)	(17,647)	(20,802)
Other income/(expenses), net	**2,272**	(2,162)	453	361	(249)
PROFIT BEFORE TAX	**92,249**	61,032	54,133	78,068	77,252
Income tax expense	**(23,494)**	(15,198)	(13,653)	(16,666)	(9,759)
PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**68,755**	45,834	40,480	61,402	67,493
ASSETS AND LIABILITIES					
Total assets	**827,458**	804,692	597,951	610,659	536,675
Total liabilities	**16,146**	14,136	17,168	25,357	12,775
Net assets	**811,311**	790,556	580,783	585,302	523,900