CHINA HUIRONG FINANCIAL HOLDINGS LIMITED

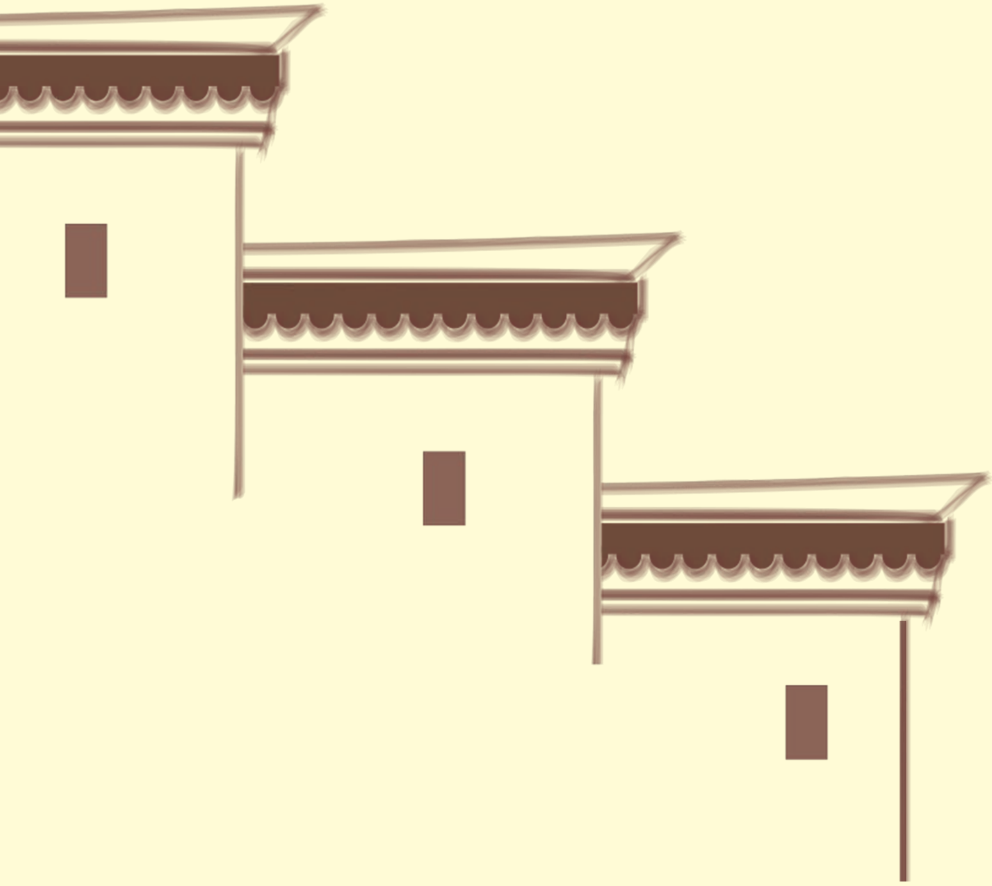
中國匯融金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1290

匯融

ANNUAL REPORT 2018



WE ARE COMMITTED TO BEING A LEADING COMPREHENSIVE FINANCING SERVICE PROVIDER IN CHINA.

We are dedicated to providing diversified financial services including secured loans, credit loans, internet lending agency services to our customers and to carrying out investment business.

We operate in Suzhou city and the four county-level cities that are governed by the Suzhou city government, or the Greater Suzhou Area, which is the most economically advanced region in Jiangsu Province, one of the most economically developed provinces in China. Our business has been steadily expanding across China.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Min *(Chairman and Chief Executive Officer)*
Mr. Zhang Changsong *(Chief Financial Officer)*

Non-executive Directors

Mr. Zhuo You
Mr. Zhang Cheng
Ms. Zhang Shu
Mr. Ling Xiaoming

Independent Non-executive Directors

Mr. Zhang Huaqiao
Mr. Feng Ke
Mr. Tse Yat Hong

COMMITTEE COMPOSITION

Audit Committee

Mr. Tse Yat Hong *(Chairman)*
Mr. Feng Ke
Ms. Zhang Shu[1]

Remuneration Committee

Mr. Zhang Huaqiao *(Chairman)*
Mr. Tse Yat Hong
Mr. Wu Min

Nomination Committee

Mr. Wu Min *(Chairman)*
Mr. Feng Ke
Mr. Zhang Huaqiao

Technology Finance Business Committee[2]

Mr. Feng Ke *(Chairman)*
Mr. Wu Min
Mr. Zhang Changsong

COMPANY SECRETARY

Miss Leung Ching Ching

AUTHORISED REPRESENTATIVES

Mr. Wu Min
Miss Leung Ching Ching

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

23F, No. 238
Des Voeux Road Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

22/F, 345 Baodai East Road, Suzhou
Jiangsu Province, the PRC

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

PRINCIPAL BANKS

Jiangsu Bank, Suzhou Branch
Suzhou Bank, Suzhou Branch

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS

Mayer Brown
Haiwen & Partners

COMPANY'S WEBSITE

www.cnhuirong.com

STOCK CODE

The shares of the Company are listed on the main board of The Stock Exchange of Hong Kong Limited

Stock Code 01290

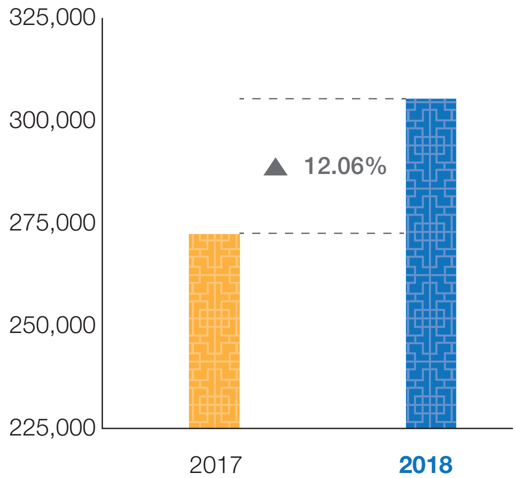
1 Ms. Zhang Shu has been appointed as a member of the audit committee of the Company replacing Mr. Zhang Cheng with effect from 26 March 2019.

2 The Internet Finance Business Committee has been replaced by the Technology Finance Business Committee with effect from 26 March 2019.

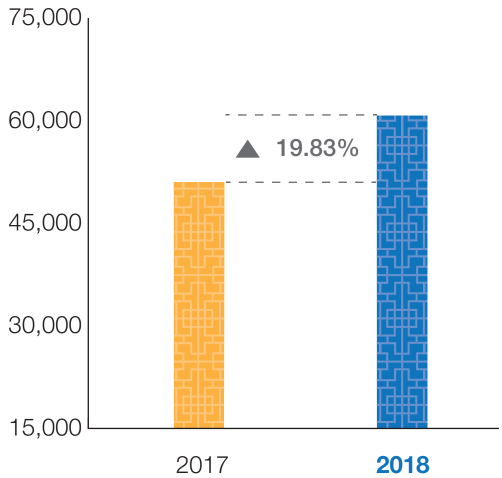
Financial Summary

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
	For the year ended or as at 31 December				
Operating Results					
Revenue	**305,194**	272,353	248,334	375,536	388,832
Profit attributable to equity holders	**60,996**	50,904	40,078	101,886	165,003
Financial Position					
Total assets	**2,800,226**	3,034,269	3,136,179	2,769,417	2,380,204
Cash at bank and on hand	**797,964**	941,645	912,349	670,547	855,975
Loans to customers	**1,738,283**	1,945,652	2,024,425	2,030,053	1,494,248
Total liabilities	**903,198**	1,180,304	1,336,041	1,002,596	880,091
Net assets	**1,897,028**	1,853,965	1,800,138	1,766,821	1,500,113

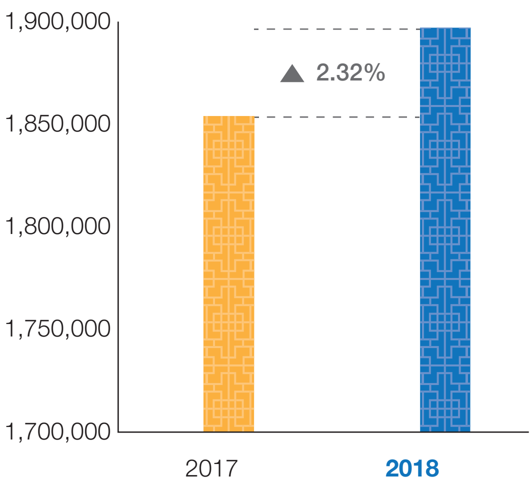
Revenue (RMB'000)



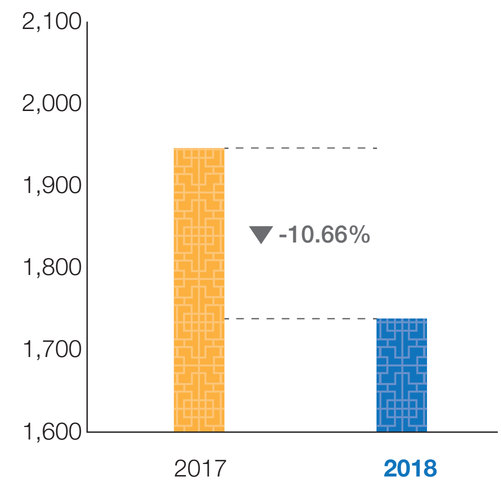
Profit attributable to equity holders (RMB'000)



Net assets (RMB'000)



Loans to customers (RMB in millions)



CHAIRMAN'S STATEMENT

Wu Min
Chairman of the Board

Chairman's Statement

WE ARE COMMITTED TO IMPLEMENTING A DEVELOPMENT STRATEGY DRIVEN BY BOTH INCLUSIVE FINANCE AND TECHNOLOGY FINANCE. BY ESTABLISHING THE INCLUSIVE FINANCE DEPARTMENT, INTERNET LENDING DEPARTMENT, TECHNOLOGY FINANCE DEPARTMENT AND INSURANCE BROKERAGE DEPARTMENT, WE CONTINUE TO EXPAND AND REINFORCE OUR BUSINESS, ACHIEVING STEADILY GROWING QUALITY OF CREDIT ASSETS AND CONTINUOUS ENHANCEMENT OF PROFITABILITY AND COMPLETING OUR TRANSFORMATION FROM A TRADITIONAL FINANCIAL COMPANY TO A TECHNOLOGY FINANCE SERVICE COMPANY.

On behalf of the board of directors of China Huirong Financial Holdings Limited, I am pleased to present the annual report for the year ended 31 December 2018.

In 2018, the Company proactively adjusted its development strategies in response to adverse economic and industrial environment. By targeting provincial capital cities with good economic development, we optimised and strengthened our real estate mortgage business and accelerated the expansion across regions, forming a steadily developing momentum in business. The Company also engaged in the on-lending business based on bank cooperation, providing loans for an especially short-term that mainly last from a few days to over ten days. Such service mitigated business risks and yielded good economic benefits. In addition, the Company took initiatives to embrace the development in technology finance by performing active exploration and attempt in areas such as big-data risk control and supply chain technology. In terms of management, the Company further strengthened its refined management, basically realizing product standardization and whole-process control. This serves as a robust guarantee for controlling risks and sustaining business, and lays a solid foundation for business development in 2019.

For such results achieved in the economy downturn, I would like to express my sincere gratitude on behalf of the Board to all of our staff for their diligent contribution and to all shareholders for their full support.

In 2019, we will continue to work towards our goal of becoming a comprehensive finance technology service provider which can offer diversified products to SMEs and individuals. We will pay great attention to the building of brand, present the changes in the Company and its performance to investors in a timely manner, actively gain financial licenses by setting-up, absorption, cooperation, etc., conduct innovative financial services, lay solid foundation for the development of diversified business, establish prompt and effective feedback mechanism for business operation, enhance management efficiency, improve the quality and standard of self-owned business, highlight the reserve of talents, especially the introduction and nurturing work concerning professional talents in emerging areas like financial technologies, and strengthen the building of corporate culture and cohesiveness for realising the joint growth of employees and the Company with the core values of the Company.

Please expect our performance in 2019.

China Huirong Financial Holdings Limited
WU Min
Chairman of the Board of Directors

26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

We provide our customers with an alternative financing channel that is quick and convenient as compared to traditional bank loans.

We have designed our loan approval and collateral appraisal processes to be efficient and transparent to specifically address customers' immediate and short-term financing needs.

1. BUSINESS REVIEW AND DEVELOPMENT

1.1 Loans to customers

The following table sets out the details of new loans and renewed loans, including loans secured by real estate collateral, equity interest collateral, unsecured loans and guaranteed loans we granted as at 31 December 2018:

	Year ended 31 December	
	2018	2017
Total new loan amount granted (RMB in millions)	**4,728**	3,624
Total number of new loans granted	**1,701**	1,280
Total loan amount renewed (RMB in millions)	**362**	129
Total number of loans renewed	**223**	81

During the Reporting Year, total new loan amount and total number of new loans we granted, including loans secured by real estate collateral, equity interest collateral, unsecured loans and guaranteed loans, represent significant increase as compared with last year. This increase was due to the business growth driven by the expansion of the Group and its types of products.

Management Discussion and Analysis (Continued)

1.2 Types of the outstanding loans to customers

As at 31 December 2018, our outstanding loans to customers were RMB2,069.9 million. The following table sets forth our gross amount of outstanding loans to customers for the indicated periods:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Loans to customers, gross		
Real estate backed loans	**1,254,966**	1,172,861
Equity interest backed loans	**388,844**	254,837
Personal property backed loans	**22,189**	38,226
Guaranteed loans	**199,926**	205,783
Unsecured loans	**203,959**	483,186
	2,069,884	2,154,893

As of 31 December 2018, the outstanding loans of Wuzhong Pawnshop were RMB1,059.1 million, of which the outstanding loans secured by real estate collateral were RMB1,098.1 million, which almost reached the statutory limit, and the outstanding loans secured by equity interest collateral were RMB388.8 million; the outstanding entrusted loans of Huifang Tongda were RMB19.4 million; the outstanding loans of Dongshan Micro-finance were RMB450.5 million; and the outstanding loans of Suzhou Huida Commercial Factoring Company Limited ("Huida Factoring") were RMB54.3 million. The gross amount of outstanding loans to customers was RMB2,069.9 million, representing a decrease of RMB85.0 million, or 3.9% as compared with 2017.

1.3 Online P2P lending business — Suzhou Qian Dai

As part of the Group's commitment to diversify its business and expand its income stream, the Group officially launched an online "peer-to-peer" lending ("P2P Lending") platform, namely Suzhou Qian Dai (www.suzhoumoney.com) on 8 January 2015. It provides a diverse channel of lending which complements the traditional short-term collateral-backed loan business of the Group.

During the Reporting Year, Suzhou Qian Dai launched 1,862 projects in total. The number of its registered users reached 60,950 and the outstanding balance of its projects amounted to RMB339.2 million as at 31 December 2018.

Management Discussion and Analysis (Continued)

The following table sets out the details of lending business on the online P2P Lending platform during the indicated periods:

	Year ended 31 December	
	2018	2017
Total lending business amount (RMB in millions)	**639**	1,684
Total number of lending business	**1,862**	2,870

Affected by stringent regulation on the online lending industry in 2018, Suzhou Qian Dai further reduced its business scale in accordance with the policy requirements. The total loan amount of its lending business in the year decreased by 62.1% as compared to last year, and the total number of loan of its lending business decreased by 35.1% as compared to last year, which showed a trend of decrease in the amount per transaction.

1.4 Effective loan yield

During the Reporting Year, the effective loan yield increased to 15.5% (excluded the effect of discounting) from that of last year (2017: 14.5%). The increase in loan yield was attributable to Huifang Rongtong's efforts to expand the sub-loan fund business which has short loan term and high return with annualized interest rate ranging from 18.0% to 25.2%.

1.5 Expected credit loss ("ECL") allowances

The Group has adopted HKFRS 9 with effect from 1 January 2018. HKFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments — Disclosures".

The Group applies the new standards retrospectively from 1 January 2018 without restating any comparative information as at 31 December 2017. Any adjustments to the carrying amounts of financial assets at the date of initial application were recognized in the opening retained earnings of the current year. Consequently, the amendments to HKFRS 7 disclosures in accordance with HKFRS 9 have only applied to the current year. The comparative year's notes disclosures repeat those disclosures made in the prior year.

In accordance with HKFRS 9, the Group constructed a "three-stage" ECL model to measure ECL allowances based on changes in credit quality since initial recognition of a loan. The ECL allowance is measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the PD, LGD, and EAD.

Management Discussion and Analysis (Continued)

The following tables explain the changes in loss allowances between the beginning of and the end of the annual year due to these factors:

	Year ended 31 December 2018			
Secured loans to customers (a)	**Stage 1 12-month ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 1 January 2018	3,931	79	74,834	78,844
Changes on initial application of HKFRS 9	2,913	504	—	3,417
Restated loss allowances as at 1 January 2018	6,844	583	74,834	82,261
Transfers among three stages	(3,542)	3,193	40,370	40,021
New loans to customers originated	11,608	—	—	11,608
Changes in PDs/LGDs/EADs	—	—	70,466	70,466
Unwind of discount	—	—	5,373	5,373
Loans to customers derecognized during the year other than write-offs	(7,869)	(2,107)	(36,970)	(46,946)
Write-offs	—	—	(1,314)	(1,314)
Recovery of the loans to customers written-off in previous years	—	—	4,139	4,139
Loss allowances as at 31 December 2018	7,041	1,669	156,898	165,608

Management Discussion and Analysis (Continued)

Unsecured loans to customers (b)	Year ended 31 December 2018 Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Loss allowances as at 1 January 2018	14,847	—	115,550	130,397
Changes on initial application of HKFRS 9	10,475	—	—	10,475
Restated loss allowances as at 1 January 2018	25,322	—	115,550	140,872
Transfers between three stages	(951)	7,573	2,094	8,716
New loans to customers originated	206,139	—	—	206,139
Changes in PDs/LGDs/EADs	—	—	28,313	28,313
Unwind of discount	—	—	21,069	21,069
Loans to customers derecognized during the year other than write-offs	(205,223)	(7,573)	(27,537)	(240,333)
Write-offs	—	—	(1,360)	(1,360)
Recovery of the loans to customers written-off in previous years	—	—	2,577	2,577
Loss allowances as at 31 December 2018	25,287	—	140,706	165,993

(a) Secured loans to customers comprise real estate backed loans and personal property backed loans.

(b) Unsecured loans to customers comprise equity interest backed loans, guaranteed loans and unsecured loans.

As at 31 December 2018, the impairment allowances provide by the Group amounted to RMB331.6 million, representing 16.0% of the total outstanding loans to customers (before allowances).

Management Discussion and Analysis (Continued)

2. FINANCIAL REVIEW

During the Reporting Year, the profit from continuing operations of the Group was RMB72.8 million, representing an increase of 12% as compared with 2017.

The major financial review is as follows:

2.1 Interest income, interest costs and net interest margin

Interest income:

In 2018, the interest income throughout the year increased by 12.3% as compared to that of last year, mainly due to the increase in unwind interest in accordance with the adoption of HKFRS9.

Interest income from the top five customers accounted for 24.4% of total interest income for the year ended 31 December 2018 (2017: 19.9%).

Interest cost:

During the Reporting Year, our interest costs amounted to RMB54.6 million (2017: RMB74.2 million), representing an decrease of 26% from that in 2017. The decrease of interest cost was mainly due to the significant reduction of the loans granted through P2P platform, which caused the interest expense in 2018 decreased by RMB21.6 million as compared to that of last year.

Net interest margin:

Net interest margin equals net interest income for the year divided by the average of the beginning and the ending balances of interest-earning assets, which equals the sum of the balances of loans to customers and deposits with banks. Net interest margin was 9.2% during the Reporting Year (2017: 6.8%).

Management Discussion and Analysis (Continued)

2.2 Administrative expenses

The administrative expenses during the Reporting Year amounted to RMB73.7 million (2017: RMB66.9 million), representing an increase of RMB6.8 million or 10% from that of 2017. The increase was mainly due to:

The Group has newly recruited a certain number of employees to establish its branches and carry out its supply chain technology finance business, which resulted in an increase in employee benefit expenses of RMB3.6 million in 2018; at the same time, the Group purchased certain land use rights during the year, which resulted in an increase in depreciation and amortization of RMB1.9 million in 2018.

2.2.1 Employee benefit expenses

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	**14,462**	14,321
Discretionary bonuses	**17,024**	12,307
Pension	**1,990**	1,677
Other social security obligations	**4,932**	4,403
Share-based payments	**2,200**	4,272
	40,608	36,980

As at 31 December 2018, the Group had a total of 168 full-time employees, with an increase of 7 people from 161 people as at 31 December 2017. We will adjust the number of our employees and our remuneration policy based on the development of our business and review of our employees' performance. As of 31 December 2018, the employee benefit expenses were RMB40.6 million, representing an increase of RMB3.6 million or 9.8% as compared to that of previous year.

Management Discussion and Analysis (Continued)

2.2.2 Share-based payments

To reward and motivate eligible participants for their contribution to the Group and align their interest with the Company, the Group granted 50,000,000 share options to subscribe for up to a total of 50,000,000 shares to the directors and selected employees on 13 September 2016 (the "Date of Grant") with an exercise price of HK$0.62 per share. As of 31 December 2018, the remaining share options was 27,238,000. During the year, none of share options granted to directors and employees were exercised. Details of exercise price and number of share options are set out below:

	2018 Average exercise price HK$ per share	2018 Number of share options (in thousands)
At 1 January	—	28,007
Granted	0.62	—
Forfeited	0.62	(769)
At 31 December	0.62	27,238

2.2.3 The ratio of administrative expenses to net operating income

During the Reporting Year, the ratio of administrative expenses to net operating income, which equals the sum of net interest income and other net operating income of the Group, was 50.2% (2017: 34.0%).

2.3 Net charge of ECLs/impairment losses

During the Reporting Year, net charge of ECLs was RMB107.3 million (2017: net charge of impairment losses was RMB10.1 million).

	Year ended 31 December 2018	2017
Net charge of ECLs/impairment losses on loans to customers	105,901	8,976
Net charge of ECLs/impairment losses on other current assets	1,399	1,166
Net charge of ECLs/impairment losses on term deposit with banks	(8)	—
	107,292	10,142

During the Reporting Year, the impairment loss of assets increased by RMB97.2 million, or by approximately 958% as compared to that in the previous year, which was mainly due to the application of HKFRS 9 by the Group since 1 January 2018. HKFRS 9 introduces a new impairment model for financial assets, which requires the recognition of impairment allowances based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39.

Management Discussion and Analysis (Continued)

2.4 Income tax expenses

During the Reporting Year, the income tax expenses amounted to RMB38.0 million, representing an increase of 34.3% as compared with 2017 (2017: RMB28.4 million), which was mainly due to the reversal of previously recognized deferred tax assets from impairment allowances on loans by Wuzhong Pawnshop, tax losses from some overseas subsidiaries and Huifang Supply Chain and adjustments for exchange differences of prior years.

2.5 Profit attributable to equity holders and return on assets

During the Reporting Year, profit attributable to equity holders was RMB61.0 million (2017: RMB50.9 million), representing an increase of 20% as compared with 2017. During the Reporting Year, return on average assets was 2.1% (2017: 1.6%) and return on average equity was 3.3% (2017: 2.8%).

Management Discussion and Analysis (Continued)

3. LOANS TO CUSTOMERS

3.1 Loan portfolio

The table below sets out the details of loans we granted to customers as at the dates indicated:

	As at 31 December	
	2018	2017
Gross loans to customers, inclusive of principal and interest (RMB'000)		
Real estate backed loans	**1,254,966**	1,172,861
Equity interest backed loans	**388,844**	254,837
Personal property backed loans	**22,189**	38,226
Guaranteed loans	**199,926**	205,783
Unsecured loans	**203,959**	483,186
Total	**2,069,884**	2,154,893
Number of loans outstanding		
Real estate backed loans	**429**	264
Equity interest backed loans	**28**	28
Personal property backed loans	**840**	979
Guaranteed loans	**62**	107
Unsecured loans	**87**	297
Total	**1,446**	1,675
Average loan amount (RMB'000)		
Real estate backed loans	**2,925**	4,443
Equity interest backed loans	**13,887**	9,101
Personal property backed loans	**26**	39
Guaranteed loans	**3,225**	1,923
Unsecured loans	**2,344**	1,627
Total	**22,407**	17,133

Management Discussion and Analysis (Continued)

3.2 Loan classification and ECL allowances/impairment allowances

The Group has adopted HKFRS 9 with a transition date on 1 January 2018. HKFRS 9 addresses the classification and measurement of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new impairment model requires the recognition of impairment allowances based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39.

In accordance with HKFRS 9, the Group constructed a "three-stage" ECL model to measure ECL allowances based on changes in credit quality since initial recognition of a loan:

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group.
- Stage 2: If a SICR since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired.
- Stage 3: If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

The table below sets out the details of the classification of loans we granted to customers as at the dates indicated:

	As at 31 December				
	2018				2017
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans to customers					
Secured loans to customers	425,994	9,537	841,624	1,277,155	1,211,087
Unsecured loans to customers	596,490	—	196,239	792,729	943,806
Gross carrying amount	1,022,484	9,537	1,037,863	2,069,884	2,154,893
Loss allowances	(32,328)	(1,669)	(297,604)	(331,601)	(209,241)
Carrying amount	990,156	7,868	740,259	1,738,283	1,945,652

In the "three-stage" ECL model constructed by the Group, loans to customers in Stage 1 have their ECL allowances measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Loans to customers in Stage 2 or 3 have their ECL allowances measured based on ECLs on a lifetime basis. As at 31 December 2018, the ECL allowances for secured and unsecured loans to customers amounted to RMB331.6 million, representing 16.0% of the total outstanding loans to customers (before ECL allowances).

Management Discussion and Analysis (Continued)

The following table sets forth the breakdown of our ECL allowances/impairment allowances of the Group as at the indicated dates:

	As at 31 December				
	2018				2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Secured loans to customers	7,041	1,669	156,898	165,608	78,844
Unsecured loans to customers	25,287	–	140,706	165,993	130,397
Total	32,328	1,669	297,604	331,601	209,241

3.3 Loans under legal proceedings

RMB'000		31 December 2018 Involving principal and interest	31 December 2017 Involving principal and interest
Real estate backed loans	Number of clients	41	36
	Outstanding loans	444,674	538,649
Equity interest backed loans	Number of clients	11	12
	Outstanding loans	111,246	136,500
Guaranteed loans	Number of clients	17	19
	Outstanding loans	40,012	42,916
Total	Number of clients	69	67
	Outstanding loans	595,932	718,065

As of 31 December 2018, the outstanding loans under legal proceedings (as originally presented) accounted for 28.8% of the outstanding loans to customers, representing a decrease from 33.3% as at the end of 2017.

Management Discussion and Analysis (Continued)

4. CREDIT RISK MANAGEMENT

According to our internal policy, the principal amount of a loan we grant to a loan applicant is individually negotiated with the applicant, but the appraised loan-to-value ratio of the loan is capped at 80% for real estate collateral and 50% for equity interest collateral, respectively.

The following table sets forth a breakdown by collateral type of (i) aggregate loan amount; (ii) appraised value of collateral at time of loan approval; and (iii) the weighted average appraised loan-to-value ratio as of the granting dates of loans outstanding as of the indicated dates:

	As at 31 December	
	2018	2017
Aggregate loan amount (RMB in thousands)		
Real estate collateral	**1,254,966**	1,172,861
Equity interest collateral	**388,844**	254,837
Appraised value of collateral at time of pawn loan approval (RMB in millions)		
Real estate collateral	**1,961**	2,141
Equity interest collateral	**1,319**	1,189
Range of appraised loan-to-value ratio of pawn loans		
Real estate collateral	**9%–71%**	7%–70%
Equity interest collateral	**4%–50%**	4%–48%
Weighted average appraised loan-to-value ratio of pawn loans		
Real estate collateral	**53%**	55%
Equity interest collateral	**36%**	34%

5. TOTAL EQUITY AND CAPITAL MANAGEMENT

5.1 Total Equity

The total equity as at 31 December 2018 was RMB1,897.0 million, representing an increase of RMB43.1 million or 2.3% as compared with that as at 31 December 2017. The increase was due to an increase of the net profit attributable to equity holders amounting to RMB61.0 million during the Reporting Year.

5.2 Gearing ratio management

We monitor capital risk on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt represents bank borrowings less cash and cash equivalents. Total equity represents total equity as stated in the consolidated statement of financial position. Total capital is the sum of net debt and total equity.

Our gearing ratio as at 31 December 2018 was 27.4% (2017: 32.5%).

Management Discussion and Analysis (Continued)

6. BORROWINGS

The following table sets forth our bank borrowings as at the indicated dates:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Bank borrowings (a)	**766,286**	844,812
Borrowings from micro-finance company (b)	**55,000**	68,174
Borrowings from securities company (c)	**15,540**	27,051
Borrowings from targeted financing plan (d)	**13,250**	19,510
Interests of holders of consolidated SEs		
— Suzhou Qian Dai	**—**	191,421
	850,076	1,150,968

(a) (i) Bank borrowings are with maturity within one year and bear interest rates ranging from 4.35% to 6.09% per annum in the year ended 31 December 2018 (2017: From 4.35% to 5.66%).

(ii) As at 31 December 2018, bank borrowings with principal amount of RMB491.0 million were secured by restricted term deposits at bank of US$85.2 million (equivalent to approximately RMB584.6 million) (as at 31 December 2017: bank borrowings with principal amount of RMB306.0 million were secured by restricted term deposits at bank of US$49.8 million (equivalent to approximately RMB325.4 million)).

(iii) As at 31 December 2018, bank borrowings with principal amount of RMB74.0 million were secured by restricted term deposits at bank of RMB78.73 million (as at 31 December 2017: bank borrowings with principal amount of RMB47.5 million were secured by restricted term deposits at bank of RMB50.0 million).

(iv) As at 31 December 2018, bank borrowings with principal amount of RMB200.0 million were guaranteed by Wuzhong Jiaye and the Ultimate Controller (2017: RMB370.0 million).

(b) As at 31 December 2018, the loan with principal amount of RMB55.0 million from micro-finance companies was guaranteed by Jiangsu Wuzhong Group Co., Ltd. (2017: RMB68.0 million).

(c) As at 31 December 2018, the loan with principal amount of RMB15.5 million from securities company was pledged by the shares of listed company held by the Group (2017: RMB27.0 million).

(d) As at 31 December 2018, the loan with principal amount of RMB12.5 million from Suzhou Financial Assets Trading Center was guaranteed by Jiangsu Wuzhong Group Co., Ltd. (2017: RMB19.5 million).

Management Discussion and Analysis (Continued)

7. CAPITAL RECEIPT AND EXPENDITURE

Our capital receipt and expenditure primarily consists of the payment of purchases of property, intangible assets, purchases of subsidiaries, associates, and financial assets at fair value through profit or loss. During the Reporting Year, the Group recorded a net capital expenditure of RMB43.7 million (2017: net capital receipt of RMB6.3 million), of which RMB37.2 million was used to acquire a construction land for headquarters of the Group.

8. SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments for the year ended 31 December 2018.

9. MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As at 1 September 2018, Huifang Investment, a subsidiary of China Huirong, has subscribed for 10% of the equity interest in Hillcrest Associates Limited (嶺峰合夥人有限公司) at the cost of HK$1 million, which was regarded as an investment targeted at Translink platform as was approved by the Board's resolution. Since Shenzhen Ruanyin Information Technology Company Limited* (深圳軟銀資料科技有限公司) was the business entity for operation of Translink's blockchain and big data platform, and was wholly owned by Hillcrest Associates Limited (嶺峰合夥人有限公司) , the investment was achieved by way of subscription of the equity interest of Hillcrest Associates Limited (嶺峰合夥人有限公司).

10. CONTINGENCIES, CONTRACTUAL OBLIGATIONS, LIQUIDITY AND FINANCIAL RESOURCES

10.1 Contingencies

As at 31 December 2018, the Group did not have any significant contingent liabilities except the following commitments (2017: Same).

Management Discussion and Analysis (Continued)

10.2 Commitments

a. Operating lease Commitments

The Group leases various buildings under irrevocable operating lease agreements. The leases have various terms, clauses for upgrading and renewal rights. The future aggregate minimum lease payments under irrevocable operating leases agreements are as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
No later than 1 year	**4,665**	5,722
Later than 1 year and no later than 5 years	**5,302**	5,335
	9,967	11,057

The future aggregate minimum lease payments represent a decrease as compared with 2017, which was mainly due to the closing of part of the pawn shops as the adjustment on the Group's business to meet the need of transformation and upgrade.

b. Capital Commitments

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Hillcrest Associates Limited (嶺峰合夥人有限公司) (a)	**438**	—
	438	—

(a) The purchase consideration of Hillcrest Associates Limited (嶺峰合夥人有限公司) is HKD1.0 million, of which HKD0.5 million (equivalent to RMB0.4 million) has not been paid by the Group as at 31 December 2018 (31 December 2017: Nil).

Management Discussion and Analysis (Continued)

10.3 Liquidity and capital resources

a. Cash flow analysis

As at 31 December 2018, the Group's cash and cash equivalents amounted to RMB133.7 million, representing a decrease of RMB124.2 million as compared to that as at 31 December 2017. The following table sets forth a summary of our cash flows for the indicated periods:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash inflow from operating activities	**232,251**	219,329
Net cash (outflow)/inflow from investing activities	**(43,657)**	6,283
Net cash outflow from financing activities	**(313,337)**	(158,237)
Net (decrease)/increase in cash and cash equivalents	**(124,743)**	67,375
Exchange gains/(losses) on cash and cash equivalents	**562**	(674)
Cash and cash equivalents at the beginning of the year	**257,917**	191,216
Cash and cash equivalents at the end of the year	**133,736**	257,917

Net Cash Flow from Operating Activities

During the Reporting Year, net cash inflow from operating activities amounted to RMB232.3 million. The net cash inflow from operating activities was mainly due to the recovery of part of loans to customers during the year.

Net Cash Flow from Investing Activities

During the Reporting Year, net cash outflow from investing activities amounted to RMB43.7 million.

Net Cash Flow from Financing Activities

During the Reporting Year, net cash outflow from financing activities amounted to RMB313.3 million.

b. Liquidity risk

Details of liquidity risk are set out in the paragraph headed "LIQUIDITY RISK" in the section headed "Notes to The Consolidated Financial Statements".

11. EXCHANGE RATE RISK

The Group operates principally in the PRC. The majority of recognised assets and liabilities are denominated in RMB and the majority of transactions are settled in RMB. The Group does not hold or issue any derivative financial instruments to manage its exposure to foreign currency risk. For the year ended 31 December 2018, the Group did not enter into any hedging arrangements to hedge the exchange rate risk.

12. MARKET RISK

Details of market risk are set out in the paragraph headed "MARKET RISK" in the section headed "Notes to The Consolidated Financial Statements".

Management Discussion and Analysis (Continued)

13. HUMAN RESOURCE AND EMPLOYEE BENEFITS

As at 31 December 2018, the Group had a total of 168 full-time employees, with an increase of seven people from 161 people as at 31 December 2017. We will adjust the number of our employees and our remuneration policy based on the development of our business and review of our employees' performance.

During the Reporting Year, employee benefit expenses were RMB40.6 million, representing an increase of RMB3.6 million or 9.8% as compared to that of previous year. Details are set out below:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	**14,462**	14,321
Discretionary bonuses	**17,024**	12,307
Pension	**1,990**	1,677
Other social security obligations	**4,932**	4,403
Share-based payments	**2,200**	4,272
	40,608	36,980

Pursuant to the applicable PRC regulations, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. We have been in compliance with all statutory social insurance and housing fund obligations applicable to us under PRC laws in all material respects. We are not subject to any collective bargaining agreements.

14. FUTURE PLANS RELATING TO MATERIAL INVESTMENTS

Same as disclosed in this annual report, the Group has no plans for material investments or acquisition of capital assets. However, the Group will continue to seek new business opportunities.

15. EVENTS AFTER REPORTING YEAR

Same as disclosed in this annual report, besides final dividend to be declared, there is no significant event after 31 December 2018.

Management Discussion and Analysis (Continued)

PROSPECTS

The year of 2018 marks a crucial year for the Company's internal transformational change, during which we continued to improve our organizational structure and optimize our management systems and procedures and hence greatly strengthened our capacity and efficiency on management. The next three years will be an important period for the Company to realize transformational development, as the inclusive finance business of China Huirong featuring low credit-line, steady portfolio and diversified risk has expanded its coverage to over 10 cities of the PRC, the brand image of Huirong was being widely recognized, and the establishment of our standardized product offerings that comprised property-guaranteed loan, bank bridge loan, loans for operation, and loan for mortgage has improved efficiency and reduced risk while further clarifying the direction for our development. In addition, the Company accelerated its exploration of fin-tech business, developed new products, adopted new technologies and integrated financial technology risk control methods with standardization, streamlining and intelligence to achieve the leapfrog development of China Huirong. As a result, the management is full of confidence in the future development of the Group.

All achievements earned in the past constitute a solid foundation for our future development. Looking forward to 2019, the management will focus on building our four principal business segments, namely inclusive finance business division, internet finance business division, technology finance business division and reinsurance agent business division. The Group will keep its impetus of geographic expansion to achieve nationwide coverage, insist dual-driver development of inclusive finance and technology finance, maintains balance between strategic development and creating profits, and spares no efforts to develop itself into a technology-driven, service-driven, marketing-driven and innovation-driven group that provides comprehensive fin-tech services, so as to offer a broad range of financial products and hence provide satisfactory return to the Shareholders.

Directors and Senior Management

DIRECTORS

The Board currently consists of nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors.

Executive Directors

Mr. WU Min (吳敏), aged 50, is the chairman and the chief executive officer of our Company and was appointed as an executive Director of the Company on 17 May 2012. Mr. Wu is responsible for convening and presiding over the board meetings regularly and making decisions for the key issues of our Company, such as determining the Company's macroscopic development direction, researching into relevant national policies and avoiding the systemic risks in our industry and the day-to-day operations and strategic development of our Company. Upon joining our Group in 26 January 2011, Mr. Wu has been the General Manager of the PRC Operating Entity. He possesses approximately 30 years of experience in commercial banking, finance and management. Mr. Wu worked in various positions in the Suzhou branch of the Industrial and Commercial Bank of China from 1985 to 2011, including being the President and Secretary of the Committee of Communist Party of China of the Wuzhong branch between 2005 and 2011. Mr. Wu graduated from Jiangsu Radio and TV University (江蘇廣播電視大學), majoring in finance, in July 1994; from the Party School of the Central Committee of Communist Party of China Correspondence Institute (中共中央黨校函授學院), majoring in executive management, in December 2001 and from the School of Business of Soochow University (蘇州大學商學院) in October 2003, where he completed a postgraduate course in finance and from China Europe International Business School in November 2017, where he completed an EMBA degree. In November 2000, Mr. Wu obtained the Intermediate Economist qualification (中級經濟師任職資格) issued by the Ministry of Personnel of the PRC (中國人事部).

Mr. ZHANG Changsong (張長松), aged 46, was appointed as an executive Director and chief financial officer of the Company on 1 January 2016. Mr. Zhang is a senior accountant recognized by the Jiangsu Provincial Department of Human Resources and Social Security and a certified internal auditor recognized by the China Institute of Internal Audit with the authorization from the Institute of Internal Auditors. Mr. Zhang has also been awarded the professional designation of Certification in Risk Management Assurance by the Institute of Internal Auditors. Mr. Zhang received his bachelor degree in accounting from Anhui Institute of Finance and Trade, currently known as Anhui University of Finance & Economics, in 1998 and completed his postgraduate program in accounting at Anhui University of Finance & Economics in 2004. Mr. Zhang has more than 19 years of experience in auditing and accounting. In September 1998, he started working as an auditing staff at Anhui Xinhua Bookstore, which is currently known as Anhui Xinhua Media Co., Ltd. (the shares of which are listed on the Shanghai Stock Exchange). From 2005 to 2012, Mr. Zhang worked as an accounting supervisor, assistant manager in the asset auditing department, manager in the asset auditing department at Wuzhong Group, respectively. During the period from 2013 to 31 December 2015, he was the vice chief auditor and general manager in the asset auditing department at Wuzhong Group.

Non-executive Directors

Mr. ZHUO You (卓有), aged 50, was appointed as a non-executive Director of the Company on 17 May 2012. Mr. Zhuo is currently the director and Vice President of Wuzhong Group responsible for the strategic investment and overall management of Wuzhong Group. Mr. Zhuo is also Secretary of the Committee of the Communist Party of Wuzhong Group. He graduated from Suzhou Vocational University (蘇州市職業大學) in July 1990 where he completed a secretarial course. Mr. Zhuo was a reporter and editor of Suzhou Wuxian Radio Station (蘇州吳縣市廣播電台) from August 1990 to February 1995. Since 1995, he has held various positions including the positions of planning director, manager of the administration and management department, office director, assistant general manager and deputy managing director of Wuzhong Group and general manager of Suzhou Taihu Construction Investment Company (蘇州太湖建設投資公司), a subsidiary of Wuzhong Group.

Directors and Senior Management (Continued)

Mr. ZHANG Cheng (張成), aged 36, was appointed as a non-executive Director of the Company on 17 May 2012. Mr. Zhang is responsible for the investor relation of our Company. Mr. Zhang graduated from Nanjing University with a bachelor's degree in economics and a master's degree in western economics in June 2002 and June 2005, respectively. Mr. Zhang was the investment manager of the Strategic Investment Department of Wuzhong Group from July 2005 to February 2006. From February 2006 to February 2008, he served as the assistant general manager of Jiangsu Wuzhong Hi-Tech Venture Capital Co., Ltd (江蘇吳中高科創業投資有限公司), a subsidiary of Wuzhong Group, and from February 2008, he became the deputy general manager and from February 2011, he became the general manager of such company. From February 2010, Mr. Zhang also became the deputy general manager of Suzhou Education Investment Company (蘇州教育投資有限公司), a subsidiary of Wuzhong Group, and from February 2011, became the general manager of such company. During his various positions in Wuzhong Group and the two subsidiaries of Wuzhong Group, Mr. Zhang is responsible for the management and development in relation to investment in the bio-pharmaceutical, information technology areas and private education.

Ms. ZHANG Shu (張姝), aged 53, was appointed as a non-executive Director of the Company on 18 March 2016. Ms. Zhang has been a vice president of Jiangsu Wuzhong Group Co., Ltd. since December 2011. Ms. Zhang has more than 27 years of experience in banking and finance industry. From August 1986 to May 1990, she worked as a clerk at the sales department of Suzhou branch of Bank of China. From May 1990 to October 1999, Ms. Zhang commenced working as a clerk in the bill settlement department and subsequently became the chief officer of loan department at Suzhou branch of Bank of China. Afterwards, Ms. Zhang worked as an assistant vice president in the administration division of BOC International Holdings Limited in Hong Kong from November 1999 to August 2003. She became the vice president of Suzhou Industrial District branch of Bank of China from September 2003 to March 2007 and then worked as the president of Suzhou Wuzhong branch of Bank of China from March 2007 to October 2011. Ms. Zhang then worked as the general manager of the risk management department of Suzhou branch of Bank of China from October 2011 to December 2011. Ms. Zhang obtained a diploma in English from Nanjing Normal University (南京師範大學) in June 1995 and a postgraduate degree in world economics from the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in September 1998. Ms. Zhang was awarded with the qualification certificate of speciality and technology in the speciality of financial economics (intermediate level) by the Human Resources Department of the People's Republic of China (中華人民共和國人事部) in November 1997.

Mr. LING Xiaoming (凌曉明), aged 46, was appointed as a non-executive Director of the Company on 28 May 2018. Mr. Ling has over 20 years of experience in the legal profession. Mr. Ling has been the chief counsel of Jiangsu Wuzhong Group Co., Ltd. since March 2018. He served as a general manager of the legal department of Jiangsu Wuzhong Group Co., Ltd. from May 2016 to February 2018. Mr. Ling worked in the judiciary system of the Jiangsu Province for approximately 20 years and held various positions such as judge and presiding judge of different courts from August 1995 to April 2016. Mr. Ling received the Bachelor of Law from East China University of Political Science and Law (華東政法大學), formerly known as East China University of Politics and Law (華東政法學院), in 1995, and the Master of Law from Jilin University (吉林大學) in 2007. Mr. Ling was qualified as a lawyer in the People's Republic of China in 2017.

Independent Non-executive Directors

Mr. ZHANG Huaqiao (張化橋), aged 54, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Zhang graduated from the Graduate School of the People's Bank of China (中國人民銀行研究生部) with a master's degree in economics in 1986; and from the Australian National University with a master's degree in economics in January 1991. From July 1986 to January 1989, Mr. Zhang was employed at the People's Bank of China in Beijing and from June 1999 to April 2006, Mr. Zhang worked at the Equities Department of UBS AG, Hong Kong Branch at which he first served as the head of the China research team and later became the co-head of the China research team. From March 2006 to September 2008, Mr. Zhang was the chief operating officer of Shenzhen Investment Limited (深圳控股有限公司) (the shares of which are listed on the Stock Exchange (Stock Code: 0604)).

Directors and Senior Management (Continued)

Mr. Zhang currently holds the directorships as follows:

- non-executive director of Boer Power Holdings Limited (the shares of which are listed on the Stock Exchange (Stock Code: 1685)), since November 2011;
- independent non-executive director of Fosun International Limited (the shares of which are listed on the Stock Exchange (Stock Code: 656)), since March 2012;
- non-executive director and chairman of the board of China Smartpay Group Holdings Limited (formerly known as Oriental City Group Holdings Limited) (the shares of which are listed on the Stock Exchange (Stock Code: 8325)), since September 2012 and March 2014, respectively, re-designated as executive director on 13 May 2015 and subsequently re-designated as non-executive director on 15 September 2017;
- independent non-executive director of Zhong An Real Estate Limited (the shares of which are listed on the Stock Exchange (Stock Code: 672)), since January 2013;
- independent non-executive director of Logan Property Holdings Company Limited (the shares of which are listed on the Stock Exchange (Stock Code: 3380)), since November 2013; and
- independent non-executive director of Luye Pharma Group Ltd. (the shares of which are listed on the Stock Exchange (Stock Code: 2186)), since June 2014.

In addition, Mr. Zhang held the following directorships in various listed companies in the last 3 years:

- independent non-executive director of Yancoal Australia Limited (the shares of which are listed on the Australian Securities Exchange (ASX Code: YAL)), from April 2014 to January 2018;
- independent non-executive director of Wanda Hotel Development Company Limited (formerly known as Wanda Commercial Properties (Group) Co., Limited) (the shares of which are listed on the Stock Exchange (Stock Code:169)), from September 2014 to May 2018;
- independent non-executive director of Sinopec Oilfield Service Corporation (formerly known as Sinopec Yizheng Chemical Fibre Company Limited) (the shares of which are listed on the Stock Exchange (Stock Code: 1033)), from February 2015 to June 2018; and
- independent non-executive director of China Rapid Finance Ltd. (the shares of which are listed on the New York Stock Exchange (Stock Code: XRF)), from April 2017 to March 2019.

Mr. FENG Ke (馮科), aged 47, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Feng graduated from Guangdong University of Finance (廣東金融學院) majoring in international finance in July 1993; from Guangdong Academy of Social Sciences (廣東省社會科學院) with a master's degree in economics in July 1999; and from Peking University School of Economics (北京大學經濟學院) with a doctor's degree in political economics in July 2002. Mr. Feng has been an associate professor at School of Economics of Peking University from 2010. Mr. Feng was the assistant manager of Golden Eagle Asset Management Co., Ltd (金鷹基金管理有限公司) from November 2002 to January 2006.

Directors and Senior Management (Continued)

Mr. Feng currently holds directorships as follows:

- independent non-executive director of Asian Capital Resources (Holdings) Limited (亞洲資產(控股)有限公司) (the shares of which are listed on the Growth Enterprise Market Board of the Stock Exchange (Stock Code: 08025)), since October 2008, re-designated as executive director on 1 September 2013;
- independent non-executive director of Zhuguang Holdings Group Co. Ltd. (珠光控股集團有限公司) (the shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 01176)), since June 2015;
- independent director of Shenzhen Yushun Electronic Limited (深圳宇順電子股份有限公司) (the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 002289)), since December 2015; and
- independent director of Tianjin Guangyu Development Co., Ltd (天津廣宇發展股份有限公司) (the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 000537)), since June 2018.

In addition, Mr. Feng held the following directorships in various listed companies in the last 3 years:

- independent non-executive director of Yingde Gases Group Company Limited (the shares of which were listed on the main board of the Stock Exchange (Stock Code: 02168) and the listing of shares was withdrawn subsequently through the completion of compulsory acquisition on 21 August 2017), from November 2016 to March 2017; and
- independent director of China Greatwall Technology Group Co., Ltd. (中國長城科技集團股份有限公司) (formerly known as China Great Wall Computers Shenzhen Co. Ltd (中國長城計算機深圳股份有限公司)) (the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 000066)), from August 2010 to April 2018.

Mr. TSE Yat Hong (謝日康), aged 49, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Tse is a Fellow of the Hong Kong Institute of Certified Public Accountants and a FCPA of CPA Australia. Mr. Tse graduated from Monash University in Australia in April 1992 with a bachelor's degree in science. Since June 2000, Mr. Tse has been serving as the chief financial officer of Shenzhen International Holdings Limited (the shares of which are listed on the Stock Exchange (Stock code: 00152)). From August 2000 to March 2008, Mr. Tse was also the company secretary of Shenzhen International Holdings Limited. Mr. Tse served as the joint company secretary of Shenzhen Expressway Company Limited from September 2004 to September 2007. Prior to that, Mr. Tse worked in the audit profession in one of the international accounting firms for years.

Mr. Tse currently has served as an independent non-executive director of Sky Light Holdings Limited (the shares of which are listed on the main board of Stock Exchange (Stock code: 03882)) since December 2017. In addition, Mr. Tse had served as an independent non-executive director of Shenzhen Expressway Company Limited (the shares of which are listed on the Stock Exchange (Stock code: 00548)), from January 2009 to December 2017.

Save as disclosed in this section, there is no other matters concerning the Company's Directors which are discloseable pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there are no any material matters concerning the Company's Directors that need to be brought to the attention of the Shareholders.

Directors and Senior Management (Continued)

Senior Management

Mr. YAO Wenjun (姚文軍), aged 49, is a vice president of the Group responsible for marketing. Mr. Yao graduated from Southwestern University of Finance and Economics with a bachelor's degree in accounting in July 2010. From August 1989 to November 2012, he worked successively as an account manager, director and assistant president at China Construction Bank (Wuzhong Branch) in Suzhou. Mr. Yao joined the Group as vice president in January 2016.

Mr. HU Haoliang (胡浩亮), aged 37, is a vice president of the Group. He is responsible for the management of assets. Mr. Hu obtained the Bachelor of Law from Zhengzhou University in July 2004 and received the Master of Law from Zhongnan University of Economics and Law in July 2006. From August 2006 to December 2008, he worked in the People's Court of Jinchang District, Suzhou City, Jiangsu Province (now known as the People's Court of Gusu District, Suzhou City, Jiangsu Province) and held different positions such as clerk, assistant judge and judge successively. From January 2009 to March 2012, he served as the assistant judge of the Intermediate People's Court of Suzhou City, Jiangsu Province. From April 2012 to April 2017, he was selected and transferred to the government authority of Suzhou City, Jiangsu Province, in charge of the building of organization and the management of cadres successively. Mr. Hu joined the Group in May 2017 as a vice president.

Ms. CAO Yu (曹瑜), aged 44, is the Chief Risk Officer of our Group. She is responsible for risk control, asset quality and legal issues. Ms. Cao obtained a bachelor's degree in international trading from Peking University in July 1999. From August 1994 to December 2012, she worked in China Industrial and Commercial Bank of China, Suzhou Wuzhong sub-branch as an employee of the credit management department, account manager, manager of the corporate department, manager and senior credit approver of the Head Office of Industrial and Commercial Bank of China successively. Ms. Cao joined the Group in January 2013 as the general manger of our branch company and an assistant to the President of the Group.

MANAGEMENT CONTINUITY

Our management team is a group of chief executive led by Mr. Wu Min, the Chairman and the chief executive officer of the Company, who joined the Group in January 2011. He has been an executive director of the PRC Operating Entity since 2011 and, as such, is responsible for overseeing the operations and making the decisions for the key issues of our Group.

Mr. Wu Min is ultimately responsible for the management team, being Mr. Zhang Changsong (joined in January 2016), Ms. Cao Yu (joined in January 2013) , Mr. Yao Wenjun (joined in January 2016), and Mr. Hu Haoliang (joined in May 2017), the majority of whom had been in place prior to the Track Record Period.

COMPANY SECRETARY

Miss LEUNG Ching Ching (梁晶晶), aged 38, was appointed as a company secretary of our Company on 6 October 2013 and serves as a senior manager of corporate services of Tricor Services Limited. Miss Leung has over 15 years of experience in the company secretarial industry, and provided services to clients ranging from private companies to public companies listed on the main board of the Stock Exchange. Miss Leung is a Chartered Secretary and an Fellow of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She graduated from The Chinese University of Hong Kong and received a Master of Arts degree in Professional Accounting and Information System from City University of Hong Kong.

Directors and Senior Management (Continued)

AUDIT COMMITTEE

Our Company established an audit committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee consists of three members, namely Mr. Tse Yat Hong and Mr. Feng Ke, our independent non-executive Directors and Ms. Zhang Shu, our non-executive Director. Mr. Tse Yat Hong has been appointed as the chairman of the audit committee, and is our independent non-executive Director who possesses the appropriate professional qualifications. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

REMUNERATION COMMITTEE

Our Company established a remuneration committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members, namely Mr. Zhang Huaqiao and Mr. Tse Yat Hong, our independent non-executive Directors and Mr. Wu Min, our executive Director. Mr. Zhang Huaqiao has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for the Directors and chief executive and make recommendations on employee benefit arrangement.

NOMINATION COMMITTEE

Our Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely Mr. Feng Ke and Mr. Zhang Huaqiao, our independent non-executive Directors, and Mr. Wu Min, our executive Director. Mr. Wu Min has been appointed as the chairman of the nomination committee. The primary duties of the nomination committee are to review the composition of the Board of Directors and make recommendations to our Board on the appointment and removal of Directors of our Company.

TECHNOLOGY FINANCE WORK COMMITTEE

The Company established the Technology Finance Work Committee with written terms of reference. The Technology Finance Work Committee consists of three members, namely Mr. Feng Ke, our independent non-executive director and Mr. Wu Min and Mr. Zhang Changsong, our executive directors. Mr. Feng Ke has been appointed as the chairman of the Technology Finance Work Committee. The primary duties of the Technology Finance Work Committee are to develop strategies for the matters of the Group in relation to finance technologies, such as supply chain finance, providing finance through finance technologies and conducting blockchain and big data analysis, and make recommendations to our Board.

Directors and Senior Management (Continued)

CHANGE IN DIRECTORS' INFORMATION

Under Rule 13.51B(1) of Listing Rules, the changes in Directors' information of the Company required to be disclosed in this annual report are as follows:

Mr. FENG Ke, an independent non-executive Director of the Company, has been appointed as an independent director of Tianjin Guangyu Development Co., Ltd. (the shares of which are listed on the Shenzhen Stock Exchange, stock code: 000537) since June 2018. Mr. Feng Ke has ceased to be an independent director of China Greatwall Technology Group Co., Ltd. (formerly known as China Great Wall Computer Shenzhen Company Limited),a company with shares listed on the Shenzhen Stock Exchange (stock code: 000066).

Mr. ZHANG Huaqiao, an independent non-executive Director of the Company, has ceased to be an independent non-executive director of Wanda Hotel Development Company Limited (formerly known as Wanda Commercial Properties (Group) Co., Limited, the shares of which are listed on the Stock Exchange, stock code: 169). Mr. Zhang Huaqiao ceased to be an independent non-executive director of China Rapid Finance Ltd. (the shares of which are listed on the New York Stock Exchange (Stock Code: XRF)) since March 2019. Mr. Zhang Huaqiao also ceased to be an independent non-executive director of Sinopec Oilfield Service Corporation (formerly known as Sinopec Yizheng Chemical Fibre Co., Ltd., the shares of which are listed on the Stock Exchange, stock code: 1033) since June 2018.

COMPENSATION OF DIRECTORS AND CHIEF EXECUTIVE

The aggregate amount of remuneration our Directors (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances, share option schemes and other benefits in kind) for the year ended 31 December 2017 and 2018 was approximately RMB6,680 thousand and RMB5,299 thousand, respectively.

During the year ended 31 December 2017 and 2018, five highest paid individuals of the Group included three executive Directors, whose emoluments were deducted from emoluments payable to the five highest paid individuals. Emoluments of the remaining highest paid individuals were RMB2,280 thousand and RMB1,914 thousand.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended 31 December 2018.

Save as disclosed above, no other payments have been made or are payable in respect of each of the two years ended 31 December 2016 and 2018 by the Group to the Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and chief executive in reference to the recommendations from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group.

Directors' Report

The Board of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activity of the Group is the provision of comprehensive financing services in the PRC.

BUSINESS REVIEW

The business review of the Group as at 31 December 2018 is set out in the section headed "Management Discussion and Analysis" from pages 7 to 11 of this annual report.

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

Description of possible risks and uncertainties facing the Company is set out in the paragraph headed "4 Financial Risk Management" in the section headed "Notes to the Consolidated Financial Statements" from pages 117 to 134 of this annual report.

EVENTS AFTER THE REPORTING YEAR

Save as disclosed in this annual report, there is no significant event after 31 December 2018.

FUTURE BUSINESS DEVELOPMENT

A discussion of the Group's future business development is set out in the "Chairman's Statement" on page 5 and "Management Discussion and Analysis" on page 25 of this annual report.

FINANCIAL KEY PERFORMANCE INDICATORS

An analysis of the Group's performance during the Reporting Year using financial key performance indicators is set out in the "Financial Summary" on page 3 of this annual report.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a comprehensive financing service provider in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Reporting Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. Details of the Group's environmental policies and performance and compliance with laws and regulations that have a significant impact on the Group are set out in the section headed "Environmental, Social and Governance Report" from pages 70 to 74 of this annual report.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's financial affairs as at that date are set out on pages 81 to 82 of this annual report.

FINAL DIVIDEND

The Board has proposed to declare a final dividend of HK$0.0130 per Share in respect of the year ended 31 December 2018 (the "2018 Final Dividend") (2017: HK$0.0132 per Share). The 2018 Final Dividend will be paid to the Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 4 June 2019. Based on the 1,086,787,000 Shares in issue as at 31 December 2018, the payment of the 2018 Final Dividend is expected to amount to approximately HK$14,128,231, which will be paid on or before Friday, 28 June 2019. The retained profit will be primarily used for the Group's business developments and/or acquisitions of suitable business opportunities in the PRC.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019 (both dates inclusive) and from Monday, 3 June 2019 to Tuesday, 4 June 2019 (both dates inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on Wednesday, 22 May 2019. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the forthcoming annual general meeting), all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at the abovementioned address for registration by 4:30 p.m. on Friday, 31 May 2019.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statements of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2018 are set out in Note 27 to the consolidated financial statements.

Directors' Report (Continued)

SHARE CAPITAL

Details of the Company's share capital are set out in Note 26 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 are set out in Note 14 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last 5 financial years is set out in Page 3 of this annual report.

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISION

According to the Company's Articles of Association, each director is entitled to the compensation out of the assets of the Company for all losses or liabilities incurred due to the execution of his/her duties or taken place related to such execution. The Company has taken out the appropriate directors' and officers' liability insurance policy for the directors and officers of the Group as a means of security.

EQUITY-LINKED AGREEMENT

Apart from the Share Option Scheme of the Company set forth from pages 40 to 42, the Company has not entered into any equity-linked agreement during the Reporting Year or there was not any subsisting equity-linked agreement entered into by the Company at the end of the Reporting Year.

Directors' Report (Continued)

DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management of the Company during the year were:

Directors

Name	Position
Mr. Wu Min	Executive Director, Chairman of the Board and Chief Executive Officer
Mr. Zhang Changsong	Executive Director and Chief Financial Officer
Mr. Zhuo You	Non-executive Director
Mr. Zhang Cheng	Non-executive Director
Ms. Zhang Shu	Non-executive Director
Mr. Ling Xiaoming	Non-executive Director
Mr. Zhang Huaqiao	Independent Non-executive Director
Mr. Feng Ke	Independent Non-executive Director
Mr. Tse Yat Hong	Independent Non-executive Director

Senior Management

Name	Position
Mr. Yao Wenjun	Vice President
Ms. Hu Haoliang	Vice President
Ms. Cao Yu	Chief Risk Officer

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely, Mr. Zhang Huaqiao, Mr. Feng Ke and Mr. Tse Yat Hong, the annual confirmation letter of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that the independent non-executive Directors have been independent from their respective date of appointment to 31 December 2018 and remain independent as of the date of this annual report.

Directors' Report (Continued)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(1) Long positions in shares of the Company

Name of Director	Nature of Interest	Type of Interest	Number of Shares or Underlying Shares	Percentage of the Total Issued Shares
Wu Min	Beneficial owner	Share Options	1,965,000 (L) *(Note 2)*	0.18%
	Beneficial owner	Ordinary Shares	1,840,000 (L)	0.17%
Zhang Changsong	Beneficial owner	Share Options	1,572,000 (L) *(Note 2)*	0.14%
	Beneficial owner	Ordinary Shares	1,510,000 (L)	0.14%
Zhuo You	Beneficial owner	Share Options	791,000 (L) *(Note 2)*	0.07%
	Interest in controlled corporation	Ordinary Shares	39,000,000 (L) *(Note 3)*	3.59%
Zhang Shu	Beneficial owner	Share Options	491,000 (L) *(Note 2)*	0.05%
	Beneficial owner	Ordinary Shares	600,000 (L)	0.06%
Zhang Cheng	Beneficial owner	Share Options	791,000 (L) *(Note 2)*	0.07%
Zhang Huaqiao	Beneficial owner	Share Options	982,000 (L) *(Note 2)*	0.09%
Feng Ke	Beneficial owner	Share Options	982,000 (L) *(Note 2)*	0.09%
Tse Yat Hong	Beneficial owner	Share Options	1,582,000 (L) *(Note 2)*	0.15%

Directors' Report (Continued)

Notes:

1. (L) represents long position.
2. Details of the interest in the Share Option Scheme are set out below in the section headed "Share Option Scheme" and the announcement of the Company dated 13 September 2016.
3. These Shares are held by Assyria Babylon Investment Co., Ltd which is 100% beneficially owned by Mr. Zhuo You, and therefore, Mr. Zhuo You is deemed to be interested in all these Shares under the SFO.

(2) Long positions in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO)

Name of Director	Name of Associated Corporation	Nature of Interest	Amount of Registered Capital	Percentage of the Total Registered Capital
Zhuo You	Jiangsu Wuzhong Jiaye Group Co., Ltd.* (江蘇吳中嘉業集團有限公司)	Beneficial owner	RMB57,000,000 (L)	6%
	Suzhou Xinqu Hengyue Management Consulting Co., Ltd.* (蘇州新區恒悅管理諮詢有限公司)	Beneficial owner	RMB12,000,000 (L)	6%

Note:

1. (L) represents long position.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report (Continued)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the following parties (other than the Directors and chief executive of the Company) had interests and short positions of 5% or more of the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the shares of the Company:

Name of Shareholder	Nature of Interest	Class of Shares	Number of Shares	Percentage of the Total Issued Shares
Xiaolai Investment Co., Ltd	Beneficial owner	Ordinary Shares	260,000,000 (L)	23.92%
Xilai Investment Co., Ltd	Beneficial owner	Ordinary Shares	65,000,000 (L)	5.98%
Zhu Tianxiao	Interest in controlled corporation	Ordinary Shares	325,000,000 (L) *(Note 2)*	29.90%
Baoxiang Investment Co., Ltd	Beneficial owner	Ordinary Shares	84,500,000 (L)	7.78%
Zhang Xiangrong	Interest in controlled corporation	Ordinary Shares	84,500,000 (L) *(Note 3)*	7.78%
Wonder Capital Co., Ltd	Beneficial owner	Ordinary Shares	71,500,000 (L)	6.58%
Ge Jian	Interest in controlled corporation	Ordinary Shares	71,500,000 (L) *(Note 4)*	6.58%
Southern Swan Investment Co., Ltd	Beneficial owner	Ordinary Shares	65,000,000 (L)	5.98%
Chen Yannan	Beneficial owner	Share Options	1,965,000 (L) *(Note 5)*	0.18%
	Beneficial owner	Ordinary Shares	1,200,000 (L)	0.11%
	Interest in controlled corporation	Ordinary Shares	65,000,000 (L) *(Note 6)*	5.98%

Notes:

1. (L) represents long position.

2. These Shares represent the 260,000,000 Shares held by Xiaolai Investment Co., Ltd and 65,000,000 Shares held by Xilai Investment Co., Ltd. Each of Xiaolai Investment Co., Ltd and Xilai Investment Co., Ltd is 100% beneficially owned by Mr. Zhu Tianxiao. Accordingly, Mr. Zhu Tianxiao is deemed to be interested in all the Shares beneficially owned by Xiaolai Investment Co., Ltd and Xilai Investment Co., Ltd under the SFO.

3. These Shares are held by Baoxiang Investment Co., Ltd, which is 100% beneficially owned by Mr. Zhang Xiangrong, and therefore, Mr. Zhang Xiangrong is deemed to be interested in all these Shares under the SFO.

Directors' Report (Continued)

4. These Shares are held by Wonder Capital Co., Ltd, which is 100% beneficially owned by Mr. Ge Jian, and therefore, Mr. Ge Jian is deemed to be interested in all these Shares under the SFO.

5. Details of interest in Share Option Scheme are set out in the Section headed "Share Option Scheme" and the announcement of the Company dated 13 September 2016.

6. These Shares are held by Southern Swan Investment Co., Ltd which is 100% beneficially owned by Mr. Chen Yannan, and therefore, Mr. Chen Yannan is deemed to be interested in all these Shares under the SFO.

Save as disclosed above, as at 31 December 2018, no person or corporation, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

On 26 May 2014, a share option scheme (the "Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The principal terms of the Share Option Scheme, which shall be valid and effective for 10 years from its adoption date and, are summarized below.

Purpose

The purpose of the Share Option Scheme is to incentivize and reward the eligible participants for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

Eligible participants

Pursuant to the Share Option Scheme, the Board may offer any employee (whether full-time or part-time) or a director of the Group options to subscribe for shares of the Company.

Total number of Shares available for issue under the Share Option Scheme

As at 31 December 2017, a total of 50,000,000 share options were granted, of which 11,550,000 have been exercised. As at December 31, 2018, the number of remaining options is 27,238,000 shares,representing approximately 2.51% of the issued share capital of the Company as at the date of this annual report.

(a) **10% limit**

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 10% of the total issued Shares as at the date of adoption of the Share Option Scheme (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme and any share option schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may, from time to time, refresh the Scheme Mandate Limit by obtaining the approval of the Shareholders in general meeting, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders' approval of the refreshed limit.

The Company may also seek separate approval of the Shareholders in general meeting for granting options beyond the Scheme Mandate Limit or the refreshed limit to any eligible persons specifically identified by the Board.

Directors' Report (Continued)

(b) **30% limit**

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the Shares of the Company in issue from time to time.

Maximum entitlement of each eligible person

No option shall be granted to any eligible person under the Share Option Scheme which, if exercised, would result in such eligible person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date. Any further grant of options to an eligible person in excess of the 1% limit as mentioned above shall be subject to the approval of the Shareholders in general meeting with such eligible person and his close associates (as defined in the Listing Rules) abstaining from voting.

Exercise price

The exercise price shall be determined by the Board in its absolute discretion but in any event shall be not less than the highest of:

(a) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant;

(b) the average closing price of the Shares as stated in the daily quotations sheets of the Stock Exchange for the 5 trading days immediately preceding the date of offer of grant; and

(c) the nominal value of the Shares.

Performance targets and minimum period for which an option must be held

The Board may, when making an offer of the grant of an option, impose and specify in the offer letter any terms and conditions as it may at its absolute discretion think fit, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised.

Amount payable upon acceptance of option

HK$0.62 is payable by each eligible person to the Company on acceptance of an offer of option.

On 13 September 2016, the Board considered and approved the grant of 50,000,000 share options to certain eligible persons under the Share Option Scheme. The options granted to each of the grantees under the Share Option Scheme shall be vested and become exercisable upon the first or second anniversary of the date of grant (i.e. 13 September 2016 or 13 September 2017). Vested options shall be exercisable until the expiry of the five-year period from the date of grant (i.e. until 12 September 2021). Grantees of such options are entitled to exercise the options at an exercise price of HK$0.62 per Share. For more details, please refer to the announcement of the Company dated 13 September 2016.

Remaining life of the Share Option Scheme

The Share Option Scheme will expire on 26 May 2024 and no further share options may be granted but the provisions of the Share Option Scheme shall in all other respects remain in force and effect necessary to give effect to the exercise of any share options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

Directors' Report (Continued)

Particulars of the outstanding options granted under the Share Option Scheme are set out below:

Name or category of participants	No. of Shares involved in the options outstanding as at 1 January 2018	Granted during 2018	Exercised during the year	Forfeited during the year	No. of Shares involved in the options outstanding as at 31 December 2018
Directors					
Wu Min	1,965,000	—	—	—	1,965,000
Zhang Changsong	1,572,000	—	—	—	1,572,000
Zhuo You	791,000	—	—	—	791,000
Zhang Cheng	791,000	—	—	—	791,000
Zhang Shu	491,000	—	—	—	491,000
Zhang Huaqiao	982,000	—	—	—	982,000
Feng Ke	982,000	—	—	—	982,000
Tse Yat Hong	1,582,000	—	—	—	1,582,000
Subtotal	9,156,000	—	—	—	9,156,000
Employees					
Employees	18,851,000	—	—	769,000	18,082,000
Total	28,007,000	—	—	769,000	27,238,000

Notes:

1. The closing price of the Shares preceding the date on which the share options were granted was HK$0.59.

2. The vesting of all share options granted to the eligible persons is conditional upon the achievement of certain performance targets by the relevant individual grantees and/or the Group as set out in their respective offer letters.

3. The fair value of the share options granted during the year is set out in note 25 to the consolidated financial statements.

   On 16 June 2014, the Company granted 50,000 thousand share options to directors and selected employees with an exercise price of HK$1.4 as incentives or rewards for their contribution or potential contribution to the Group.

   In 2015, the Group did not achieve the target profit, thus the share option plan was forfeited and the accumulated expense as at the end of 2015 was reversed.

   The weighted average fair value of options are determined by Black-Scholes model. Such value is subject to a number of assumptions and with regard to the limitation of the model.

Directors' Report (Continued)

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.

MAJOR CUSTOMERS

For the year ended 31 December 2018, the largest customer contributed 9.0% of the Group's total interest income from loans to customers, and the five largest customers contributed, in aggregate, 25.9% of the Group's total interest income from loans to customers.

None of the Directors, any of their close associates or any Shareholders which, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest customers of the Group during the year ended 31 December 2018.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018.

EMOLUMENT POLICY

The Company is well aware of the importance of incentivising and retaining its employees. The Group offers competitive remuneration packages to its employees and makes contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing fund for its employees. The Remuneration Committee is set up for reviewing the Group's emolument policy and remuneration package of the Directors and chief executive of the Group, having regard to the Group's overall operating results, individual performance and comparable market practices.

The details of the emoluments payable to the Directors during the year are set out in Note 38 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the Corporate Governance Code, the details of the emoluments payable to the members of the senior management during the year fell within the following bands:

Remuneration bands	**Number of individuals**
HK$0 to 1,000,000	1
HK$1,000,001 to 1,500,000	1

Directors' Report (Continued)

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 12 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium, other reserves and retained earnings amounted to approximately RMB1,024,534 thousand.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2018 are set out in Note 30 to the consolidated financial statements.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the year ended 31 December 2018, none of the Company, or any of its subsidiaries, was a party to any arrangement to enable the Directors to have any right to subscribe for securities of the Company or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete either directly or indirectly with the businesses of the Group as are required to be disclosed pursuant to the Listing Rules.

NON-COMPETITION UNDERTAKING

Each of Mr. Zhu Tianxiao, Xilai Investment Co., Ltd and Xiaolai Investment Co. Ltd. (the "Covenantors"), each being a controlling shareholder of the Company, has entered into a deed of non-competition (the "Deed of Non-Competition") in favour of the Company on 6 October 2013, pursuant to which each of the Covenantors has unconditionally, irrevocably and severally undertaken with the Group that they shall not, and shall procure that their respective members shall not, (except through the Group) directly or indirectly carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or connected with, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of the Group. For details of the Deed of Non-Competition, please refer to the Prospectus.

Each of the Covenantors has provided to the Company a written confirmation in respect of his/its compliance with the Deed of Non-Competition. The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 35 to the financial statements. Some of these transactions also constituted fully exempted continuing connected transactions.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Reference is made to the Prospectus. The short-term secured financing business in which the Group is engaging is a regulated business in the PRC and according to the relevant governmental policy. The Company, as a foreign investor, would not be granted the necessary approval to conduct and invest in the pawn loan business in the PRC. As a result, the Group, through an indirect wholly-owned subsidiary of the Company, Huifang Tongda, has entered into a series of contractual arrangements (the "Contractual Arrangements") with the PRC Operating Entity, which possess the necessary licences for the operation of the Group's short-term secured financing business in the PRC, such that the Group can conduct its business operations indirectly in the PRC through the PRC Operating Entity while complying with applicable PRC laws and regulations. The Contractual Arrangements are designed to provide the Group with effective control over the financial and operational policies of the PRC Operating Entity and, to the extent permitted by the PRC laws and regulations, the right to acquire the equity interests in and/or the assets of the PRC Operating Entity. Further, pursuant to the Contractual Arrangements, all economic benefits derived from the operation of the PRC Operating Entity are enjoyed by the Group and the financial results of the PRC Operating Entity are consolidated into the Group as if it were a wholly-owned subsidiary. For the year ended 31 December 2018, profit for the year totalling approximately RMB16.0 million and net assets totalling approximately RMB1,256.0 million of the PRC Operating Entity were consolidated into the consolidated financial statements of the Group via the Contractual Arrangements.

The Contractual Arrangements currently in effect comprise the following agreements, namely (a) the Exclusive Management and Consultation Service Agreement (as supplemented by the Supplemental Agreement to the Exclusive Management and Consultation Service Agreement), (b) the Exclusive Call Option Agreement, (c) the Proxy Agreement, (d) the Equity Pledge Agreement (as amended by the amended Equity Pledge Agreement), (e) the VIE Transfer Agreement, and (f) the PRC Shareholders Loan Agreement, which were entered into between, among others, the PRC Operating Entity, Huifang Tongda, Mr. Zhu Tianxiao ("Mr. Zhu"), Mr. Chen Yannan ("Mr. Chen") and/or Mr. Zhuo You ("Mr. Zhuo") (as the case may be). A summary of the aforementioned agreements are set out below.

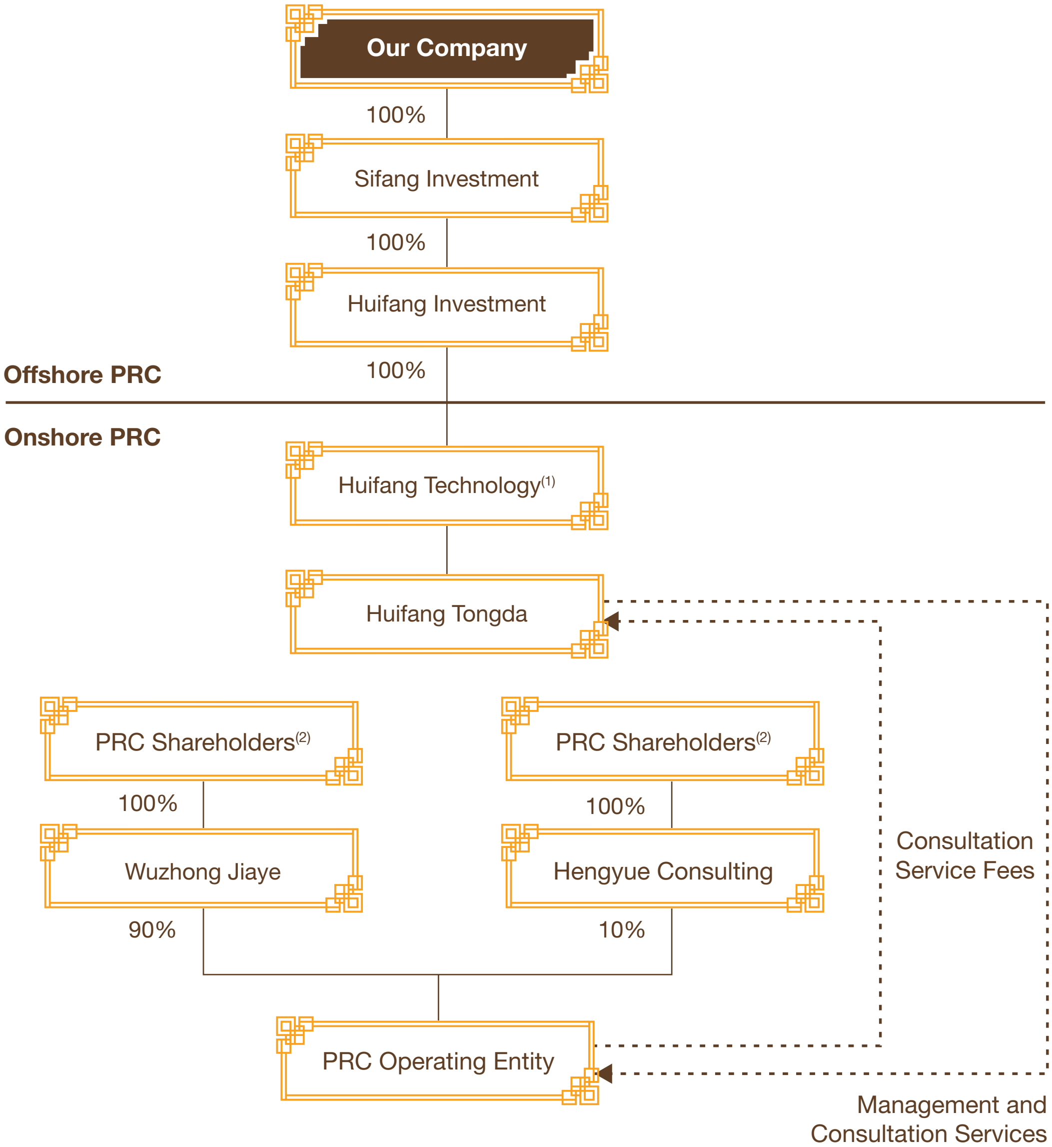
Mr. Zhu, through two companies wholly owned by him, namely Xiaolai Investment Co., Ltd and Xilai Investment Co., Ltd, holds approximately 29.9% of equity interest in the Company and accordingly, he is a controlling shareholder and hence a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Mr. Zhuo, being a Director, is also connected person of the Company under Rule 14A.07(1) of the Listing Rules. Mr. Chen ceased to be a connected person of the Company since his resignation of an executive Director with effect from 28 May 2018.

Directors' Report (Continued)

The PRC Operating Entity is owned indirectly as to 50% by Mr. Zhu and therefore, is an associate of Mr. Zhu. As a result, the PRC Operating Entity is a connected person of the Company under Rule 14A.07(4) of the Listing Rules. In addition, Mr. Zhu and Mr. Zhuo are parties to some agreements under the Contractual Arrangements. Accordingly, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules upon Listing.

CONTRACTUAL ARRANGEMENTS

The following diagram sets out the simplified structure of the Group as of 31 December 2018 and illustrates the Contractual Arrangements between the PRC Operating Entity and Huifang Tongda:



Notes:

(1) The former name is Suzhou Huifang Management Consulting Co., Ltd.* (蘇州匯方管理諮詢有限公司) and the change of name was effected on 12 December 2013.

(2) The PRC Shareholders are Mr. Zhu Tianxiao (50%), Zhang Xiangrong (13%), Ge Jian (11%), Mr. Chen Yannan (10%), Wei Xingfa (4%), Yang Wuguang (6%) and Mr. Zhuo You (6%).

SUMMARY OF THE AGREEMENTS UNDER THE CONTRACTUAL ARRANGEMENTS

(a) Exclusive Management and Consultation Service Agreement

On 31 December 2011, Huifang Technology and the PRC Operating Entity entered into an exclusive management and consultation service agreement, as subsequently supplemented by the Supplemental Agreement (as defined below) (the "Exclusive Management and Consultation Service Agreement"), pursuant to which the PRC Operating Entity has agreed to engage Huifang Technology on an exclusive basis to provide consultation and other ancillary services, including without limitation enterprise management, market development and consultancy services. Pursuant to the Exclusive Management and Consultation Service Agreement, the PRC Operating Entity may not, among other restrictions or obligations, engage any other third party to provide similar services without the prior written consent of Huifang Technology.

In consideration for the provision of such services by Huifang Technology, the PRC Operating Entity has agreed to recognise consultation service fees payable to Huifang Technology on a quarterly basis. The consultation service fees will be billed by Huifang Technology to the PRC Operating Entity and are equivalent to the total revenue before tax audited pursuant to the Hong Kong Financial Reporting Standards less all the related costs incurred and reasonable expenses of the PRC Operating Entity.

The term of the Exclusive Management and Consultation Service Agreement commenced on 31 December 2011 and will expire on 30 December 2031 and is renewable at the sole election of Huifang Technology for successive terms as determined by Huifang Technology, until termination by Huifang Technology.

On 29 February 2012, Huifang Technology transferred all its rights and obligations under the Exclusive Management and Consultation Service Agreement to Huifang Tongda, in accordance with the VIE Transfer Agreement as described in sub-paragraph (e) below.

On 21 November 2012, Huifang Tongda and the PRC Operating Entity entered into a supplemental agreement to the Exclusive Management and Consultation Service Agreement (the "Supplemental Agreement"). Pursuant to the Supplemental Agreement, the consultation service fees, as the consideration for the provision of the service by Huifang Tongda, shall be equivalent to the total revenue before tax less all the related costs and expenses reasonably incurred by the PRC Operating Entity, provided that, Huifang Tongda may decide, for the purpose of operations and business expansion of the PRC Operating Entity, the actual amount of the service fees. The Supplemental Agreement is deemed to have retrospectively become effective on 1 July 2012. The Supplemental Agreement was entered into for the purpose of maintaining a certain level of net assets and net profits for the PRC Operating Entity, which will affect the amount of loans the PRC Operating Entity can grant and its ability to open a branch pursuant to the applicable regulations of the PRC, and to grant Huifang Tongda a right to decide the amount of the service fees charged on the PRC Operating Entity according to the PRC Operating Entity's operational needs and future business expansion. Pursuant to the Supplemental Agreement, it is Huifang Tongda's right to decide whether to change the amount of the service fees charged on the PRC Operating Entity, and pursuant to the Exclusive Call Option Agreement (as defined hereinafter), Huifang Tongda has been irrevocably and unconditionally granted an option to acquire the entire equity interest in the PRC Operating Entity and/or all assets of the PRC Operating Entity. Any profits not paid to Huifang Tongda in the form of consultation service fees may be acquired by Huifang Tongda when it exercises its option under the Exclusive Call Option Agreement. As a result, our ability to receive the entire economic benefits of the PRC Operating Entity as provided by the Contractual Arrangements is not affected by the Supplemental Agreement.

Directors' Report (Continued)

(b) Exclusive Call Option Agreement

On 31 December 2011, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders entered into an exclusive call option agreement (the "Exclusive Call Option Agreement") pursuant to which Wuzhong Jiaye and Hengyue Consulting irrevocably and unconditionally granted Huifang Technology an option to acquire, directly and/or through one or more nominees, the entire equity interest held by Wuzhong Jiaye and Hengyue Consulting in the PRC Operating Entity and/or all assets of the PRC Operating Entity at a price equivalent to the minimum amount as may be permitted by applicable PRC laws and regulations. If the PRC laws and regulations are silent in this regard, the price will be set at the nominal price agreed by the parties thereto. The PRC Operating Entity and the PRC Shareholders also agreed to the option granted to Huifang Technology. Subject to compliance with applicable PRC laws and regulations, Huifang Technology may exercise the option at any time, and acquire all or part of the equity interests and/or assets of the PRC Operating Entity in any manner in its sole discretion. In addition, Huifang Technology has undertaken to exercise the option and unwind the Contractual Arrangements as soon as applicable PRC laws and regulations allow our short-term secured financing business to be directly operated by Huifang Technology in China.

Pursuant to the Exclusive Call Option Agreement, the PRC Operating Entity may not, without the prior written consent of Huifang Technology, declare or distribute any dividends to its shareholders. Wuzhong Jiaye and Hengyue Consulting shall procure the PRC Operating Entity and the PRC Shareholders shall procure Wuzhong Jiaye and Hengyue Consulting, not to declare or distribute such dividends. In addition, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders have undertaken to assign or transfer to Huifang Technology and/or to one or more nominees any and all of dividend declared and distributed at any time or any interest payable to them by virtue of their holding of the equity interest in the PRC Operating Entity. Furthermore, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders have undertaken to assign or transfer to Huifang Technology and/or to one or more nominees any and all of proceeds or consideration received from the sales or disposal of the equity interest held in the PRC Operating Entity, and all of any appropriation of assets upon termination or liquidation of the PRC Operating Entity.

The Exclusive Call Option Agreement became effective on 31 December 2011 and will expire on the date on which all the equity interests or assets of the PRC Operating Entity are transferred to Huifang Technology and/or one or more nominees as contemplated under the Exclusive Call Option Agreement.

(c) Proxy Agreement

On 31 December 2011, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders entered into a proxy agreement (the "Proxy Agreement") whereby Wuzhong Jiaye and Hengyue Consulting irrevocably and unconditionally undertook to authorise Huifang Technology or the directors and their associates as authorised by Huifang Technology to exercise their shareholders' rights under the articles of association of the PRC Operating Entity and applicable PRC laws and regulations. Such shareholders' rights include but are not limited to (i) convening and attending the shareholders' meetings of the PRC Operating Entity pursuant to its articles of association; (ii) exercising voting rights on all matters requiring shareholders' consideration and approval, including but not limited to the nomination and removal of all the directors and/or chief executive members of the PRC Operating Entity whose appointment and removal is to be determined by the shareholders; (iii) passing resolutions on the disposal of the assets of the PRC Operating Entity; (iv) passing resolutions on the dissolution and liquidation of the PRC Operating Entity, forming a Liquidation Committee and exercising the rights and powers of the Committee, including but not limited to dealing with the assets of the PRC Operating Entity; (v) signing any and all shareholders resolutions; (vi) filing all the relevant documents with the relevant companies registry; and (vii) all other shareholders' voting rights under the articles of association of the PRC Operating Entity and/or applicable PRC laws and regulations.

Directors' Report (Continued)

Pursuant to the Proxy Agreement, Huifang Technology may exercise such shareholders' rights without the prior consultation with Wuzhong Jiaye, Hengyue Consulting or the PRC Shareholders. Wuzhong Jiaye, Hengyue Consulting as well as the PRC Shareholders shall not exercise such shareholders' rights without the prior written consent of Huifang Technology.

The Proxy Agreement became effective on 31 December 2011 and will expire on 30 December 2031 and is renewable at the election of Huifang Technology for successive terms as determined by Huifang Technology. The Proxy Agreement will expire upon the termination by Huifang Technology or until the date on which all the equity interest in the PRC Operating Entity are transferred to Huifang Technology and/or its nominees as contemplated under the Exclusive Call Option Agreement.

(d) Equity Pledge Agreement

On 31 December 2011, Huifang Technology and the PRC Shareholders entered into an equity pledge agreement with Wuzhong Jiaye and Hengyue Consulting, respectively, as subsequently amended as described below (collectively, the "Equity Pledge Agreement"), pursuant to which the PRC Shareholders granted first priority security interests over their respective equity interests in Wuzhong Jiaye and Hengyue Consulting to Huifang Technology for guaranteeing the performance of the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement and the Proxy Agreement.

Pursuant to the Equity Pledge Agreement, Huifang Technology is entitled to exercise its rights to sell all or part of the pledged equity interests in Wuzhong Jiaye and Hengyue Consulting upon the non-performance or breach of any of the terms of the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement, the Proxy Agreement and/or the Equity Pledge Agreement. In addition, the PRC Shareholders shall not pledge their respective equity interests in Wuzhong Jiaye and Hengyue Consulting in favour of or to other third parties without the prior written consent of Huifang Technology.

The Equity Pledge Agreement became effective on the date of its execution by all relevant parties (subject to the registrations of the pledge in the register of members of the PRC Operating Entity which have been completed) and shall terminate upon the performance by the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders (as the case may be) in full of all obligations under the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement, the Proxy Agreement, the Equity Pledge Agreement or the repayment of all losses arising from the breach of the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement, the Proxy Agreement and the Equity Pledge Agreement.

On 29 February 2012, Huifang Technology transferred all its rights and obligations under the Equity Pledge Agreement to Huifang Tongda in accordance with the VIE Transfer Agreement as described in sub-paragraph (e) below for further information of the VIE Transfer Agreement.

On 22 May 2013, Huifang Tongda, as the transferee of all the rights and obligations of Huifang Technology under the Equity Pledge Agreement, amended the Equity Pledge Agreement with the PRC Shareholders and each of Wuzhong Jiaye and Hengyue Consulting respectively. Pursuant to the amended Equity Pledge Agreement, the PRC Shareholders granted first priority security interests over their respective equity interests in Wuzhong Jiaye and Hengyue Consulting to Huifang Tongda as a guarantee to the performance of the PRC Shareholders Loan Agreement (as defined hereinafter), in addition to the performance of the Exclusive Management and Consultation Service Agreement (as described in details above), in addition to the Exclusive Call Option Agreement and the Proxy Agreement which was covered by the Equity Pledge Agreement entered into on 31 December 2011 and transferred to Huifang Tongda on 29 February 2012 as described in the immediate preceding paragraph.

Directors' Report (Continued)

Pursuant to the amended Equity Pledge Agreement, Huifang Tongda is entitled to exercise its rights to sell all or part of the pledged equity interests in Wuzhong Jiaye and Hengyue Consulting upon the non-performance or breach of any of the terms of the Exclusive Management and Consultation Service Agreement (as supplemented), the Exclusive Call Option Agreement, the Proxy Agreement, the PRC Shareholders Loan Agreement, and the amended Equity Pledge Agreement. In addition, the PRC Shareholders shall not pledge their respective equity interests in Wuzhong Jiaye and Hengyue Consulting in favour of or to other third parties without the prior written consent of Huifang Tongda.

The amended Equity Pledge Agreement became effective on 22 May 2013 upon execution by all relevant parties and the completion of the registrations of the pledge in the register of members of the PRC Operating Entity which have been completed, and shall terminate upon the performance of all obligation in full or the repayment of all losses arising from the breach by the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders (as the case may be) under the Exclusive Management and Consultation Service Agreement (as supplemented), the Exclusive Call Option Agreement, the Proxy Agreement, the PRC Shareholders Loan Agreement, and the amended Equity Pledge Agreement.

In addition, as the shareholders of the PRC Operating Entity, Wuzhong Jiaye and Hengyue Consulting amended the articles of association of the PRC Operating Entity on 31 December 2011. According to the articles of association currently in effect, no shareholder may pledge any of its equity interest in the PRC Operating Entity to any party.

(e) VIE Transfer Agreement

On 29 February 2012, Huifang Tongda, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders entered into a transfer agreement of structural contracts (the "VIE Transfer Agreement") pursuant to which Huifang Technology has agreed to transfer all of its rights and obligations under the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement, the Proxy Agreement and the Equity Pledge Agreement to Huifang Tongda. Accordingly, on the same date, Huifang Tongda entered into relevant new agreements with the respective parties to effectuate such transfer. The VIE Transfer Agreement and such new agreements became effective on 29 February 2012. After the transfer, Huifang Technology became an investment holding company with no substantive businesses and may serve as a platform for the Company to expand into various new business sectors.

(f) PRC Shareholders Loan Agreement

On 22 May 2013 Huifang Tongda, PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders entered into a loan agreement (the "PRC Shareholders Loan Agreement"), pursuant to which Huifang Tongda agreed to extend interest-free loans equivalent to an amount to be injected as registered capital into the PRC Operating Entity (the "Capital Contribution Amount") to the PRC Shareholders in accordance with the PRC laws and regulations. The PRC Shareholders will contribute the full amount of the Capital Contribution Amount to the registered capital of Wuzhong Jiaye and Hengyue Consulting, which will in turn contribute such loan proceeds to the PRC Operating Entity as registered capital. Under the PRC Shareholders Loan Agreement, Huifang Tongda may request, at any time in its absolute discretion and to the extent permitted by the PRC laws and regulations, the PRC Shareholders to repay the loan (i) by using the capital realized from Huifang Tongda's exercise of its rights under the Exclusive Call Option Agreement to purchase from Wuzhong Jiaye and Hengyue Consulting, the entire equity interests in the PRC Operating Entity and/or all assets of the PRC Operating Entity, followed with a capital reduction of Wuzhong Jiaye and Hengyue Consulting (as well as PRC Operating Entity, as applicable); or (ii) any other means as permitted by applicable PRC laws and regulations.

Directors' Report (Continued)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS

The following risks are associated with the Contractual Arrangements. Further details of the risks are set out on pages 36 to 44 of the Prospectus.

- imposing economic penalties;
- restricting our right to collect revenues;
- revoking the business licences and/or the licences or certificates of the PRC Operating Entity;
- discontinuing or restricting the operations of the PRC Operating Entity;
- imposing conditions or requirements in respect of the Contractual Arrangements with which we may not be able to comply;
- requiring us to restructure the relevant ownership structure or operations;
- voiding the Contractual Arrangements; and
- taking other regulatory or enforcement actions that could adversely affect our business.

MITIGATION ACTIONS TAKEN BY THE COMPANY

- The Company has existing protections measures under the Contractual Arrangements. The Company's Internal Control Department will regularly review the compliance and performance of such conditions under the Contractual Arrangements.
- The Company's legal department will deal with matters relating to compliance and regulatory enquiries from relevant PRC authorities and report to the Board on a regular basis.

A waiver has been granted by the Stock Exchange regarding strict compliance with (i) the applicable disclosure and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in relation to the transactions contemplated under the Contractual Arrangements, (ii) the requirement of setting a maximum aggregate annual value (i.e. annual cap) for the fees payable to Huifang Tongda under the Contractual Arrangements, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the shares of the Company are listed on the Stock Exchange, subject to certain conditions as set out in the Prospectus. In addition, pursuant to the waiver granted by the Stock Exchange, the framework of the Contractual Arrangements may be renewed and/or cloned upon the expiry of the existing arrangements or, in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) that the Group might wish to establish, without obtaining the approval of the independent non-executive Directors and the independent Shareholders, on substantially the same terms and conditions as the Contractual Arrangements.

The independent non-executive Directors of the Company have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out during the year have been entered into in accordance with the relevant provisions of the Contractual Arrangements which had been entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group; and the terms are fair and reasonable and in the interests of the Shareholders as a whole; and have been operated so that the revenue generated by the PRC Operating Entity has been substantially retained by Huifang Tongda; (ii) no dividends or other distributions have been made by the PRC Operating Entity to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) no new contracts or renewed contracts have been entered into on the same terms as the existing Contractual Arrangements from the Listing Date till the end of the year.

Directors' Report (Continued)

Further, the Board has engaged the auditor of the Company to report on the Group's continuing connected transaction. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Listing Rule 14A.56 of the Listing Rules and confirmed that nothing has come to their attention that causes them to believe that the continuing connected transactions carried out pursuant to the Contractual Arrangements during the year ended 31 December 2018 (a) have not received the approval of the Board and (b) were not entered into, in all material respects, in accordance with the relevant Contractual Arrangements.

A copy of the auditor's letter on the continuing connected transactions of the Group year ended 31 December 2018 has been provided by the Company to the Stock Exchange.

Save for the continuing connected transactions disclosed above and certain other connected transactions and continuing connected transactions which are exempted from reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, during the Reporting Year, there were no other transactions which constituted connected transaction or continuing connected transactions that were subject to the reporting requirements under the Listing Rules.

PUBLIC FLOAT

As at the date of this annual report and based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

AUDITORS

The consolidated financial statements have been audited and agreed by PricewaterhouseCoopers who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment. PricewaterhouseCoopers has been our auditor since the Listing of our Group.

By order of the Board

Wu Min
Chairman

Hong Kong, 26 March 2019

Corporate Governance Report

The Board of the Company hereby presents to the Shareholders the corporate governance report for the year ended 31 December 2018 (the "Reporting Year").

CORPORATE GOVERNANCE PRACTICES

The Board has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governed Report (the "CG Code") contained in Appendix 14 to the Listing Rules.

In the opinion of the Board, the Company has complied with the principles and code provisions as set out in the CG Code throughout the Reporting Year, except for Code Provision A.2.1 which requires that the role of chairman and chief executive officer should be separate and should not be performed by the same person. The details of deviation are set out in section headed "Chairman and Chief Executive Officer" below in this corporate governance report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors.

Specific enquiry has been made of all the Directors of the Company and they have confirmed that they have complied with the Model Code throughout the Reporting Year.

The Company has also adopted the Model Code as written guidelines (the "Employees Written Guidelines") for securities transactions by the relevant employees who are likely to be in possession of inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Corporate Governance Report (Continued)

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors:
Mr. Wu Min *(Chairman and Chief Executive Officer)*
Mr. Zhang Changsong *(Chief Financial Officer)*

Non-executive Directors:
Mr. Zhuo You
Mr. Zhang Cheng
Ms. Zhang Shu
Mr. Ling Xiaoming

Independent Non-executive Directors:
Mr. Zhang Huaqiao
Mr. Feng Ke
Mr. Tse Yat Hong

Mr. Chen Yannan resigned as an executive Director with effect from 28 May 2018, and Mr. Ling Xiaoming has been appointed as a non-executive Director with effect from 28 May 2018.

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" from pages 26 to 29 of this annual report.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the Reporting Year, Mr. Wu Min assumed the roles of both chairman and chief executive officer, the Company deviated from this code provision. The Board considers that this management structure is effective in terms of the formulation and implementation of the Company's strategies and the Company's operations. Notwithstanding the deviation, the Board is of the view that it is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Group and its shareholders. The Board will review the management structure from time to time and the need to separate the roles of the chairman of the Board and the chief executive officer to two individuals.

Save as disclosed above, during the Reporting Year, the Company has complied with the principles and code provisions as set out in the CG Code.

Independent Non-executive Directors

During the Reporting Year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Corporate Governance Report (Continued)

Appointment and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than two months' written notice served by either the executive Directors or the Company. Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

In accordance with Article 84(1) and (2) of the Articles of Association, one-third of the Directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but no less than one-third) shall retire from office at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected as Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. In accordance with Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Zhang Changsong, Mr. Zhang Cheng, Ms. Zhang Shu and Mr. Ling Xiaoming will retire and they being eligible, will offer themselves for re-election at the forthcoming 2019 annual general meeting.

None of Mr. Zhang Changsong, Mr. Zhang Cheng, Ms. Zhang Shu and Mr. Ling Xiaoming has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

Corporate Governance Report (Continued)

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and chief executive. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2018 are summarized as follows:

Name of Directors	**Type of Training** Notes
Executive Directors	
Wu Min	B
Zhang Changsong	B
Chen Yannan *(Note 1)*	B
Non-Executive Directors	
Zhuo You	B
Zhang Cheng	B
Zhang Shu	B
Ling Xiaoming *(Note 2)*	B
Independent Non-Executive Directors	
Zhang Huaqiao	B
Feng Ke	B
Tse Yat Hong	A/B

Corporate Governance Report (Continued)

Notes:

1. Mr. Chen Yannan has resigned as an executive Director with effect from 28 May 2018.

2. Mr. Ling Xiaoming has been appointed as non-executive Director with effect from 28 May 2018.

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

During the Reporting Year, the Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Internet Finance Business Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of the Audit Committee, Remuneration Committee, Nomination Committee and Internet Finance Business Committee are independent non-executive Directors.

On 26 March 2019, the Broad established the Technology Finance Business Committee for replacing the Internet Finance Business Committee.

Audit Committee

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Year, the Audit Committee held two meetings for reviewing the annual report in respect of the year ended 31 December 2017 and the interim financial results and reports in respect of the period ended 30 June 2018 as well as the significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice during the Reporting Year.

Remuneration Committee

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

Corporate Governance Report (Continued)

During the Reporting Year, the Remuneration Committee met once for reviewing making recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and other related matters.

Details of the remuneration of the senior management by band are set out in note 12 in the Notes to the Audited Consolidated Financial Statements for the year ended 31 December 2018.

Nomination Committee

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives (where appropriate) for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Year, the Nomination Committee met once for reviewing the structure, size and composition of the Board, and to consider the qualifications of the retiring directors standing for election at the annual general meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Report (Continued)

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Internet Finance Business Committee

The Company established the Internet Finance Business Committee under the Board on 28 May 2015. The principal duties of the Internet Finance Business Committee include formulating and making recommendations to the Board on the strategies of the Group in the area of providing financial solutions via internet and other e-commerce matters ("Internet Finance Business"), supervising the implementation, and reviewing the performance and efficiency, of the Internet Finance Business by the Group, and considering other matters as referred to the Internet Finance Business Committee by the Board.

During the Reporting Year, the Internet Finance Business Committee met once for reviewing and making recommendations to the Board on the strategies of the Internet Finance Business.

The Internet Finance Business Committee has been replaced by the Technology Finance Business Committee with effect from 26 March 2019.

Corporate Governance Report (Continued)

Technology Finance Work Committee

The Company established the Technology Finance Work Committee of the Board on 26 March 2019 for replacing the Internet Finance Business Committee. The Technology Finance Work Committee's primary duties include developing strategies for financial matters of the Group, such as supply chain finance, providing funding using financial technologies and carrying out block chain and big data analysis business ("Technology Finance Work") and making recommendations to the Board; overseeing the implementation of the Technology Finance Work of the Group and assessing the performance and efficiency of the Technology Finance Work; and considering the other matters of the Committee as defined by the Board.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the Reporting Year, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employee Written Guidelines, and the Company's compliance with the CG Code and disclosure in this corporate governance report.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

During the Reporting Year, the Company held four Board meetings, two Audit Committee meetings, one Remuneration Committee meeting, one Nomination Committee meeting, one Internet Finance Business Committee meeting and one general meeting.

The attendance record of each Director at the Board and Board committee meetings of the Company and general meeting of the Company held during the Reporting Year is set out in the table below:

	Attendance/Number of Meetings					
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Internet Finance Business Committee**	**Annual General Meeting**
Chen Yannan *(Note 1)*	1/2					1/1
Wu Min	4/4		1/1	1/1	1/1	1/1
Zhang Changsong	3/4					1/1
Zhuo You	4/4					1/1
Zhang Cheng	3/4	1/2				0/1
Zhang Shu	3/4					0/1
Ling Xiaoming *(Note 2)*	3/3					0/0
Zhang Huaqiao	3/4		1/1	1/1	1/1	1/1
Feng Ke	4/4	2/2		1/1	1/1	0/1
Tse Yat Hong	4/4	2/2	1/1			1/1

Corporate Governance Report (Continued)

Notes:

1. Mr. Chen Yannan has resigned as an executive Director with effect from 28 May 2018.

2. Mr. Ling Xiaoming has been appointed as non-executive Director with effect from 28 May 2018.

Apart from regular Board meetings, the Chairman also held one meeting with Non-executive Directors (including Independent Non-executive Directors) without the presence of other Directors during the Reporting Year.

Code provision A.2.7 of the CG Code has been revised to require that the chairman of the Board should at least annually hold meetings with independent non-executive Directors without the presence of other directors. Arrangements have been made for compliance with the revised code provision which took effect from 1 January 2019.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems 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.

The management has confirmed to the Board and the Audit Committee on the effectiveness and adequacy of the risk management and internal control systems for the year ended 31 December 2018.

Details of the Company's risk management and internal control as at 31 December 2018 are set out in the section headed "Risk Management and Internal Control Report" on pages 65 to 69 of this annual report.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Directors 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.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 78 to 79.

AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditors of the Company in respect of audit services for the year ended 31 December 2018 amounted to RMB2,900 thousand. No non-audit services has been provided by the Company's external auditors to the Company.

Corporate Governance Report (Continued)

COMPANY SECRETARY

Miss Leung Ching Ching has been appointed as the Company's company secretary. Miss Leung Ching Ching is a senior manager of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Mr. Wu Min, executive Director, chairman of the Board and chief executive officer of the Company has been designated as the primary contact person at the Company which would work and communicate with Miss Leung Ching Ching on the Company's corporate governance and secretarial and administrative matters.

For the year ended 31 December 2018, Miss Leung Ching Ching has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard Shareholder's interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholder meetings, including the election of individual directors. Pursuant to the Listing Rules, all resolutions put forward at Shareholders' meetings will be voted on by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, and poll results will be posted on the websites of the Company and of the Stock Exchange after each Shareholders' meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Company's Articles of Association, an extraordinary general meeting may be convened by the Board upon requisition of one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of the deposit of the requisition, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, while all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The requisitionist(s) must state the objects clearly in the requisition, sign the requisition and deposit the same to the Board or the secretary or the primary contact person of the Company.

Putting Forward Proposals at General Meetings

Shareholders who wish to put forward proposal at general meetings may deposit a requisition for convening an extraordinary general meeting following the procedures set out above.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Corporate Governance Report (Continued)

Contact Details

Shareholders may send their requisitions, proposed resolutions for the general meeting or enquiries to the Board as mentioned above to the primary contact person of the Company as set out below:

Name:	Wu Min (吳敏)
Address:	22/F, 345 East Baodai Road, Suzhou, Jiangsu Province, the PRC
Fax:	86-512-65131585
Email:	cnhuirong@wuzhong.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board as well as chairman of Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees will make themselves available at the annual general meetings to meet Shareholders and answer their enquiries.

During the Reporting Year, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

To promote effective communication, the Company maintains a website at http://www.cnhuirong.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

POLICIES RELATING TO SHAREHOLDERS

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a Dividend Policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that has become effective from 1 January 2019. 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 Company do not have any pre-determined dividend payout ratio.

The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Memorandum and Articles of the Association of the Company and all applicable laws and regulations and the factors set out below. The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends, including 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.

Corporate Governance Report (Continued)

Depending on the financial conditions of the Company and the Group and the conditions and factors 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 final 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 Company's Memorandum and Articles of Association.

The Board will review the Dividend Policy as appropriate from time to time.

GOING CONCERN

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Risk Management and Internal Control Report

China Huirong Financial Holdings Limited ("Company") is a group of companies engaged in pawn, small loans, Internet finance and investment in mainland China. The Company is committed to providing the small-and-medium-size companies and individuals with diversified and innovative financial products. Its vision is to become the leading comprehensive financial service provider in China who serves small-and-medium-size companies and individuals.

All business in the Company involves one or more risks in analysis, measurement, evaluation, commitment and management to a certain extent. The major risk types confronted by the Company are credit risk, liquidity and financing risk, market risk and operational risk. The company has established relatively sound risk management system and internal control, feedback system, and will make adjustments according to the economic environment and industry development, to ensure that it will achieve reasonable income while maintaining the risks within control.

1. RISK MANAGEMENT

The Company publishes risk management report on an annual basis, reviewing and evaluating the major risk types faced by the Company during the year and the operation of the risk management system, as well as revising the risk management guidelines for the coming year, to ensure balancing between the Company's earnings and risks.

Risks	Sources	Control and management risks
(1) Credit risk		
Financial loss risk arises when customers and counterparties default on contractual obligations.	Credit risk is mainly attributable to direct loans.	Potential amount of the loss will be measured when customers and counterparties default on payment. The loss will be capped and monitored and subject to approval from persons designated in the organizational framework. When customers and counterparties default on their contractual obligations, potential risks and losses suffered from by the Company will be no more than the caps. Risk management will be implemented by the risk management personnel in compliance with a consistent and sound risk control framework with policies, principles and guidelines specified clearly.
(2) Liquidity risk and financing risk		
Such risk will occur when the Company is unable to perform its obligations when due as a result of inadequate financial resource or performance of such obligations requires additional cost.	Liquidity risk arises from the time mismatch of cash flow. Financing risk occurs when liquidity could not be obtained with expected terms when necessary to fund the illiquid assets.	It will be measured with internal measurement standards including the stressed operating cash flow forecast, coverage ratio and the loan to core capital ratio and will be monitored by the audit committee of the Company in accordance with the liquidity and financing risk management framework in place.

Risk Management and Internal Control Report (Continued)

Risks	Sources	Control and management risks
(3) Market risk		
The risk arises from the change in market conditions such as exchange rates, credit spreads and share prices which may result in a decrease in the Company's income or the value of its investment portfolios.	Market risk is mainly attributable to deposits held by the Company in foreign currencies, assets and liabilities of the Company's lending services business as well as held-for-trading financial investments.	The risk will be measured based on its estimated loss and applied to estimate the potential loss of the risk exposure generated by the change of market interest rates and prices during a designated period in a specific credibility. Then it will be subject to stress test to assess its potential impact on the value of portfolios if something extreme but possible happens. Various monitoring measures are taken including the sensitivity of net interest income and the Company will manage such risk with approved risk limits.
(4) Operational risk		
Such risk occurs when losses are incurred as a result of insufficient and ineffective internal procedures, human resources and systems or external events.	Operational risk is generated during daily operations or from external events and is relevant to all aspects of the Company's business.	Condition analysis procedures and risk and control assessment procedures will be applied to evaluate the risk level and effectiveness of the controlling. The risk will be monitored with key indicators and other internal control activities. Management of the risk will be mainly conducted by business and department managers who identify, assess, monitor and manage such risk as well as evaluating the effectiveness of the operational risk management framework in effect. The risk and audit department is responsible for such framework and the supervision of the operational risk management conducted in such business and departments.

The Company has established risk management policy procedures to identify and analyse risks, determine appropriate risk limits, and monitor and control all kinds of risks with its reliable and timely information management system. The risk management frameworks/policies, statement of risk exposure level and major limits of risk control are subject to approval from the Board and will be monitored and reviewed by the Directors regularly. The Company has set up efficient risk management frameworks and accountability mechanism and arranged for appropriate supervision and control on risks of all types and in every level across the Company, with an aim to ensure the effectiveness of its risk management.

The Board will assume ultimate responsibility for the statement of risk exposure level and the effectiveness of risk management of the Company. The audit committee is responsible for reviewing the statement of risk exposure level and consistency of the mid-to-long-term strategies and advises and reports to the Board with respect to the risk management, internal control and high level risk related matter.

The Audit Committee is in charge of constantly monitoring, assessing and managing the risk environment and the effectiveness of risk management policies. The director of risk control will report to the Board on the actual risk exposure of the Company regularly as well as relevant deviations and management improvements required to be made.

Risk Management and Internal Control Report (Continued)

(1) Credit Risk

Credit risk refers to financial loss risk arising from customers' or counterparties' default on their contractual obligations. Credit risk is mainly attributable to direct loans. The Company has specified standards, policies and procedures to control and monitor credit risks in all relevant business.

In terms of the Company's customers, they are mostly small, medium and micro enterprises, business owners or individuals with less diversified business models and weak capability for business transformation, and they tend to struggle hardly in economic downturns as they are at the grass-root level of the industry chain. However, as we have paid more attention to the form of security and diversification of credit assets since 2016, the increase in the non-performing credit assets of the Company was effectively controlled. Although most of the credit assets were secured or guaranteed, they directly drive down the Company's income and profits as litigation and disposal of such assets require prolonged time and lower interest income can be generated during such disposal.

Designated functions shall be reported to the director of risk control and credit risk is under centralized management with the following work conducted:

— Establish approval procedures, monitoring procedures after granting loans and policies of collection and for large loans;

— Publish guidelines for loans granted to specific markets, industries and products as well as acceptable facilities, mitigation risk and evaluation parameters for specific collaterals;

— Set up limits to monitor credit risks of industries, counterparties and loan portfolio types, etc.;

— Maintain and develop credit risk/credit rating systems to categorise risks for management purposes;

— Inform senior management and all committees of credit information of the Company;

— Actively manage and develop the credit system; and

— Advise the business departments on relevant loans and provide them with guidelines in this regard.

Management and Collection of Impaired Loans

The Company will continuously analyse and monitor its loans from different aspects. It pays much attention to doubtful loans and makes provisions for the impaired loans in a timely and consistent manner according to designated guidelines. It will also form a loan collection team to render comprehensive support to the customer, with an aim to maximize the recoverability of the doubtful debts. The management will review loan portfolios in detail on a regular basis, compare the performance and overdue statistics of the portfolios with past trends and assess the recent economic environment to identify if there is any impaired loan requiring appropriate provisions.

Collaterals and Other Loan Improvement Conditions

Although collateral is an important tool for mitigating credit risk, the Company grants loans based on the customers' cash flow and solvency instead of value of collaterals. It is the Company's policy to cap the loan based on customers' solvency rather than undue reliance on collaterals. In certain circumstances, the loan may be unsecured, depending on the customers' financial position and product types. Major types of collaterals are personal/commercial properties, securities and trade receivables, etc.

The Company has organized professional teams comprised of risk management professionals and lawyers to manage its collaterals.

Risk Management and Internal Control Report (Continued)

Concentration of Credit Risk

Counterparties of the Company are mainly located in Suzhou where the economy is well developed, indicating high regional concentration and that it will be influenced by regional economy more easily. The Company is dedicated to expand its business into surrounding regions and has developed new products such as "Yin Qiao Dai" (銀橋貸), "Rong ZhengTong" (融證通), "Shu Lou Dai" (贖樓貸) and automobile financial leasing in 2016 which are highly standardized and can be used across regions. With development of the new business, risk concentration will be reduced gradually.

(2) Liquidity and Financing Risk

Under policies and regulations, the Company mainly grants loans funding form its proprietary capital and bank borrowings which are pledged by deposits. According to the liquidity information of the Company in the year end, the Company is fully capable of repaying all bank borrowings and Suzhou Qian Dai borrowings.

Assets in the Company bearing no interest are mainly bad credit assets to be disposed of and will not have adverse effects on the liquidity. They will be realized gradually upon conclusion of litigations and completion of the asset disposal and will contribute to our business growth.

(3) Market Risk

The Company regards market risk as one of the major risk it confronted.

As for the market interest rate, effective interest rate is reduced due to interest rate cut and larger money supply in the society, directly bringing down the interest rate of the Company in granting loans, which in turn has an impact on its performance. Although effective interest rate is reduced, the private sector lacks investment willingness due to its pessimistic forecast of the future and its investment growth decreases year by year, which indirectly undermines the profit attributable to loans granted to prime customers by the Company.

Since 2016, the Company has been working actively on improving its current situation, especially by actively developing ultra-short term loan business for enterprises and personal loan business, so as to minimize the impact brought by market risks. The ultra-short term loan business is designed as a channel for capital operation between banks and companies and is expected to generate considerable income free from market risks by closely communicating with banks and companies and making it convenient for companies to obtain loans and raise funds. The personal loan business, which mainly refers to "Shu Lou Dai" (贖樓貸) business, provides funding services for vendors to release their property mortgage with banks. As purchase and sale agreement has been entered into, the source of repayment is certain, thus it is generally free from market risks.

(4) Operational Risk

The Company has marketing department, risk management department, loan center and audit department, which are clearly separate and independent from each other without hierarchical relationship.

The market department is responsible for collection of customers' information and preparation of project reports; the risk management department reviews such project reports, issues risk opinion and formulates conditions precedent for granting loans; the loan center reviews whether the customer fulfills such conditions precedent and grants loans; and the audit committee will review and audit the whole workflow.

Risk Management and Internal Control Report (Continued)

The Company has operational departments independent to each other and its workflow has been practiced for years, which eliminates the risk arising from operation errors of its internal staffs and failure of systems.

Operation of the Company's products is generally standardized, and customer identification process and conditions for granting loans are well established and updated constantly in pace with environmental changes. The Company's risk management personnel are professionals with extensive risk management experience and can assess the customers' risks properly. The staffs in the Company's loan center are all seasoned financial management experts and can make accurate judgments on whether conditions for granting loans are fulfilled. Employees of the Company's audit department are specialists with profound financing, financial and auditing experience and can evaluate and cope with the external risks identified in the whole workflow.

The Company has maintained a sound operational system to effectively deal with the external operational risks.

2. INTERNAL CONTROL AND AUDIT

The Company has set up audit department which is in charge of the development, operation and audit of its internal control system and reports to the Board and the audit committee.

From a macro perspective, the audit department makes judgments on the market and environment, conducts audit with respect to the nature and level of the risks set by the Company in achieving its strategic goals and issues independent opinion to and advise the audit committee and the Board.

The audit department will carry out twice regular (in January and July) and several ad-hoc audit and supervision on the risk management system and internal control system of the Company every year, and will inform the management and the Board of the operational status of such systems timely. During the Reporting Year, the audit department has reviewed the risk management and internal systems.

The audit department is responsible for the operation of the internal control system and will monitor and review the business process during or after the course of such business. It can get access to the documents of the business at any time to review whether the process is conducted in compliance with requirements and has the right to enquire all participants involved in such business, to prepare for an independent audit report. If any problem is identified in the business process by the audit department, such process must be suspended and individuals who misconduct will be held accountable.

Disclosure of inside information of the Company is subject to management of the Board office and lawyers. The inside information will be identified by the Board office and confirmed by lawyers, who will then make a draft announcement thereon and the disclosure of which will be approved by the Board. The audit committee will also monitor the disclosure of such inside information and will conduct independent audit and advise on mandatory disclosure and voluntary disclosure. Inside information must be kept strictly confidential until an announcement is published in accordance with the requirements of the Listing Rules.

The management is required to assess the effectiveness of the risk management and internal control system annually and shall immediately report to the audit committee and the board on any deficiency of internal control identified and propose solutions.

For the financial year ended 31 December 2018, the Board believed that its risk management and internal control system was effective and adequate.

Environmental, Social and Governance Report

China Huirong Financial Holdings Limited (the "Company") holds environmental responsibility and social responsibility all the time. As an environment-friendly enterprise, the Company takes the initiative to arrange its energy-conservation and environmental protection work. It acts as a qualified entrepreneur responsible for offering employees a good job environment and promotion channels and ensure compliance of its products and operations with relevant laws and regulations and social interests.

1. ENVIRONMENTAL PROTECTION

The Company not only focuses on environmental protection in daily business, but also spreads the idea of environmental protection to customers, suppliers and other stakeholders. It is committed to diminishing harmful effects on the environment by day-to-day operations and actively getting involved in activities helpful to the environment. Meanwhile, the Company also undertakes social responsibility by virtue of investment and lending policies.

Environmental Performance	Unit	2017	2018
Carbon dioxide emissions			
Total carbon dioxide emissions	kg	181,510.27	**197,325.41**
Energy	kg	125,160.40	**133,947.60**
Business	kg	56,349.87	**61,950.30**
Average total carbon dioxide emissions per a full-time employee	kg/full-time employee	1,127.39	**1,174.56**
Energy	kg/full-time employee	777.39	**797.31**
Business	kg/full-time employee	350.00	**368.75**
Total carbon dioxide emissions/m^2	kg/m^2	44.00	**43.61**
Energy consumption			
Total energy consumption	GJ	573.98	**619.80**
Electricity	GJ	573.98	**619.80**
Average total energy consumption per a full-time employee	GJ	3.57	**3.69**
Total energy consumption/m^2	GJ/m^2	0.20	**0.23**
Total water consumption	mt	614	**678**
Total water consumption per a full-time employee	mt/full-time employee	3.81	**4.27**
Total paper consumption	kg	1,491.6	**1537.1**
Wastes			
General office wastes (recyclable)	kg	26,061.00	**25254.20**
General office wastes (unrecyclable)	kg	12,264.00	**11,542.33**
Electronic products and devices	kg	480.00	**458.00**

The above data include that of all business lines of the Company and figures are accurate to two decimal places.

Environmental, Social and Governance Report (Continued)

1.1 Emissions

The Company does not produce hazardous wastes as it does not deal with any industrial production activities. CO2-dominated greenhouse gases produced by energy consumption and traffic are the Company's major emissions.

To reduce greenhouse gas emissions, the Company has actively developed and executed environmental policies, including using less energy-consuming LED lights in specified areas and adopting high-speed rails as a main business tool to minimize the use of autos and airplanes for they consume more energy.

In 2018, the Company recorded an increase of 4.35% in the number of employees. Its CO_2 emissions increased by 8.71% as compared to last year, which is mainly due to the increase in the number of employees of the Company and the expansion of new businesses. Meanhwile, the Company will continue to adopt a series of meaures to reduce the total emissions.

1.2 Energy Consumption

In order to reduce energy consumption, the Company piloted its office areas with light sources being decreased in quantity, weakened in intensity and lowered in energy consumption as well as imposing more strict use standard on both centralize air conditioners and high energy-consuming appliances. In the mean time, the Company installed water-saving devices in office areas and achieved some effects. However, as the businesses of the Company develop across regions, the number of office premises increased, leading to an increase in the total energy consumption and total water consumption.

The Company used paper passing the authentication of FSC and specified that only wood pulp and/or 100% recycled paper with clear sources and not from high risk countries can be used. It also promoted informationize office and paperless office, contributing to a reduction of 3.04% in total paper consumption.

1.3 Waste Management

The Company produces no hazardous wastes, so hazardous wastes that may be produced are disposed by a professional company entrusted.

The Company views environment as an important factor, evaluates impacts of clients on the environment, and uses approval principles of strict admittance on heavy energy-consuming and highly polluted industries. It is customary for the Company to organize tree-planting activities. The Company calls off dishes on endangered species in banquet activities and promote environmental idea in communities to advance the transmission of low-carbon life and recycling.

Environmental, Social and Governance Report (Continued)

2. SOCIETY

The Company is socially responsible for employees and communities. It offers employees training and career development planning in a secure and good work environment. The Company respects intellectual property and customer privacy and has established and operated robust risk management system and internal monitoring system. Insisting on the social idea of not being evil, the Company seeks for harmony with the society through practical actions.

2.1 Employment and Labor Information

As at 31 December 2018, the Company has 168 employees, all of them are full-time employees.

2018 Employee Information

Age	Number	Gender	Number	Type	Number
20–35	90	Male	89	Full-time	168
36–45	52				
46–55	24	Female	79		
56 or over	2				
Total	**168**				

The Company ensures legitimate rights and interests of employees (include employment and dismissal) according to the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China* and relevant provisions. The Company has established the employee recruitment and promotion systems with reference to existing guidelines within or beyond this industry to offer employees equal opportunities and other rewards and benefits not below the industry average. The Company resolutely opposes discrimination and guarantees an equal job environment open to moderate diversification.

The Company holds campus recruitment once a year and social recruitment on an irregular basis. With a complete compensation system and assessment system, it provides career planning for each employee and career promotion channels for employees who meet requirements of assessment. The Company implements 8-hour working system and all employees are entitled to statutory holidays and paid annual leave.

2.2 Health and Security

The Company neither produces nor sells any product that could cause harm to the human body nor operates in environment that may cause harm. In compliance with the *Environmental Protection Law, Law on the Prevention and Control of Occupational Diseases* and *the Fire Control* Law and relevant provisions, the Company offers employees a safe and good work environment and adequate security measures to protect employees from occupational hazards.

The Company provides free medical examinations for all employees every year. It also organizes sports like long-distance running and badminton to ensure that the employees are in good health.

Environmental, Social and Governance Report (Continued)

2.3 Development and Training

The Company conducts regular and irregular learning and training for all or some employees to improve their knowledge and skills. In 2018, the training rate for all employees reached 100%.

Employee Training Information

Classification		Average training hours per employee
Gender	Male	12.13
	Female	12.22
Employee level	Senior management	17.64
	Middle management	15.10

The Company provides business etiquette training for all employees; business training and risk management training for the business department and the risk department; specialized training courses as well as learning, training and company visits on a quarterly basis for employees under 35; training of new types of business like Internet finance and investment for senior management.

Meanwhile, the Company has a training&management plan in place for our staff for the sake of strengthening their comprehensive capabilities and building a studious corporate culture. The aforesaid plan includes public course, professional course, management course and team experience course.

2.4 Labor Standard

In compliance with the Labor Law of the People's Republic of China and relevant provisions, the Company does not allow child labor nor forced labor. Employees need to have some knowledge reserves and professional skills due to the threshold and professional nature of this industry.

The Company validates identities of applicants to preclude the possibility of child labor. The code of operation specifies zero tolerance for forced labor and clearly provides the reporting contact information of the Company and regulatory department. The Company also makes interviews with employees from time to time by the HR department to ensure compliance with regulations.

2.5 Supply Chain Management

The Company is not a manufacturing enterprise, so there has no management of suppliers and supply chain.

Environmental, Social and Governance Report (Continued)

2.6 Product Responsibility

In compliance with the General Principles of the Civil Law, Product Quality Law and the Law on Protection of the Rights and Interests of Consumers and relevant provisions, the Company offers financial services to the public and promotes business by briefing services it renders without any falsification or fraud. Attaching great importance to intellectual property and privacy information protection, the Company has developed multiple security measures to ensure that there is no act of selling or disclosing the customer information. It will never acquire or use unauthorized customer information through illegal channels.

The Company has set up the information isolation system that only those with authorization can inquire about the customer data stored in the Company. The Company regularly reviews the history records on a regular basis to ensure the procedural compliance.

2.7 Anti-Corruption

In compliance with the *Criminal Law of the People's Republic of China* and relevant provisions, the Company has formed strict monitoring systems and reporting procedures to prevent bribery, blackmail, fraud and money laundering and other criminal acts. As of 31 December 2018, there was no case of corruption in respect of the Company or its employees.

The Company renders financial services, to which the corruption may occur at business and risk ends. The Company has established strict multiple approval and audit review procedures to avoid risks caused by employees and reporting procedures and accountability mechanism reviewed by the audit department to ensure that all systems and procedures are operational.

2.8 Community Investment

The Company actively organizes and encourages employees to get involved in community activities. In 2018, it organized employees to give lectures about the prevention of financial risks on weekends for several times to cultivate the residents' awareness and discrimination on illegal finance; organized them to participate in community sports activities, such as marathon and badminton, for several times; stopped granting loans and providing financial services to enterprises that may endanger the community environment, which has forced them to improve their production process.

As an enterprise bearing environmental responsibility and social responsibility, the Company is willing to invest energy and resources in living harmoniously with the environment and the society.

Consolidated Financial Statements and Independent Auditor's Report

pwc

羅兵咸永道

TO THE SHAREHOLDERS OF CHINA HUIRONG FINANCIAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Huirong Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 80 to 171, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2018;
- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of changes in equity for the year ended 31 December 2018;
- the consolidated statement of cash flows for the year ended 31 December 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Consolidated Financial Statements and Independent Auditor's Report (Continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to Expected Credit Loss for loans to customers as at 31 December 2018.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of Expected Credit Loss ("ECL") for loans to customers	
Please refer to the following notes to the consolidated financial statements: Notes 2.2(b), 2.6, 3.1(a), 4.1, 23. As at 31 December 2018, the Group's gross loans to customers amounted to RMB2,070 million, and ECL allowances of RMB332 million were recognized in the Group's consolidated statement of financial position. The ECLs on loans to customers recognized in the Group's consolidated statement of comprehensive income for the year ended 31 December 2018 amounted to RMB107 million. The balances of ECL allowances for loans to customers represented the management's best estimates at the balance sheet date of ECL under the Hong Kong Financial Reporting Standard 9: Financial Instruments ECL models. The Group assessed whether the credit risk of loans to customers had increased significantly since their initial recognition, and applied a three-stage impairment model to calculate their ECL allowances. For loans to customers classified into stages 1 and 2, the management assessed ECL allowances using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default and exposure at default. For impaired loans to customers in stage 3, the management assessed ECL allowances by estimating the future cash flows from the loans taking into consideration of forward-looking factors.	We evaluated and tested the internal controls relating to the measurement of ECLs for loans to customers which comprised: (1) controls over ECL models, including the selection, approval and application of modelling methodology; and the internal processes relating to the on-going monitoring and enhancements of the models; (2) review and approval of significant management judgments and assumptions, including parameters estimation, the criteria of significant increase in credit risk, the definition of default and credit-impairment, and use of economic variables and relative weightings for forward-looking scenarios; (3) internal controls over the accuracy and completeness of key inputs used by the models; (4) internal controls relating to estimated future cash flows and calculations of present values of such cash flows for loans to customers in stage 3, taking into consideration forward-looking factors. We performed substantive procedures relating to the measurement of ECLs for loans to customers which comprised: We reviewed the modelling methodology adopted by management for ECL measurement, and assessed the reasonableness of the key parameters, significant judgements and assumptions. We examined the calculation for model measurement on selected samples to test whether or not the model reflects the modelling methodology documented by management.

Consolidated Financial Statements and Independent Auditor's Report (Continued)

Key Audit Matter

Measurement of Expected Credit Loss ("ECL") for loans to customers (Continued)

The measurement model of ECLs involved significant management judgments and assumptions, primarily including the following:

(1) determination of relevant key models and parameters;

(2) criteria for determining whether or not there was a significant increase in credit risk and definition of default or credit impairment;

(3) estimated future cash flows for loans to customers in stage 3;

(4) economic variables for forward-looking measurement, and the application of economic scenarios and relative weightings.

The Group established related controls for the measurement of ECLs.

Management applied significant judgments in measuring its ECL which involved models with a number of assumptions, parameters and data inputs; and the ECL amounts involved were significant. In view of these reasons, we included this as a key audit matter.

How our audit addressed the Key Audit Matter

We examined major data inputs to the ECL models on selected samples, including historical data and data on the measurement date, to assess their completeness and accuracy.

We selected samples, in consideration of the overdue status of the borrowers, relevant external evidence and other factors, to assess the appropriateness of management's identification of significant increase in credit risk, defaults and credit-impaired loans.

In addition, we reviewed management's regression analysis on their selection of key economic indicators employed in the forward-looking scenarios and performed back testing on the economic indicators used. We also performed sensitivity testing of the significant increase in credit risk, economic indicators, and relative weightings of economic scenarios.

For loans to customers in stage 3, we examined, on a sample basis, forecasted future cash flows taking into consideration of forward-looking factors prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information in supporting the computation of ECL allowances.

Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECLs for loans to customers, the models, key parameters, significant judgements, and assumptions adopted by the management and the measurement results were considered acceptable.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

Consolidated Financial Statements and Independent Auditor's Report (Continued)

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

The engagement partner on the audit resulting in this independent auditor's report is Li, Jack.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Interest income	6	**305,194**	272,353
Interest expense	7	**(54,637)**	(74,237)
Net interest income		**250,557**	198,116
Net investment (losses)/gains	8	**(18,681)**	2,499
Expected credit losses/Impairment losses	12	**(107,292)**	(10,142)
Net losses on derecognition of financial assets measured at amortized cost		**(58)**	N/A
Other operating income	9	**22,225**	6,413
Net other operating income		**(103,806)**	(1,230)
General and administrative expenses	10	**(73,721)**	(66,922)
Other gains/(losses), net	13	**37,765**	(36,382)
Operating profit and profit before income tax		**110,795**	93,582
Income tax expense	15	**(37,994)**	(28,396)
Profit for the year		**72,801**	65,186
Profit is attributable to:			
— Owners of the Company		**60,996**	50,904
— Non-controlling interests		**11,805**	14,282
Earnings per share for profit attributable to the owners of the Company (expressed in RMB Yuan)			
— Basic earnings per share	16	**0.056**	0.050
— Diluted earnings per share	16	**0.056**	0.049
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**72,801**	65,186
Total comprehensive income for the year is attributable to:			
— Owners of the Company		**60,996**	50,904
— Non-controlling interests		**11,805**	14,282
		72,801	65,186

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2018**	2017
ASSETS			
Non-current assets			
Property, plant and equipment		**2,334**	2,778
Intangible assets	*19*	**40,735**	1,217
Deferred income tax assets	*20*	**70,644**	72,562
Investments accounted for using the equity method		**1,500**	—
Financial asset at fair value through profit or loss	*24*	**440**	—
Total non-current assets		**115,653**	76,557
Current assets			
Other current assets	*22*	**116,999**	19,454
Loans to customers	*23*	**1,738,283**	1,945,652
Financial assets at fair value through profit or loss	*24*	**31,327**	50,961
Cash at bank and cash on hand	*25*	**797,964**	941,645
Total current assets		**2,684,573**	2,957,712
Total assets		**2,800,226**	3,034,269
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE COMPANY			
Share capital	*26*	**8,632**	8,632
Share premium	*27*	**601,993**	601,993
Other reserves	*27*	**596,266**	594,066
Retained earnings	*28*	**547,656**	505,247
		1,754,547	1,709,938
Non-controlling interests	*14(i)*	**142,481**	144,027
Total equity		**1,897,028**	1,853,965

Consolidated Statement of Financial Position (Continued)

As at 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2018	2017
LIABILITIES			
Current liabilities			
Other current liabilities	*29*	**21,778**	14,014
Current income tax liabilities		**29,455**	14,689
Amounts due to related parties	*35(c)*	**633**	633
Dividends payable		**1,256**	—
Borrowings	*30*	**850,076**	1,150,968
Total current liabilities and total liabilities		**903,198**	1,180,304
Total equity and liabilities		**2,800,226**	3,034,269

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on 26 March 2019.

Wu Min
Executive Director

Zhang Changsong
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to the owners of the Company					Non-controlling Interests	Total equity
		Share Capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2017		8,111	548,237	584,739	454,343	1,595,430	204,708	1,800,138
Profit for the year		—	—	—	50,904	50,904	14,282	65,186
Other comprehensive income		—	—	—	—	—	—	—
Total comprehensive income for the year		—	—	—	50,904	50,904	14,282	65,186
Transactions with owners in their capacity as owners								
Employee share option								
— Value of employee services	*27(b)(i)*	—	—	4,272	—	4,272	—	4,272
Issue of ordinary shares under employee share scheme		98	7,877	(1,908)	—	6,067	—	6,067
Contribution of equity on establishment of a subsidiary by non-controlling interests	*1*	—	—	—	—	—	10,000	10,000
Transactions with non-controlling interests		—	—	6,963	—	6,963	(66,963)	(60,000)
Private placement of new shares		423	45,879	—	—	46,302	—	46,302
Dividends provided for or paid	*14(i)*	—	—	—	—	—	(18,000)	(18,000)
Total transactions with owners in their capacity as owners		521	53,756	9,327	—	63,604	(74,963)	(11,359)
Balance at 31 December 2017		8,632	601,993	594,066	505,247	1,709,938	144,027	1,853,965

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

		Attributable to the owners of the Company						
	Note	Share Capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling Interests	Total equity
Balance at 1 January 2018		8,632	601,993	594,066	505,247	1,709,938	144,027	1,853,965
Changes on initial application of HKFRS 9	*2.2*	–	–	–	(6,891)	(6,891)	(3,657)	(10,548)
Restated balance at 1 January 2018		8,632	601,993	594,066	498,356	1,703,047	140,370	1,843,417
Profit for the year		–	–	–	60,996	60,996	11,805	72,801
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	60,996	60,996	11,805	72,801
Transactions with owners in their capacity as owners								
Non-controlling interests on acquisition of subsidiary		–	–	–	–	–	1,106	1,106
Employee share option — value of employee services	*27(b)(i)*	–	–	2,200	–	2,200	–	2,200
Dividends provided for or paid	*14(i)*	–	–	–	(11,696)	(11,696)	(10,800)	(22,496)
Total transactions with owners in their capacity as owners		–	–	2,200	(11,696)	(9,496)	(9,694)	(19,190)
Balance at 31 December 2018		8,632	601,993	596,266	547,656	1,754,547	142,481	1,897,028

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Cash generated from operating activities	*31(a)*	**306,918**	326,289
Interest received from bank deposits		**6,905**	6,144
Interest paid		**(63,778)**	(68,969)
Income tax paid		**(17,794)**	(44,135)
Net cash inflow from operating activities		**232,251**	219,329
Cash flows from investing activities			
Payments for acquisition of a subsidiary, net of cash acquired	*18*	**(3,102)**	—
Payments for acquisition of an associate		**(1,500)**	—
Payment for financial assets at fair value through profit or loss		**(440)**	—
Proceeds from disposal of subsidiaries	*8*	**—**	8,150
Payments for property, plant and equipment		**(1,071)**	(1,534)
Payments for intangible asset	*19*	**(37,544)**	(333)
Net cash (outflow)/inflow from investing activities		**(43,657)**	6,283
Cash flows from financing activities			
Proceeds from borrowings		**1,093,218**	2,466,299
Repayments of borrowings		**(1,384,969)**	(2,608,905)
Dividends paid to owners of the Company		**(10,786)**	—
Dividends paid to non-controlling interests	*14(i)*	**(10,800)**	(18,000)
Proceeds from contribution of equity on establishment of a subsidiary by non-controlling interests		**—**	10,000
Proceeds from private placement of new shares		**—**	46,302
Proceeds from issuance of ordinary shares under employee share scheme		**—**	6,067
Transactions with non-controlling interests		**—**	(60,000)
Net cash outflow from financing activities		**(313,337)**	(158,237)
Net (decrease)/increase in cash and cash equivalents		**(124,743)**	67,375
Cash and cash equivalents at beginning of year		**257,917**	191,216
Effects of exchange rate changes on cash and cash equivalents		**562**	(674)
Cash and cash equivalents at end of year	*25*	**133,736**	257,917

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

1 GENERAL INFORMATION

China Huirong Financial Holdings Limited (中國匯融金融控股有限公司) (the "Company") was incorporated in the Cayman Islands on 11 November 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands.

The Company is an investment holding company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in lending services through granting collateral-backed loans, guaranteed loans and unsecured loans to customers in the People's Republic of China (the "PRC").

In preparation for the initial listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has undertaken a reorganization (the "Reorganization") to restructure Suzhou Wuzhong Pawnshop Co., Ltd. (蘇州市吳中典當有限責任公司) ("Wuzhong Pawnshop") as a subsidiary of the Company. Wuzhong Pawnshop was operated and ultimately controlled by Messrs Zhu Tianxiao (朱天曉), Zhang Xiangrong (張祥榮), Ge Jian (葛健), Chen Yannan (陳雁南), Wei Xingfa (魏興發), Yang Wuguan (楊伍官) and Zhuo You (卓有) (the "Ultimate Shareholders").

The Reorganization involved primarily the insertion of the Company and its other subsidiaries owned by the Ultimate Shareholders, who also owned Wuzhong Pawnshop, as holding companies of Wuzhong Pawnshop. Accordingly, the Reorganization is accounted for using the accounting principle which is similar to that of a reverse acquisition. Upon the restructuring, the financial statements of the Group have been prepared on a consolidated basis and are presented using the carrying value of the assets, liabilities and operating results of the companies comprising the Group including Wuzhong Pawnshop. The Company's shares were listed on the Stock Exchange on 28 October 2013.

On 1 July 2015, the Group acquired 40% of the equity interests in Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. (蘇州吳中區東山農村小額貸款有限公司) ("Dongshan Micro-finance") from Jiangsu Wuzhong Jiaye Investment Co., Ltd. (江蘇吳中嘉業投資有限公司) ("Wuzhong Jiaye") for a cash consideration of RMB126,414,800. Dongshan Micro-finance then became a subsidiary of the Group. On 20 December 2017, the Group further acquired 20% of the equity interests in Dongshan Micro-finance from Zhang Dexue, Sheng Chunquan and Suzhou Hongyuan Municipal Construction Engineering Co., Ltd. for a cash consideration of RMB60,000,000. After the acquisition, the Group owns 60% of the equity interests in Dongshan Micro-finance. Dongshan Micro-finance is mainly engaged in granting small amount loans and providing financial guarantee to customers in the PRC.

On 27 September 2017, Suzhou Huifang Jiada Information Technology Company Limited (蘇州匯方嘉達信息科技有限公司) ("Huifang Jiada") entered into a partnership with Suzhou Wuzhong Financial Merchants Service Company Limited (蘇州市吳中金融招商服務有限公司)("Wuzhong Jinfu") to set up Suzhou Huifang Rongtong Guided SME Turnover Loan Fund (Limited Partnership) (蘇州匯方融通中小微企業轉貸引導基金合夥企業(有限合夥)) ("Huifang Rongtong"). Huifang Jiada is the general partner with 80% partnership percentage of Huifang Rongtong. Huifang Rongtong provides guided short-term turnover loans to small and medium-size enterprises in Suzhou.

On 25 May 2018, the Group set up a 100% owned subsidiary, Suzhou Huifang Supply Chain Management Company Limited (蘇州市匯方供應鏈管理有限公司) ("Huifang Supply Chain"), to engage in supply chain management and services in the PRC.

On 4 June 2018, the Group acquired 7.5% of the equity interests in Shenzhen Zuanying Internet Co., Ltd. (深圳鑽盈互聯網有限公司)("Shenzhen Zuanying") for a cash consideration of RMB1.5 million and appointed a director. Investment in Shenzhen Zuanying is accounted for using the equity method of accounting.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

1 GENERAL INFORMATION (Continued)

On 19 June 2018, the Group acquired 78% of the equity interests in Suzhou Huifang Anda Insurance Agency Company Limited (蘇州匯方安達保險代理有限公司) ("Huifang Anda"), formally named as Nanjing Shun'an Insurance Agency Company Limited (南京舜安保險代理有限公司), from Chen Yin and Xu Shizeng for a cash consideration of RMB3,921,528. Huifang Anda then became a subsidiary of the Group. Huifang Anda is mainly engaged in insurance agency business in Jiangsu Province, PRC.

These consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated.

The Group meets its day-to-day working capital requirements through its bank and other financial institution facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank and other financial institution finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 30.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on 26 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of China Huirong Financial Holdings Limited and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- financial assets and liabilities at fair value through profit or loss ("FVPL") — measured at fair value.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting year commencing 1 January 2018:

- HKFRS 9 Financial Instruments("HKFRS 9")
- HKFRS 15 Revenue from Contracts with Customers("HKFRS 15")
- Annual Improvements 2014–2016 cycle
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group also elected to adopt the following amendments early.

- Annual Improvements to HKFRS Standards 2015–2017 Cycle.

The Group has changed its accounting policies and applied the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 were not restated. Most of the other amendments listed above did not have any significant impact on the amounts recognized in prior years and are not expected to significantly affect the current or future years.

(iv) New standards and interpretations relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018 by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting years and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB10.0 million, see Note 33. Of these commitments, none of them relate to short-term leases or low value leases which will both be recognized on a straight-line basis as expense in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iv) New standards and interpretations relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018 by the Group (Continued)

HKFRS 16 Leases (Continued)

Impact (Continued)

For the remaining lease commitments the Group expects to recognize right-of-use assets of approximately RMB19.1 million on 1 January 2019, lease liabilities of approximately RMB18.5 million (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018) and deferred income tax liabilities of approximately RMB94 thousand. Overall net assets will be approximately RMB0.5 million higher, and net current assets will be approximately RMB0.1 million higher due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately RMB0.1 million for 2019 as a result of adopting the new rules. Adjusted EBITDA is expected to increase by approximately RMB6.6 million, as the operating lease payments were included in EBITDA, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately RMB6.6 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting years and on foreseeable future transactions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies

Standards and amendments adopted by the Group at 1 January 2018

HKFRS 15	Revenue from contracts with customers
HKFRS 9	Financial instruments

(a) **HKFRS 15**

The HKICPA has issued a new standard for the recognition of revenue. This standard replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The Group has adopted HKFRS 15 on 1 January 2018 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognized in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group principally engaged in lending services through granting loans to customers. The Group also engaged in consultancy and insurance intermediary services. Consultancy and insurance fee income are recognized when services transfer to a customer. The adoption of HKFRS 15 on 1 January 2018 does not result in a significant impact on the Group's financial positions and performance.

(b) **HKFRS 9**

The Group has adopted HKFRS 9 with a transition date on 1 January 2018. HKFRS 9 addresses the classification and measurement of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments-Disclosures".

The Group applies the new rules retrospectively from 1 January 2018 without restating any comparative information as at 31 December 2017. Any adjustments to the carrying amounts of financial assets at the date of transition were recognized in the opening retained earnings of the current year. Consequently, the amendments to HKFRS 7 disclosures have only applied to the current year. The comparative year's notes disclosures repeat those disclosures made in the prior year.

Certain of the Group's accounting policies have been changed to comply with the adoption of HKFRS 9 such as recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The adoption of HKFRS 9 on 1 January 2018 does not result in any other significant impact on the Group's financial positions and performance except the following table which shows the adjustments for each individual line item.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 (Continued)

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets in accordance with HKAS 39 and HKFRS 9 at 1 January 2018 are compared as follows:

	HKAS 39 31 December 2017		HKFRS 9 1 January 2018	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets				
Cash at bank and cash on hand	Amortized cost (loans and receivables)	941,645	Amortized cost	941,472
Investment securities	FVPL (designated)	50,961	FVPL (mandatory)	50,961
Loans to customers	Amortized cost (loans and receivables)	1,945,652	Amortized cost	1,931,760
Interest receivable from bank deposits and other receivables	Amortized cost (loans and receivables)	13,209	Amortized cost	13,209

There were no changes to the classification and measurement of financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

(ii) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to Note 2.6 for more detailed information regarding the new classification requirements of HKFRS 9.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 (Continued)

(ii) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9 (Continued)

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with HKAS 39 to their new measurement categories upon transition to HKFRS 9 on 1 January 2018:

	Note	HKAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1 January 2018
Amortized Cost					
Cash at bank and cash on hand					
Opening balance under HKAS 39		941,645	–	–	–
Remeasurement: ECL allowances		–	–	(173)	–
Closing balance under HKFRS 9		–	–	–	941,472
Loans to customers					
Opening balance under HKAS 39		1,945,652	–	–	–
Remeasurement: ECL allowances		–	–	(13,892)	–
Closing balance under HKFRS 9		–	–	–	1,931,760
Interest receivable from bank deposits and other receivables					
Opening balance under HKAS 39 and closing balance under HKFRS 9		13,209	–	–	13,209
Total financial assets measured at amortized cost		2,900,506	–	(14,065)	2,886,441
FVPL					
FVPL (mandatory)					
Opening balance under HKAS 39		–	–	–	–
Addition: From FVPL (designated) (HKAS 39)	*(a)*	–	50,961	–	–
Closing balance under HKFRS 9		–	–	–	50,961
FVPL (designated)					
Opening balance under HKAS 39		50,961	–	–	–
Subtraction: To FVPL (mandatory) (HKFRS 9)	*(a)*	–	(50,961)	–	–
Closing balance under HKFRS 9		–	–	–	–
Total FVPL		50,961	–	–	50,961

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 (Continued)

(ii) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9 (Continued)

The total after tax remeasurement loss of RMB10.5 million was recognized in opening retained earnings at 1 January 2018.

The following explains how applying the new classification requirements of HKFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

(a) Investment in equity securities previously designated at fair value through profit or loss

The Group holds an investment of RMB51.0 million in equity securities which had previously been designated at fair value through profit or loss as the securities were in the stock lockup period. As part of the transition to HKFRS 9, this investment is equity instrument so required to be classified as FVPL (mandatory), instead of designated FVPL.

(iii) Reconciliation of loss allowances balance from HKAS 39 to HKFRS 9

The following table reconciles the prior year's closing impairment allowances measured in accordance with the HKAS 39 incurred loss model to the new ECL allowances measured in accordance with the HKFRS 9 expected loss model at 1 January 2018:

Measurement category	Loss allowances under HKAS 39 31 December 2017	Reclassification	Remeasurement	Loss allowances under HKFRS 9 1 January 2018
Loans and receivables (HKAS 39)/ Financial assets at amortized cost (HKFRS 9)				
Cash at bank and cash on hand	–	–	173	173
Loans to customers	209,241	–	13,892	223,133
Interest receivable from bank deposits and other receivables	953	–	–	953
Total	210,194	–	14,065	224,259

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 (Continued)

(iv) HKAS 39 applied to comparative year

Financial assets

(i) Classification

The Group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss, and
- loans and receivables.

The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its investments at initial recognition. The Group only held financial assets at fair value through profit or loss and loans and receivables.

a. *Financial assets at fair value through profit or loss:*

This category had two sub-categories: financial assets held for trading and those designated at fair value through profit or loss upon initial recognition.

The Group classified financial assets at fair value through profit or loss if they were acquired principally for the purpose of selling or in the short term, i.e. were held for trading. They were presented as current assets if they were expected to be sold within 12 months after the end of the reporting year; otherwise they were presented as non-current assets. The Group did not recognize any "Financial assets held for trading" in the consolidated statement of financial position as at 31 December 2017.

The Group designated certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to HKAS 39, the fair value option was only applied when the following conditions were met:

- the application on the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets were part of a portfolio of financial instruments which was risk managed and reported to senior management on a fair value basis; or
- the financial assets consisted of debt host and an embedded derivatives that must be separated.

The Group managed and reported the risk of equity investments to the senior management on a fair value basis. Thus, the Group designated such equity investments held at 31 December 2017 as at fair value through profit or loss.

Financial assets for which fair value option was applied were recognized in the consolidated statement of financial position as "Financial assets designated at fair value through profit or loss". Fair value changes relating to financial assets designated at fair value through profit or loss were recognized in "Net investment (losses)/gains".

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 (Continued)

(iv) HKAS 39 applied to comparative year (Continued)

Financial assets (Continued)

(i) Classification (Continued)

b. Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. If collection of the amounts was expected within one year or less, they were classified as current assets. If not, they were presented as non-current assets. The Group's loans and receivables mainly comprised "loans to customers" in the consolidated statement of financial position.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets at fair value through profit or loss were recognized on the trade-date, the date on which the Group committed to purchase or sell the asset.

Financial assets were derecognized when the rights to receive cash flows from the financial assets had expired or had been transferred and the Group had transferred substantially all the risks and rewards of ownership.

Substantial modifications to the contractual terms of a renewed loan would result in derecognition of the original loan and the recognition of a new loan on the revised terms.

(iii) Measurement

At initial recognition, the Group measured a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss were expensed in the consolidated statement of comprehensive income.

The fair values of quoted investments in active markets were based on current bid prices. If there was no active market for a financial asset, the Group established fair value by using valuation techniques. These included the use of recent arms-length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Loans and receivables were initially recognized at fair value, which was the cash given to originate the loans including any transaction costs, and measured subsequently at amortized cost using the effective interest method.

Financial assets at fair value through profit or loss were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognized in net investment (losses)/gains in the consolidated statement of comprehensive income.

Dividends on financial assets at fair value through profit or loss were recognized in the consolidated statement of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments was established.

Interest on loans and receivables calculated using the effective interest method was recognized in the consolidated statement of comprehensive income as part of revenue from continuing operations.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 (Continued)

(iv) HKAS 39 applied to comparative year (Continued)

Impairment of financial assets

The Group assessed at the end of each reporting year whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group used to determine whether there was objective evidence of an impairment loss included:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions:
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Filing of a lawsuit against the borrower.

The Group first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. If the Group determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment of impairment.

For loans and receivables category, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account and the amount of the loss was recognized in the consolidated statement of comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflected the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 (Continued)

(iv) HKAS 39 applied to comparative year (Continued)

Impairment of financial assets (Continued)

For the purposes of a collective evaluation of impairment, financial assets were grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers collateral type, past due status and other relevant factors). Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that were collectively evaluated for impairment were estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan was uncollectible, it is written off against the related allowances for loan impairment. Such loans were written off after all the necessary procedures had been completed and the amount of the loss had been determined.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss was reversed by adjusting the allowance account. The amount of the reversal was recognized in the consolidated statement of comprehensive income.

Financial liabilities

Financial liabilities were classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

The Group only assumed financial liabilities classified as "other financial liabilities" for the year ended 31 December 2017.

Other financial liabilities were recognized initially at fair value net of transaction costs incurred and were subsequently stated at amortized cost. Any difference between proceeds net of transaction costs and the redemption value was recognized in the consolidated statement of comprehensive income over the year of the other financial liabilities using the effective interest method.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 (Continued)

(iv) HKAS 39 applied to comparative year (Continued)

Financial liabilities (Continued)

The Group's other financial liabilities mainly comprise "borrowings" and "amount due to related parties" in the consolidated statement of financial position. Other financial liabilities were classified as current liabilities if payment is due within one year or less. If not, they were presented as non-current liabilities. Borrowings were classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including a Structured Entity ("SE")) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(i) Subsidiaries (Continued)

a. Subsidiary from Reorganization

The wholly owned subsidiary, Suzhou Huifang Tongda Information Technology Company Limited (蘇州匯方同達信息科技有限公司), previously named as Suzhou Huifang Tongda Management Consulting Company Limited (蘇州匯方同達管理諮詢有限公司) (collectively "Huifang Tongda"), has entered a series of Contractual Agreements with Wuzhong Pawnshop, Wuzhong Pawnshop's direct owners namely Wuzhong Jiaye and Suzhou New District Hengyue Management Consulting Co., Ltd. (蘇州新區恒悦管理諮詢有限公司) ("Hengyue Consulting"), and their respective owners, which enables the Group to:

- exercise effective control over Wuzhong Pawnshop;
- exercise owners' voting rights of Wuzhong Jiaye and Hengyue Consulting during the general meetings of Wuzhong Pawnshop;
- receive a majority of the economic benefits of Wuzhong Pawnshop through service fees in consideration for the management and consulting services provided by Huifang Tongda;
- receive the residual economic benefits of Wuzhong Pawnshop by exercising an exclusive option to purchase the entire equity interest in Wuzhong Pawnshop when and to the extent permitted under PRC laws; and
- obtain a pledge over the entire equity interest of Wuzhong Jiaye and Hengyue from their respective owners.

The Group does not have any equity interest in Wuzhong Pawnshop. However, as a result of the Contractual Agreements, the Group controls Wuzhong Pawnshop and is considered to be the primary beneficiary of the results, assets and liabilities of Wuzhong Pawnshop. Consequently, the Company treats Wuzhong Pawnshop as an indirect subsidiary under HKFRS. The Group has included the financial position and results of Wuzhong Pawnshop in the consolidated financial statements.

b. Subsidiaries other than from Reorganization

Except for the Reorganization as described in Note 2.3(a), the Group applies the acquisition method to account for business combinations (Note 2.4).

(ii) Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognized at cost.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(iii) Equity method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.13.

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in other reserve within equity attributable to owners of the Group.

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations (Continued)

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets and liabilities

The Group has adopted HKFRS 9 on 1 January 2018 to measure and account for financial instruments.

Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any ECL allowances) or to the amortized cost of a financial liability. The calculation does not consider ECLs and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets — assets that are credit-impaired at initial recognition — the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECLs in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.

(b) Financial assets that are not "POCI" but have subsequently become credit-impaired (or "stage 3"), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the ECL allowances).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets and liabilities (Continued)

Measurement methods (Continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets and liabilities (Continued)

2.6.1 Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, the Group has applied HKFRS 9 and classifies its financial assets in the following measurement categories:

- Amortized cost (AC);
- Fair value through profit or loss (FVPL); and
- Fair value through other comprehensive income (FVOCI).

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans to customers, term deposits with banks and other current assets (excluding repossessed assets).

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- *AC:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL allowances recognized and measured as described in Note 4.1(a)(ii). Interest income from these financial assets is included in "interest income" using the effective interest rate method.

- *FVOCI:* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets and liabilities (Continued)

2.6.1 Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

- *FVPL:* Assets that do not meet the criteria for amortized cost or financial assets at FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the consolidated statement of comprehensive income within "net investment (losses)/gains" in the period in which it arises.

For the year ended 31 December 2018, the Group only holds debt instruments measured at amortized cost.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting year following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity instruments at FVOCI when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payment is established.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets and liabilities (Continued)

2.6.1 Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Equity instruments (Continued)

Gains and losses on equity investments at FVPL are included in the "Net investment (losses)/gains" line in the consolidated statement of comprehensive income.

For the year ended 31 December 2018, the Group only holds equity instruments measured at fair value through profit or loss.

(ii) Impairment

The Group assesses on a forward-looking basis the ECL allowances associated with its debt instrument assets carried at amortized cost and with the exposure arising from term deposits with banks and other financial assets. The Group recognizes an ECL allowance for such losses at each reporting date. The measurement of ECL allowances reflects:

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

Note 4.1(a)(ii) provides more detail of how the ECL allowances are measured.

(iii) Derecognition other than modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Group retains a subordinated residual interest.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets and liabilities (Continued)

2.6.1 Financial assets (Continued)

(iii) Derecognition other than modification (Continued)

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognize the transferred asset to the extent of its continuing involvement and recognize the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortized cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortized cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

2.6.2 Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior year, financial liabilities are classified as subsequently measured at amortized cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss; and

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent years, the Group recognizes any expense incurred on the financial liability.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets and liabilities (Continued)

2.6.2 Financial liabilities (Continued)

(ii) Derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

(iii) Interest expenses

Interest expenses are calculated by applying the effective interest rate to the gross carrying amount of financial liabilities and are expensed in the year in which they are incurred.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.8 Repossessed collateral assets

Repossessed collateral assets are accounted for as “repossessed assets” and reported under “other current assets” upon derecognition of relevant loans. The repossessed collateral assets are measured at lower of carrying amount and fair value less costs to sell. Repossessed collateral assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting year. When the fair value, less costs to sell, is lower than a repossessed collateral asset’s carrying amount, an impairment loss is recognized in the consolidated statement of comprehensive income.

Any gain or loss arising on the disposal of the repossessed collateral asset is included in the consolidated statement of comprehensive income in the period during which the item is disposed.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of the Group has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, coincides with the Group's Board of Directors.

2.10 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the consolidated statement of comprehensive income. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in consolidated statement of comprehensive income on a net basis within other gains/(losses), net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as FVOCI are recognized in other comprehensive income.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

2.11 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Leasehold improvements	3–5 years
Vehicles	5 years
Furniture and equipment	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Property, plant and equipment (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

2.12 Intangible assets

(a) Computer Software

Intangible assets comprise Computer software, which is initially recognized at cost. The cost less estimated residual values (if any) of Computer software is amortized on a straight-line basis over its useful lives, and charged to the consolidated statement of comprehensive income. Impaired Computer software is amortized net of accumulated impairment losses.

(b) License

Licenses acquired in a business combination is recognized at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortization and impairment losses.

(c) Land usage right

Land usage right is initially recognized at cost. The cost less estimated residual values (if any) of land usage right is amortized on a straight-line basis over its useful lives, and charged to the consolidated statement of comprehensive income. Impaired land usage right is amortized net of accumulated impairment losses.

(d) Amortization methods and periods

The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

Computer software	10 years
Licenses	5 years
Land usage right	40 years

2.13 Impairment of non-financial assets

Non-financial assets that have a definite useful life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Share capital

Ordinary shares are classified as equity (Note 26).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting year but not distributed at the end of the reporting year.

2.17 Current and deferred income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting year and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Current and deferred income tax (Continued)

Deferred income tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.18 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including accumulating sick leave that are expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting year and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as accrued employee benefits in the consolidated statement of financial position.

(ii) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made.

Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves the Group.

(iii) Other social security obligations

The PRC employees of the Group are entitled to participate in various government-sponsored social security funds, including medical, housing and other welfare benefits. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries and the contributions are recognized in the consolidated statement of comprehensive income for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contributions payable in the reporting year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Share-based payments

Employee Options

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions(e.g. the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting year, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

2.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 33(a)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.22 Revenue recognition

(i) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, see Note 2.6.

(ii) Consultancy and insurance intermediary fee income

The Group provides consultancy and insurance agency services to its clients. Revenue from providing such services is recognized in the accounting period in which the services are rendered. The consultancy services include multiple performance obligations and the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Where the performance obligations are not directly observable, they are estimated based on expected cost plus margin.

2.23 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company

by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.24 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to an entity within the Group with no future related costs are recognized as income of the period in which they become receivable.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

3.1 Critical accounting estimates

(a) Measurement of ECL allowances

The measurement of the ECL allowances for financial assets measured at amortized cost is an area that requires the use of ECL models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL allowances is further detailed in Note 4.1, which also sets out key sensitivities of the ECL allowances to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL allowances, such as:

- determination of relevant key models and parameters;
- criteria for determining whether or not there was a significant increase in credit risk ("SICR") and definition of default or credit impairment;
- estimated future cash flows for loans to customers in stage 3;
- economic variables for forward-looking measurement, and the application of economic scenarios and relative weightings.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 4.1(a)(ii).

(b) Impairment allowances on loans to customers applied to comparative year

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

3.1 Critical accounting estimates (Continued)

(c) Income taxes

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

3.2 Critical accounting judgements

Contractual Agreements

Under the relevant rules and regulations prevailing in the PRC, wholly foreign-owned enterprises are not allowed to operate pawn-loan business in China. The current registered owners of Wuzhong Pawnshop are Wuzhong Jiaye and Hengyue Consulting. As described in Note 2.3(i) above, the Group's wholly owned subsidiary Huifang Tongda entered into a series of Contractual Agreements with Wuzhong Pawnshop, Wuzhong Jiaye, Hengyue Consulting and the owners of Wuzhong Jiaye and Hengyue Consulting. Such Contractual Agreements include: (i) a proxy agreement where Wuzhong Jiaye and Hengyue Consulting have irrevocably and unconditionally undertaken to authorize Huifang Tongda to exercise their shareholders' rights under the articles of association of the Wuzhong Pawnshop and applicable PRC laws and regulations; (ii) an exclusive management and consultation service agreement pursuant to which Wuzhong Pawnshop engaged Huifang Tongda on an exclusive basis to provide consultation and other ancillary services, and in return Wuzhong Pawnshop agreed to pay Huifang Tongda the consultancy service fee; (iii) exclusive call option agreement pursuant to which Wuzhong Jiaye and Hengyue Consulting irrevocably and unconditionally granted Huifang Tongda an option to acquire the entire equity interest held by Wuzhong Jiaye and Hengyue Consulting in the Wuzhong Pawnshop and/or all assets of the Wuzhong Pawnshop at a price equivalent to the minimum amount as may be permitted by applicable PRC laws and regulations; and (iv) equity pledge agreement pursuant to which the Ultimate Shareholders granted first priority security interests over their respective equity interests in Wuzhong Jiaye and Hengyue Consulting to Huifang Tongda for guaranteeing the performance of the above the proxy agreement, exclusive management and consultation service agreement, and the exclusive call option agreement. Pursuant to these agreements and undertakings, notwithstanding the fact that the Group does not hold direct equity interest in Wuzhong Pawnshop, management considers that the Group has power over the financial and operating policies of Wuzhong Pawnshop and receive a majority of the economic benefits from its business activities. Accordingly, Wuzhong Pawnshop has been treated as an indirect subsidiary of the Company.

4 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Managing risks is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

The Group's risk management is carried out by a Central Risk Management Department under policies approved by the Board of Directors. Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as credit risk, market risk and liquidity risk.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. The Group regularly reviews its risk management policies and procedures to reflect changes in markets and products.

The most important types of financial risk are credit risk, market risk and liquidity risk. Market risk primarily includes interest rate risk, foreign exchange risk and security price risk.

4.1 Financial risk factors

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge on obligation. Significant changes in the economy, or those in credit quality of a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from loans to customers in the Group's asset portfolio, but can also from interest receivable from bank deposits and other receivables.

(i) Credit risk measurement of loans to customers

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). Refer to Note 4.1(a)(ii) for more details.

(ii) ECL allowances measurement

In accordance with HKFRS 9, the Group constructed a "three-stage" ECL model to measure ECL allowances based on changes in credit quality since initial recognition of a loan:

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group.

- Stage 2: If a SICR since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. Please refer to Note 4.1(a)(ii)(a) for a description of how the Group determines when a SICR has occurred.

- Stage 3: If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3". Please refer to Note 4.1(a)(ii)(b) for a description of how the Group defines credit-impaired and default.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

Financial instruments in Stage 1 have their ECL allowances measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL allowances measured based on ECLs on a lifetime basis. Please refer to Note 4.1(a)(ii)(c) for a description of inputs, assumptions and estimation techniques used in measuring the ECL allowances. A pervasive concept in measuring ECL allowances in accordance with HKFRS 9 is that it should consider forward-looking information. Note 4.1(a)(ii)(d) includes an explanation of how the Group has incorporated this in its ECL models.

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

a. SICR

The Group's loans to customers all have maturities from 6 to 12 months. The Group manages the credit risk of its loan portfolio mainly by monitoring the over-due status of borrowers. The Group considers a loan to have experienced a SICR when it meets one or more of the following quantitative and qualitative criteria:

Quantitative criteria:

- The borrower is past due on its contractual payments for more than 30 days but no more than 90 (included) days.

Qualitative criteria:

- Default in other financial institutions; and

- Under-going law sue.

The assessment of SICR incorporates forward-looking information (refer to Note 4.1(a)(ii)(d) for further information) and is performed on a half-year basis by the Group. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Central Risk Management Department.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

b. Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impairment, when it meets one or more of the following criteria:

Quantitative criteria:

- The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria:

- The debtor is likely to go bankrupt or carry out other financial restructuring.
- The Group has made concessions to the debtor in financial difficulty for economic or legal reasons.

The criteria above have been applied to all financial instruments of the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, LGD and EAD throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

c. Measuring ECL allowances — Model inputs, assumptions and estimation techniques

The ECL allowance is measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Group's loans to customers all have maturities from 6 to 12 months. Thus the Group measures ECL allowances for loans to customers over their lifetime basis. ECL allowances are the discounted product of the PD, LGD, and EAD, defines as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above).
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).
- EAD is based on the amounts the Group expects to be owed at the time of default.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

c. Measuring ECL allowances — Model inputs, assumptions and estimation techniques (Continued)

The ECL allowance is determined by projecting the PD, LGD and EAD for every six months and for each individual exposure or collective segment. These three components are multiplied together and adjusts their duration(if there is no early repayment or default). This effectively calculates an ECL allowance for every six months, which is then discounted back to the reporting date and summed. The discount rate used in the ECL allowance calculation is the original effective interest rate.

For loans to customers in stage 1, the Group first calculates the annual 12-month PD and then transfer it to monthly PD. For loans to customers in stage 2 and 3, the Lifetime PDs are developed by monitoring how defaults develop in a portfolio from the point of time when a loan experienced SICR to its lifetime. The lifetime PDs are based on historical observed data taking into consideration forward-looking factors and are assumed to be the same across all loans to customers within a portfolio. This is supported by historical analysis.

The lifetime LGDs are determined based on the factors that affect the recoverable amounts post default. These vary by product type.

- For secured loans to customers, this is primarily base on the projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured loans to customers, the Group will preserve the borrower's personal assets, such as commercial properties to mitigate the credit risk. Thus the LGDs are determined based on the factors similar to secured loans to customers.

Forward-looking economic information is also included in determining the 12-month and lifetime PDs and LGDs. These assumptions vary by product type. Refer to Note 4.1(a)(ii)(d) for an explanation of forward-looking information and its inclusion in ECL allowance calculations.

For loans to customers classified into stages 1 and 2, the management assessed ECL allowances using the risk parameter modelling approach that incorporates key parameters, including PD, LGD and EAD. For impaired loans to customers in stage 3, the management assesses ECL allowances by estimating the cash flows from the loans taking into consideration of forward-looking factors.

The assumptions underlying the ECL allowance calculation — such as how the maturity profile of the PDs and how collateral values change etc. — are monitored and reviewed on a half-year basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
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4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

d. Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL allowances both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables affect credit risk and ECLs for each portfolio.

Based on analysis and assessment, the Group selected a series of economic variables (including Urban Per Capita Disposable Income, National Housing Sensitive index and Business Climate Index, etc.) to establish statistical relationship between such economic variables and PDs, LGDs. A forward-looking result on PDs and LGDs was calculated based on forecasts of these economic variables.

The following table illustrates how economic variables apply to different portfolios.

	PDs	LGDs
Secured loans to customers	Urban Per Capita Disposable Income	National Housing Sensitive index
Unsecured loans to customers	Urban Per Capita Disposable Income	Business Climate Index

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

Economic variable assumptions

The most significant year-end assumptions used for the ECL allowances estimate as at 31 December 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		2019
Urban Per Capita Disposable Income	Base	7.17
	Upside	7.32
	Downside	7.03
National Housing Sensitive index	Base	96.13
	Upside	96.64
	Downside	95.63
Business Climate Index	Base	113.13
	Upside	114.46
	Downside	111.81

Notes to the Consolidated Financial Statements (Continued)

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4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

d. Forward-looking information incorporated in the ECL models (Continued)

Economic variable assumptions (Continued)

The weightings assigned to each economic scenario at 31 December 2018 and 1 January 2018 were as follows:

	Base	Upside	Downside
All portfolios	80%	10%	10%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL allowances for such factors. This is reviewed and monitored for appropriateness on a half-year basis.

The most significant assumptions affecting the ECL allowances are as follows:

(i) Urban Per Capita Disposable Income, given its impact on secured and unsecured borrowers' ability to meet their contractual payments;

(ii) National Housing Sensitive index, given the significant impact it has on property collateral loans; and

(iii) Business Climate index, given the significant impact on non-collateral borrowers' performance.

Sensitivity analysis

Set out below are the changes to the ECL allowances as at 31 December 2018 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

		Urban Per Capita Disposable Income		
Secured loans to customers		**–1%**	**No change**	**+1%**
National Housing Sensitive index	+1%	–0.26%	–0.30%	–0.33%
	No change	0.04%	—	–0.08%
	–1%	0.33%	0.29%	0.27%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
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4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

d. Forward-looking information incorporated in the ECL models (Continued)

Sensitivity analysis (Continued)

Unsecured loans to customers		Urban Per Capita Disposable Income –1%	No change	+1%
Business Climate index	+1%	–0.17%	–0.31%	–0.44%
	No change	0.14%	—	–0.06%
	–1%	0.63%	0.48%	0.42%

As at 31 December 2018, weighted average ECL allowances for loans to customers under the three economic scenarios (upside, base and downside) will increase by less than 5% compared to ECL allowances for loans to customers under the base economic scenario.

If the weighting assigned to the upside economic scenario increases by 10% and the weighting assigned to base economic scenario decreases by 10%, the ECL allowances for loans to customers will decrease by less than 5%. If the weighting assigned to downside economic scenario increases by 10% and the weighting assigned to base economic scenario decreases by 10%, the ECL allowances for loans to customers will increase by less than 5%.

The Group made a sensitivity analysis on the ECL allowances, assuming all loans to customers past due on their contractual payments for no more than 30 (included) days that are originally categorized in Stage 1 have experienced a SICR and are categorized in Stage 2. The table below shows the change in ECL allowances recognized in the consolidated statement of financial position:

Loans to customers	As at 31 December 2018
ECL allowances assuming loans to customers past due for no more than 30 (included) days move down to stage 2	334,302
ECL allowances assuming loans to customers past due for no more than 30 (included) days included in stage 1	331,601
Difference amount	2,701
Difference percentage	0.81%

Notes to the Consolidated Financial Statements (Continued)

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4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(iii) Credit risk exposure

a. Maximum exposure to credit risk — Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	As at 31 December				
	2018				2017
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans to customers					
Secured loans to customers (a)	425,994	9,537	841,624	1,277,155	1,211,087
Unsecured loans to customers (b)	596,490	—	196,239	792,729	943,806
Gross carrying amount	1,022,484	9,537	1,037,863	2,069,884	2,154,893
Loss allowances	(32,328)	(1,669)	(297,604)	(331,601)	(209,241)
Carrying amount	990,156	7,868	740,259	1,738,283	1,945,652
Term deposits with banks					
Credit grade					
AAA	663,439	—	—	663,439	513,290
AA+	—	—	—	—	170,438
A	953	—	—	953	—
Gross carrying amount	664,392	—	—	664,392	683,728
Loss allowances	(164)	—	—	(164)	—
Carrying amount	664,228	—	—	664,228	683,728
Other current assets (excluding repossessed assets)					
Gross carrying amount	101,455	—	—	101,455	14,162
Loss allowances	(2,352)	—	—	(2,352)	(953)
Carrying amount	99,103	—	—	99,103	13,209

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
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4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(iii) Credit risk exposure (Continued)

a. Maximum exposure to credit risk — Financial instruments subject to impairment (Continued)

(a) Secured loans to customers comprise real estate backed loans and personal property backed loans.

(b) Unsecured loans to customers comprise equity interest backed loans, guaranteed loans and unsecured loans.

Information on how the ECL allowances are measured and how the three stages above are determined is included in Note 4.1(a)(ii) "ECL allowances measurement".

(iv) Concentration of risks of financial assets with credit risk exposure

The Group maintains a diversified client base. Loans receivable from the top five customers accounted for 30.4% of the total loans to customers as at 31 December 2018 (31 December 2017: 28.2%). Interest income from the top five customers accounted for 24.4% of total interest income for the year ended 31 December 2018 (2017: 19.9%).

(v) Collateral and other credit enhancement

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for loans granted. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans to customers are:

- Real estate, including residential, commercial and industrial properties;
- Equity instruments, mainly equity interest in unlisted companies which are typically related to the borrowers; and
- Personal properties, including but not limited to inventory, vehicles, luxury bags, watches, precious metal and jewellery.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting year and there has been no significant change in the overall quality of the collateral held by the Group since the prior year.

The Group also focuses on ascertaining legal ownership and the valuation of the real estate collaterals. A loan granted is based on the value of the collaterals, which is generally lower than the estimated value of the real estate collaterals. The Group monitors the value of the real estate collaterals throughout the loan period.

Notes to the Consolidated Financial Statements (Continued)

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4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(v) Collateral and other credit enhancement (Continued)

Further to collateral held as security for loans, the Group introduces other credit enhancement measures for equity interest backed loans, primarily third party guarantee against the security of loan repayment, taking into consideration the borrower's repayment ability, repayment records, collateral status, business performance, leverage ratio, industry outlook and market competition, etc.

For guaranteed loans, the Group takes into consideration the third party guarantor's repayment ability, financial performance, leverage ratio and business performance, etc.

In addition to collateral-backed loans and guaranteed loans, the Group also grants unsecured loans to customers. The Group evaluates the credit status of individual customers, including the customers' business performance, financial information, repayment ability, as well as industrial outlook in which the customers operate.

Dongshan Micro-finance, a subsidiary of the Company, provides financial guarantee services to customers. Dongshan Micro-finance takes into consideration the borrower's repayment ability, repayment records, collateral status, business performance, leverage ratio, industry outlook and market competition, etc. Dongshan Micro-finance also requires a credit re-guarantee company to provide re-guarantee on the guarantee issued.

a. Fair Value of collateral of credit-impaired loans

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

As at 31 December 2018, the gross amount of real estate backed loans that are credit-impaired and the fair value of collateral held in order to mitigate potential credit losses are shown below:

	Real estate backed loans
31 December 2018	
Gross exposure	841,624
Less: ECL allowances	(156,899)
Carrying amount	684,725
Fair Value of collateral held	1,287,455

Notes to the Consolidated Financial Statements (Continued)

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4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(vi) Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was RMB2.7 million. The Group still seeks to recover amounts it is legally owned in full, but which have been partially written off due to no reasonable expectation of full recovery.

(b) Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, foreign currency and equity investments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's exposure to market risk is primarily attributable to interest rate risk arising from loans to customers, bank balances and borrowings. The Group has established policies and procedures for monitoring and managing market risk.

(i) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The most significant interest-bearing assets and liabilities are loans to customers and borrowings, which both bear fixed interest rates to generate cash flows independent from market interest rates. Contractual interest rate re-pricing is matched with maturity date of each loan granted to customer, or maturity date of borrowings. As at respective balance sheet dates, maturity dates of loans to customers are all within 12 months, whilst maturity dates of borrowings are within 12 months. The Group regularly calculates the impact on profit or loss of a possible interest rate shift on its portfolio of loans to customers, borrowings and interest bearing bank deposits.

Based on the simulations performed and with other variables held constant, should the benchmark interest rate had been 100 basis points higher/lower, the profit before income tax would have been decreased/increased by approximately RMB1.3 million for the year ended 31 December 2018 (2017: RMB2.4 million), mainly as a result of higher/lower interest income on term deposits with banks and interest expense on fixed-rate borrowings arising from interest rate repricing.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
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4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

Interest rates on interest-bearing financial assets, mainly loans to customers, are not primarily affected by the changes in the benchmark rate in the market. Instead, they are much more influenced by demand and supply as well as bilateral negotiation, which makes a quantitative sensitivity analysis based on the benchmark rate unrepresentative.

(ii) Foreign exchange risk

The Group operates principally in the PRC. The majority of recognized assets and liabilities are denominated in RMB and the majority of transactions are settled in RMB. The Group does not hold or issue any derivative financial instruments to manage its exposure to foreign currency risk.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting year, expressed in RMB thousand, is as follows:

	As at 31 December			
	2018		2017	
	USD	**HKD**	USD	HKD
Cash at bank and cash on hand	**587,273**	**9,833**	633,797	51,113
Loans to customers	**17,230**	**19,322**	—	—
	604,503	**29,155**	633,797	51,113

During the year, the following foreign-exchange related amounts were recognized in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2018	2017
Exchange gains/(losses)	**34,397**	(39,633)

As at 31 December 2018, other than deposits with banks denominated in US dollar and Hong Kong dollar totaling RMB597.1 million (2017: RMB684.9 million)(Note 25) and loans to customers denominated in US dollar and Hong Kong dollar totaling RMB36.6 million (2017: Nil), the Group did not have significant assets or liabilities that were denominated in currencies other than RMB. Should US dollar and Hong Kong dollar had weakened/strengthened by 1% against RMB with all other variables held constant, the profit before income tax would have been RMB6.3 million (2017: RMB6.8 million) lower/higher for the year ended 31 December 2018, mainly as a result of foreign exchange losses/gains on translation of US dollar and Hong Kong dollar denominated balances.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) Market risk (Continued)

(iii) Price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position as at fair value through profit or loss (Note 24).

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's equity investment are publicly traded. If the stock price increase/decrease by 5%, the profit before income tax would have been RMB1.6 million (2017: RMB2.5 million) higher/lower for the year ended 31 December 2018.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of cash requirements from contractual commitments. Such outflows would deplete available cash resources for customer lending. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets.

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

(i) Financing arrangements

The Group has no undrawn borrowing facilities as at 31 December 2018 (31 December 2017: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(ii) Maturities of financial assets and liabilities

The table below analyzes the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis.

	Repayable on demand or within 1 month	1–6 months	6–12 months	Past due	Total
As at 31 December 2017					
Cash at bank and cash on hand	617,857	219,231	116,281	—	953,369
Financial assets at fair value through profit or loss	26,266	—	24,695	—	50,961
Loans to customers	104,183	645,581	317,342	929,827	1,996,933
Total financial assets	748,306	864,812	458,318	929,827	3,001,263
Borrowings	(164,723)	(844,406)	(154,912)	—	(1,164,041)
Amounts due to related parties	(633)	—	—	—	(633)
Other financial liabilities	(2,450)	—	—	—	(2,450)
Total financial liabilities	(167,806)	(844,406)	(154,912)	—	(1,167,124)
Net liquidity gap	580,500	20,406	303,406	929,827	1,834,139
As at 31 December 2018					
Cash at bank and cash on hand	**458,585**	**191,828**	**166,844**	**—**	**817,257**
Financial assets at fair value through profit or loss	**27,765**	**4,002**	**—**	**—**	**31,767**
Loans to customers	**115,662**	**663,469**	**251,207**	**758,713**	**1,789,051**
Total financial assets	**602,012**	**859,299**	**418,051**	**758,713**	**2,638,075**
Borrowings	**(275,023)**	**(423,527)**	**(166,795)**	**—**	**(865,345)**
Amounts due to related parties	**(633)**	**—**	**—**	**—**	**(633)**
Other financial liabilities	**(3,344)**	**—**	**—**	**—**	**(3,344)**
Total financial liabilities	**(279,000)**	**(423,527)**	**(166,795)**	**—**	**(869,322)**
Net liquidity gap	**323,012**	**435,772**	**251,256**	**758,713**	**1,768,753**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.2 Fair value of financial assets and liabilities

The Group's financial assets and liabilities are categorized as "loans to customers", "financial assets at fair value through profit or loss", "interests receivable from bank deposits", "other receivables", "borrowings", "amounts due to related parties" and "other financial liabilities" respectively.

"Loans to customers", "interests receivable from bank deposits", "other receivables", "borrowings", "amounts due to related parties" and "other financial liabilities" are stated at amortized cost. As these financial assets and liabilities mature within one year, the carrying amounts approximate to their fair value at each balance sheet date.

Financial assets at fair value through profit or loss are equity investments held by the Group as at 31 December 2018 (2017: same).

(a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Financial assets designated at fair value through profit or loss				
— Equity Investments	—	50,961	—	50,961

	Level 1	**Level 2**	**Level 3**	**Total**
As at 31 December 2018				
Financial assets at fair value through profit or loss				
— Equity Investments	**—**	**31,767**	**—**	**31,767**

There were neither transfers between Levels 1 and 2 nor transfer between Levels 2 and 3 during the year.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.2 Fair value of financial assets and liabilities (Continued)

(a) Fair value hierarchy (Continued)

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2018.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the end of the reporting year. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(b) Valuation techniques used to determine fair value

The fair value of Level 2 equity instruments is based on the quoted market price considering the liquidity discount rate for the stock lockup period as at 31 December 2018 and 31 December 2017.

(c) Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's reporting years.

4.3 Capital risk management

(a) Risk management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and

- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The liquid capital is monitored regularly by the Finance Department. The Group monitors capital risk on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowing net of cash and cash equivalent. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position plus net debt.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.3 Capital risk management (Continued)

(a) Risk management (Continued)

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain a gearing ratio below 50% and to meet the compliance requirements of Wuzhong Pawnshop on aggregate amount of loans to customers at all times. The gearing ratio as at 31 December 2018 and 31 December 2017 were as follows:

	As at 31 December	
	2018	2017
Borrowings *(Note 30)*	**850,076**	1,150,968
Less: Cash and cash equivalents *(Note 25)*	**(133,736)**	(257,917)
Net debt	**716,340**	893,051
Total equity	**1,897,028**	1,853,965
Total capital	**2,613,368**	2,747,016
Gearing ratio	**27%**	33%

(i) Loan covenants

Under the terms of the borrowing facility of Huifang Tongda, it is required to comply with the following financial covenants:

- the total amount of guarantee for third party liabilities must not be more than 4 times the net assets of Huifang Tongda.

Huifang Tongda has complied with the covenants for the year ended 31 December 2018 (2017: Nil).

The Group has no other financial covenants under the terms of the rest borrowing facilities for the year ended 31 December 2018 (2017: Same).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

5 SEGMENT INFORMATION

The Company's Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

The Board of Directors considers the business from both a geographic and product perspective. Geographically, the Group only provides lending services in the PRC and Hong Kong SAR. From a product perspective, the Group principally engaged in lending services through granting collateral-backed loans, guaranteed loans and unsecured loans to customers.

The Group managed its business under one operating and reportable segment in accordance with the definition of a reportable segment under HKFRS 8 for the years ended 31 December 2018 and 2017.

6 INTEREST INCOME

	Year ended 31 December	
	2018	2017
Interest income from loans to customers		
Secured loans to customers	**173,939**	109,289
Unsecured loans to customers	**114,008**	150,005
Interest income from bank deposits	**17,247**	13,059
	305,194	272,353

7 INTEREST EXPENSE

	Year ended 31 December	
	2018	2017
Interest expense on bank borrowings	**44,994**	44,631
Interest expense on micro-finance company borrowings	**5,844**	3,786
Other interest expenses	**3,799**	25,820
	54,637	74,237

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

8 NET INVESTMENT (LOSSES)/GAINS

	Year ended 31 December	
	2018	2017
Fair value losses — listed equity securities *(Note 24)*	**(19,634)**	(15,486)
Cash dividend of listed equity securities	**953**	429
Net gains from disposal of unlisted equity securities	**—**	9,406
Net gains from disposal of subsidiaries	**—**	8,150
	(18,681)	2,499

9 EXPECTED CREDIT LOSSES/IMPAIRMENT LOSSES

	Year ended 31 December	
	2018	2017
Expected credit losses/impairment losses on loans to customers *(Note 23(b))*	**105,901**	8,976
Expected credit losses/impairment losses on other current assets *(Note 22)*	**1,399**	1,166
Expected credit losses/impairment losses on term deposit with banks *(Note 25)*	**(8)**	—
	107,292	10,142

10 OTHER OPERATING INCOME

	Year ended 31 December	
	2018	2017
Consultancy fee income (a)	**21,059**	5,275
Net gains from disposal of repossessed assets	**452**	1,051
Insurance intermediary fee (b)	**379**	—
Others	**335**	87
	22,225	6,413

(a) In February 2015, the Group established Suzhou Qian Dai, an internet finance platform providing service to borrowers as an intermedia agent between the borrowers and lenders, which charges the borrowers with a consultancy fee. The Group charged fixed consultancy fees at rates ranging from 1.5% to 13.6% per annum to the borrowers for the year ended 31 December 2018 (2017: from 1.5% to 8.0%).

(b) Huifang Anda charged insurance intermediary fee for insurance agency service from insurance companies at a rate ranging from 10% to 55% based on amounts insured (2017: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

11 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2018	2017
Employee benefit expenses *(Note 12)*	**40,608**	36,980
Operating lease payments	**6,009**	5,041
Professional and consultancy fees	**5,808**	4,205
Transportation, meal and accommodation	**4,363**	3,462
Telephone, utilities and office expenses	**3,276**	2,283
Auditors' remuneration	**2,900**	2,400
Depreciation and amortization	**2,835**	981
Advertising costs	**2,724**	5,470
Value-added tax surcharges	**2,720**	1,577
Commission fee	**288**	1,111
Other expenses	**2,190**	3,412
	73,721	66,922

12 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
Wages and salaries	**14,462**	14,321
Discretionary bonuses	**17,024**	12,307
Pension	**1,990**	1,677
Other social security obligations	**4,932**	4,403
Share-based payments *(Note 27(b))*	**2,200**	4,272
	40,608	36,980

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

12 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three executive directors for the year ended 31 December 2018 (2017: same), whose emoluments are reflected in the analysis presented in Note 37. The emoluments payable to the remaining two individuals (2017: same) for the year ended 31 December 2018 are as follows:

	Year ended 31 December	
	2018	2017
Basic salaries	**535**	725
Discretionary bonuses	**1,007**	1,115
Pension	**70**	31
Other social security obligations	**141**	73
Share-based payment	**161**	336
	1,914	2,280

The emoluments to the remaining two individuals fell within the following bands:

	Number of individuals Year ended 31 December	
	2018	2017
Emoluments band		
Nil–HK$1,000,000	**1**	—
HK$1,000,001–HK$1,500,000	**1**	1
HK$1,500,001–HK$2,000,000	**—**	1

For the years ended 31 December 2018 and 2017, no directors or any of the five highest paid individuals received any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

13 OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2018	2017
Net foreign currency gains/(losses)	**34,397**	(39,633)
Government grants	**3,299**	3,150
Others	**69**	101
	37,765	(36,382)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

14 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2018. Unless otherwise stated, the proportion of ownership interests held equals the voting rights held by the Group. The country/place of incorporation is also their principle place of business.

Name of subsidiary	Country/ place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of Issued and fully paid share capital/ registered capital	Interest directly held	Interest indirectly held	Principal activities
Sifang Investment Limited	BVI	22 November 2011	Limited company	1 share of US$1	100%	–	investment holding
Tongda Investment Limited	BVI	22 November 2011	Limited company	1 share of US$1	–	100%	investment holding
Rongda Investment Limited (“Rongda Investment”)	Hong Kong	05 December 2011	Limited company	1 share of US$1	–	100%	investment holding
Huifang Investment Limited (“Huifang Investment”)	Hong Kong	05 December 2011	Limited company	1 share of US$1	–	100%	investment holding
Suzhou Huifang Technology Company Limited (“Huifang Technology”)	The PRC	29 December 2011	Limited company	US$96,100,000/ US$98,100,000	–	100%	management and marketing consulting
Suzhou Huifang Tongda Information Technology Company Limited (“Huifang Tongda”)	The PRC	10 February 2012	Limited company	RMB105,000,000	–	100%	management and marketing consulting
Suzhou Huifang Rongda Internet Technology Company Limited (“Huifang Rongda”)	The PRC	8 May 2015	Limited company	RMB12,000,000/ RMB50,000,000	–	100%	management and marketing consulting
Suzhou Wuzhong Pawnshop Co., Ltd. (“Wuzhong Pawnshop”)	The PRC	21 December 1999	Limited company	RMB1,000,000,000	–	100%	pawnshop services
Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. (“Dongshan Micro-finance”)	The PRC	26 December 2012	Limited company	RMB300,000,000	–	60%	micro-financing and guarantee services
Suzhou Huida Commercial Factoring Company Limited (“Huida Factoring”)	The PRC	30 May 2016	Limited company	RMB50,000,000	–	100%	factoring services
Suzhou Huifang Jiada Information Technology Company Limited (“Huifang Jiada”)	The PRC	15 December 2016	Limited company	RMB40,500,000/ RMB50,000,000	–	100%	technology development and consulting services
Suzhou Huifang Rongtong SME Guided Turnover Loan Fund (Limited Partnership) (“Huifang Rongtong”)	The PRC	1 September 2017	Limited partnership	RMB50,000,000/ RMB100,000,000	–	80%	short-term turnover loans
Suzhou Huifang Anda Insurance Agency Company Limited (“Huifang Anda”)	The PRC	16 November 2004	Limited company	RMB2,000,000	–	78%	Insurance Agency

Notes to the Consolidated Financial Statements (Continued)

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14 SUBSIDIARIES (Continued)

(i) Non-controlling interests (NCI)

The total non-controlling interest as at 31 December 2018 is RMB142.5 million (2017: RMB144.0 million), of which RMB129.8 million (2017: RMB133.9 million) is attributed to Dongshan Micro-finance, RMB11.5 million (2017: RMB10.1 million) is attributed to Huifang Rongtong and RMB1.1 thousand (2017: Nil) is attributed to Huifang Anda.

Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarized statement of financial position:

	Dongshan Micro-finance As at 31 December		Huifang Rongtong As at 31 December		Huifang Anda As at 31 December	
	2018	2017	**2018**	2017	**2018**	2017
Current						
Assets	**377,556**	402,285	**58,301**	50,180	**3,264**	N/A
Liabilities	**(70,091)**	(81,057)	**(638)**	(54)	**(1,434)**	N/A
Total current net assets	**307,465**	321,228	**57,663**	50,126	**1,830**	N/A
Non-current						
Assets	**15,837**	12,382	**12**	—	**8**	N/A
Liabilities	**—**	—	**—**	—	**—**	N/A
Total non-current net assets	**15,837**	12,382	**12**	—	**8**	N/A
Net assets	**323,302**	333,610	**57,675**	50,126	**1,838**	N/A
Accumulated NCI	**129,803**	133,926	**11,549**	10,101	**1,129**	N/A

Notes to the Consolidated Financial Statements (Continued)

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14 SUBSIDIARIES (Continued)

(i) Non-controlling interests (NCI) (Continued)

Summarized statement of comprehensive income:

	Dongshan Micro-finance Year ended 31 December		Huifang Rongtong Year ended 31 December		Huifang Anda Year ended 31 December	
	2018	2017	**2018**	2017	**Acquisition Date to 31 Dec 2018**	2017
Net interest income	**51,474**	47,536	**8,322**	177	**(1)**	N/A
Net other operating income	**466**	4,454	**701**	—	**379**	N/A
Profit for the year	**25,836**	23,635	**7,548**	126	**105**	N/A
Other comprehensive income	**—**	—	**—**	—	**—**	N/A
Total comprehensive income	**25,836**	23,635	**7,548**	126	**105**	N/A
Total comprehensive income allocated to NCI	**10,334**	14,181	**1,448**	101	**23**	N/A
Dividends paid to NCI (a)	**10,800**	18,000	**—**	—	**—**	N/A

(a) A total dividend of RMB27.0 million in respect of the year ended 31 December 2017 was approved by the Board of Directors of Dongshan Micro-finance on 26 January 2018 and the amount paid to non-controlling interests is RMB10.8 million.

A total dividend of RMB30.0 million in respect of the year ended 31 December 2016 was approved by the Board of Directors of Dongshan Micro-finance on 20 January 2017 and the amount paid to non-controlling interests is RMB18.0 million.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

14 SUBSIDIARIES (Continued)

(i) Non-controlling interests (NCI) (Continued)

Summarized cash flows:

	Dongshan Micro-finance Year ended 31 December		Huifang Rongtong Year ended 31 December		Huifang Anda Year ended 31 December	
	2018	2017	**2018**	2017	**Acquisition Date to 31 Dec 2018**	2017
Net cash from operating activities	**44,495**	(82,706)	**8,136**	180	**305**	N/A
Net cash from investing activities	**(101)**	(116)	**(15)**	—	**(8)**	N/A
Net cash from financing activities	**(40,000)**	38,000	**—**	50,000	**—**	N/A
Net increase/(decrease) in cash and cash equivalents	**4,394**	(44,822)	**8,121**	50,180	**297**	N/A

15 INCOME TAX EXPENSE

This note provides an analysis of the Group's income tax expense, shows what amounts are recognized directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

(a) Income tax expense

	Year ended 31 December	
	2018	2017
Current tax		
Current tax on profits for the year	**32,559**	28,464
Adjustments for current tax of prior years	**—**	—
Total current tax expense	**32,559**	28,464
Deferred income tax		
Decrease/(increase) in deferred tax assets *(Note 20)*	**5,435**	(68)
Total deferred tax benefit	**5,435**	(68)
Income tax expense	**37,994**	28,396

All income tax expense is attributable to profit from continuing operations in the year ended 31 December 2018 (2017: same).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

15 INCOME TAX EXPENSE (Continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Year ended 31 December	
	2018	2017
Operating profit and profit before income tax	**110,795**	93,582
Tax calculated at domestic tax rates applicable to profits in the respective areas	**28,225**	24,589
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
— Entertainment	**495**	336
— Investment income attributable to non-controlling interests	**(362)**	—
— Cash dividends of listed equity securities	**(238)**	—
— Share-based payments	**165**	(1,043)
— Sundry items	**40**	71
Subtotal	**28,325**	23,953
Reversal of previously recognized deferred tax assets	**7,108**	—
Adjustments for current tax of prior years	**1,495**	—
Unused tax losses for which no deferred tax asset has been recognized	**1,066**	323
Effect of different tax rates in countries in which the entity operates	**—**	(460)
PRC withholding tax	**—**	4,580
Income tax expense	**37,994**	28,396

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Enterprises incorporated in the British Virgin Islands are not subject to any income tax according to relevant rules and regulations.

The applicable Hong Kong profits tax rate for Huifang Investment is 8.25% and for other entities incorporated in HK is 16.5% on the assessable profits earned or derived in Hong Kong for the year ended 31 December 2018 (2017: The applicable Hong Kong profits tax rate is 16.5% on the assessable profits earned or derived in Hong Kong for the year ended 31 December 2017).

According to the Corporate Income Tax Law of the PRC (the “CIT Law”), the income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable corporate tax rate of 25% on the estimated assessable profits based on existing legislations, interpretations and practices.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

15 INCOME TAX EXPENSE (Continued)

(c) Tax losses

	Year ended 31 December	
	2018	2017
Unused tax losses for which no deferred tax asset has been recognized @ 16.5%	**3,705**	1,959
Unused tax losses for which no deferred tax asset has been recognized @ 8.25%	**1,687**	—
Unused tax losses for which no deferred tax asset has been recognized @ 25%	**1,262**	—
Unused tax losses for which no deferred tax asset has been recognized	**6,654**	1,959
Potential tax benefit @ 16.5%	**611**	323
Potential tax benefit @ 8.25%	**139**	—
Potential tax benefit @ 25%	**316**	—
Potential tax benefit	**1,066**	323

The unused tax losses were incurred by the Company, Huifang Investment, Sifang Investment, Rongda Investment and Huifang Supply China and those are not likely to generate taxable income in the foreseeable future. They can be carried forward indefinitely. See Note 20 for information about recognized tax losses and Note 2.17 for significant judgements made.

16 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**60,996**	50,904
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,027,425
Basic earnings per share (RMB Yuan)	**0.056**	0.050

All profit attributable to owners of the Company is from continuing operations.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

16 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share options under share-based payment (Note 27(b)). For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**60,996**	50,904
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,027,425
Adjustments for:		
— Share options (in thousands)	**11,886**	12,532
Dilutive earnings per share (RMB)	**0.056**	0.049

All profit attributable to owners of the Company is from continuing operations.

(c) Weighted average number of shares used as the denominator

	Year ended 31 December	
	2018	2017
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,086,787**	1,027,425
Adjustments for calculation of diluted earnings per share:		
Options	**11,886**	12,532
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,098,673**	1,039,957

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17 DIVIDENDS

A dividend in respect of the year ended 31 December 2018 of HK$0.0130 per share, amounting to a total dividend of HK$14.1 million (equivalent to approximately RMB12.4 million), is to be proposed at the annual general meeting on 28 May 2019 (2017: A dividend in respect of the year ended 31 December 2017 of HK$0.0132 per share, amounting to a total dividend of HK$14.3 million (equivalent to approximately RMB12.0 million), was proposed at the annual general meeting on 28 May 2018). These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2018	2017
Proposed final dividend of HK$0.0130 (2017:HK$0.0132) per ordinary share	**12,379**	11,991

18 BUSINESS COMBINATION

(a) Summary of acquisition

On 19 June 2018, Huifang Tongda acquired 78% of the equity interests in Huifang Anda, an insurance agent for cash consideration of RMB3,921,528.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	As at 31 December 2018
Purchase consideration	
Cash paid	**3,532**
Cash payable	**390**
Total purchase consideration	**3,922**

The assets and liabilities recognized as a result of the acquisition are as follows:

	Fair Value
Cash and cash equivalents	430
Licenses *(Note 19)*	3,294
Other receivables	1,310
Other payables	(6)
Net identifiable assets acquired	5,028
Less: non-controlling interest	(1,106)
Add: goodwill	—
	3,922

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
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18 BUSINESS COMBINATION (Continued)

(a) Summary of acquisition (Continued)

(i) Accounting policy choice for non-controlling interests

The Group recognizes non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Huifang Anda, the Group elected to recognize the non-controlling interests in at its proportionate share of the acquired net identifiable assets. See Note 2.4 for the Group's accounting policies for business combinations.

(ii) Revenue and profit contribution

The acquired business contributed interest income of RMB4 thousand and loss from continuing operations of RMB279 thousand to the Group for the period from 19 June to 31 December 2018.

If the acquisition had occurred on 1 January 2018, consolidated pro-forma interest income and loss from continuing operations for the year ended 31 December 2018 would have been RMB7 thousand and RMB478 thousand respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary, and
- the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2018, together with the consequential tax effects.

(b) Purchase consideration — cash outflow

	Year ended 31 December	
	2018	2017
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	**3,922**	—
Less: Balances acquired-cash	**430**	—
Cash payable	**390**	—
	820	—
Net outflow of cash — investing activities	**3,102**	—

Notes to the Consolidated Financial Statements (Continued)

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19 INTANGIBLE ASSETS

	Land usage right (a)	Computer software	Licenses	Total
At 31 December 2016				
Cost	—	1,262	—	1,262
Accumulated amortization and impairment	—	(241)	—	(241)
Net book amount	—	1,021	—	1,021
Year ended 31 December 2017				
Opening net book amount	—	1,021	—	1,021
Additions	—	333	—	333
Amortization charge	—	(137)	—	(137)
Closing net book amount	—	1,217	—	1,217
At 31 December 2017				
Cost	—	1,595	—	1,595
Accumulated amortization and impairment	—	(378)	—	(378)
Net book amount	—	1,217	—	1,217
Year ended 31 December 2018				
Opening net book amount	—	1,217	—	1,217
Additions	37,235	309	—	37,544
Acquisition of subsidiary *(Note 18)*	—	—	3,294	3,294
Amortization charge	(753)	(183)	(384)	(1,320)
Closing net book amount	36,482	1,343	2,910	40,735
At 31 December 2018				
Cost	37,235	1,904	3,294	42,433
Accumulated amortization and impairment	(753)	(561)	(384)	(1,698)
Net book amount	36,482	1,343	2,910	40,735

(a) The land usage right was acquired by Huifang Tongda from Suzhou Bureau of Land and Resources through land-transferring fees in February 2018. It is recognized at cost and is subsequently amortized on a straight-line over its estimated useful lives.

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20 DEFERRED INCOME TAX

	Year ended 31 December	
	2018	2017
The balance comprises temporary differences attributable to:		
ECL allowances/Impairment charge on financial assets	**60,248**	60,382
Net loss from financial instruments at fair value through profit or loss	**7,168**	2,260
Recoverable tax losses	**2,192**	9,184
Share-based payment expense	**1,036**	736
Total deferred tax assets	**70,644**	72,562
Set-off of deferred tax liabilities pursuant to set-off provisions	**–**	–
Net deferred tax assets	**70,644**	72,562

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
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20 DEFERRED INCOME TAX (Continued)

The movement in deferred income tax assets during the year, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

	ECL allowances/ Impairment charge on financial assets	Net loss from financial instruments at fair value through profit or loss	Recoverable tax losses	Share-based payments	Total
At 1 January 2017	69,135	116	2,862	381	72,494
(Charged)/credited to the consolidated statement of comprehensive income	(8,753)	2,144	6,322	355	68
At 31 December 2017	60,382	2,260	9,184	736	72,562
At 1 January 2018	60,382	2,260	9,184	736	72,562
Changes on initial application of HKFRS 9	3,517	—	—	—	3,517
Restated balance at 1 January 2018	63,899	2,260	9,184	736	76,079
(Charged)/credited to the consolidated statement of comprehensive income	(3,651)	4,908	(6,992)	300	(5,435)
At 31 December 2018	60,248	7,168	2,192	1,036	70,644

As at 31 December 2018, it is estimated that deferred income tax assets will be reversed over one year (31 December 2017: same).

As at 31 December 2018, no deferred income tax liabilities have been recognized for the PRC withholding tax which would be paid upon remittance (31 December 2017: same).

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21 FINANCIAL ASSETS BY CATEGORY

The Group holds the following financial assets:

		As at 31 December 2017		
Financial assets	*Notes*	Assets at FVPL	Financial assets at amortized cost	Total
Other current assets (excluding repossessed assets)		—	13,209	13,209
Financial assets designated at fair value through profit or loss	*24*	50,961	—	50,961
Loans to customers	*23*	—	1,945,652	1,945,652
Cash at bank and cash on hand	*25*	—	941,645	941,645
		50,961	2,900,506	2,951,467

		As at 31 December 2018		
Financial assets	*Notes*	**Assets at FVPL**	**Financial assets at amortized cost**	**Total**
Other current assets (excluding repossessed assets)		**—**	**99,103**	**99,103**
Financial assets at fair value through profit or loss	*24*	**31,767**	**—**	**31,767**
Loans to customers	*23*	**—**	**1,738,283**	**1,738,283**
Cash at bank and cash on hand	*25*	**—**	**797,964**	**797,964**
		31,767	**2,635,350**	**2,667,117**

The Group's exposure to various risks associated with the financial instruments is discussed in Note 4. The maximum exposure to credit risk at the end of the reporting year is the carrying amount of each class of financial assets mentioned above.

Notes to the Consolidated Financial Statements (Continued)

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22 OTHER CURRENT ASSETS

	As at 31 December	
	2018	2017
Interest receivable from bank deposits	**12,174**	6,905
Repossessed assets	**17,896**	6,245
Receivable from disposal of loans to customers, net	**74,107**	—
Receivable from disposal of loans to customers, gross	**75,334**	—
Less: ECL allowances	**(1,227)**	—
Other receivables, net	**12,822**	6,304
Other receivables, gross	**13,947**	7,257
Less: ECL allowances/Impairment allowances	**(1,125)**	(953)
	116,999	19,454

23 LOANS TO CUSTOMERS

	As at 31 December	
	2018	2017
Loans to customers, gross		
Collateral backed loans	**1,665,999**	1,465,924
— Real estate backed loans	**1,254,966**	1,172,861
— Equity interest backed loans	**388,844**	254,837
— Personal property backed loans	**22,189**	38,226
Guaranteed loans	**199,926**	205,783
Unsecured loans	**203,959**	483,186
	2,069,884	2,154,893
Less: ECL allowances	**(331,601)**	N/A
Less: Impairment allowances	**N/A**	(209,241)
— Individually assessed	**N/A**	(177,469)
— Collectively assessed	**N/A**	(31,772)
Loans to customers, net	**1,738,283**	1,945,652

Loans to customers arise from the Group's lending services. The loan periods granted to customers are within one year. The real estate backed and equity interest backed loans provided to customers bear fixed interest rates ranging from 12.00% to 25.00% per annum in the year ended 31 December 2018 (2017: from 8.00% to 30.00%).

Guaranteed loans granted to customers bear fixed interest rates from 6.00% to 25.20% per annum in the year ended 31 December 2018 (2017: from 7.00% to 18.00%).

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23 LOANS TO CUSTOMERS (Continued)

Unsecured loans granted to customers bear fixed interest rates from 10.00% to 18.00% per annum in the year ended 31 December 2018 (2017: from 8.00% to 18.00%).

Loans to customers are denominated in RMB, HKD or USD.

As at 31 December 2018, renewed loans amounted to RMB170.2 million (2017: RMB129.0 million), which are all real estate backed loans (2017: same).

(a) Aging analysis of loans to customers

The aging of the loans to customers is calculated starting from the original granting date without considering the subsequent renewal of the loans. The aging analysis of loans to customers net of ECL allowances are set out below:

	As at 31 December			
	2018			2017
	Secured loans to customers	Unsecured loans to customers	Total	Total
Within 3 months	141,619	300,041	441,660	422,999
3–6months	120,439	177,711	298,150	381,777
6–12 months	148,417	91,343	239,760	211,050
Past due (i)	701,072	57,641	758,713	929,826
	1,111,547	626,736	1,738,283	1,945,652

(i) Past due loans to customers net of ECL allowances

	As at 31 December			
	2018			2017
	Secured loans to customers	Unsecured loans to customers	Total	Total
Past due within one month	8,479	2,107	10,586	40,459
Past due between one and three months	7,868	–	7,868	16,436
Past due over three months	684,725	55,534	740,259	872,931
	701,072	57,641	758,713	929,826

Notes to the Consolidated Financial Statements (Continued)

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23 LOANS TO CUSTOMERS (Continued)

(b) Movements on ECL allowances for loans to customers in 2018

The following tables explain the changes in loss allowances between the beginning of and the end of the annual year due to these factors:

Secured loans to customers	Year ended 31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Loss allowances as at 1 January 2018	3,931	79	74,834	78,844
Changes on initial application of HKFRS 9	2,913	504	—	3,417
Restated loss allowances as at 1 January 2018	6,844	583	74,834	82,261
Transfers:				
Transfers from Stage 1 to Stage 2	(3,542)	11,602	—	8,060
Transfers from Stage 2 to Stage 3	—	(8,409)	40,370	31,961
New loans to customers originated	11,608	—	—	11,608
Changes in PDs/LGDs/EADs	—	—	70,466	70,466
Unwind of discount	—	—	5,373	5,373
Loans to customers derecognized during the year other than write-offs	(7,869)	(2,107)	(36,970)	(46,946)
Write-offs	—	—	(1,314)	(1,314)
Recovery of the loans written-off in previous years	—	—	4,139	4,139
Loss allowances as at 31 December 2018	7,041	1,669	156,898	165,608

Notes to the Consolidated Financial Statements (Continued)

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23 LOANS TO CUSTOMERS (Continued)

(b) Movements on ECL allowances for loans to customers in 2018 (Continued)

Unsecured loans to customers	Year ended 31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Loss allowances as at 1 January 2018	14,847	—	115,550	130,397
Changes on initial application of HKFRS 9	10,475	—	—	10,475
Restated loss allowances as at 1 January 2018	25,322	—	115,550	140,872
Transfers:				
Transfers from Stage 1 to Stage 2	(951)	8,706	—	7,755
Transfers from Stage 2 to Stage 3	—	(1,133)	2,094	961
New loans to customers originated	206,139	—	—	206,139
Changes in PDs/LGDs/EADs	—	—	28,313	28,313
Unwind of discount	—	—	21,069	21,069
Loans to customers derecognized during the year other than write-offs	(205,223)	(7,573)	(27,537)	(240,333)
Write-offs	—	—	(1,360)	(1,360)
Recovery of the loans written-off in previous years	—	—	2,577	2,577
Loss allowances as at 31 December 2018	25,287	—	140,706	165,993

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23 LOANS TO CUSTOMERS (Continued)

(c) Significant changes in gross carrying amount of loans to customers that contributed to changes in the ECL allowances

The following table explains changes in the gross carrying amount of the loans to customers that help explain their significance to the changes in the ECL allowances for loans to customers:

Secured loans to customers	Year ended 31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Gross carrying amount as at 1 January 2018	344,838	6,115	860,134	1,211,087
Transfers:				
Transfers from Stage 1 to Stage 2	(123,505)	123,505	—	—
Transfers from Stage 2 to Stage 3	—	(93,434)	93,434	—
Loans to customers derecognized during the year other than write-offs	(425,832)	(26,649)	(188,509)	(640,990)
New loans to customers originated	629,324	—	—	629,324
Changes in interest accrual	1,169	—	77,879	79,048
Write-offs	—	—	(1,314)	(1,314)
Gross carrying amount as at 31 December 2018	425,994	9,537	841,624	1,277,155

Unsecured loans to customers	Year ended 31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Gross carrying amount as at 1 January 2018	717,314	—	226,492	943,806
Transfers:				
Transfers from Stage 1 to Stage 2	(93,108)	93,108	—	—
Transfers from Stage 2 to Stage 3	—	(11,568)	11,568	—
Loans to customers derecognized during the year other than write-offs	(4,299,402)	(81,540)	(71,383)	(4,452,325)
New loans to customers originated	4,264,586	—	—	4,264,586
Changes in interest accrual	7,100	—	30,922	38,022
Write-offs	—	—	(1,360)	(1,360)
Gross carrying amount as at 31 December 2018	596,490	—	196,239	792,729

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23 LOANS TO CUSTOMERS (Continued)

(d) Movements on loss allowances for loans to customers in 2017

	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
At beginning of year	197,730	62,503	260,233
Impairment losses recognized	102,759	—	102,759
Net write back of loan provision	(65,388)	(28,395)	(93,783)
Unwind of discount on allowances during the year	(44,607)	—	(44,607)
Loans to customers written off as un-collectable	(15,361)	—	(15,361)
Other transfer in/(out)	2,336	(2,336)	—
At end of year	177,469	31,772	209,241

(e) Movements on gross carrying amount of loans to customers in 2017

	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
At beginning of year	360,413	1,924,245	2,284,658
New loans to customers originated	—	1,078,045	1,078,045
Loans to customers matured	(129,368)	(1,056,581)	(1,185,949)
Loans to customers written off as un-collectable	(21,861)	—	(21,861)
Other transfer in/(out)	192,379	(192,379)	—
At end of year	401,563	1,753,330	2,154,893

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at fair value through profit or loss

The Group classifies the following financial assets at fair value through profit or loss (FVPL):

- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognize fair value gains and losses through OCI.

Notes to the Consolidated Financial Statements (Continued)

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24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(i) Classification of financial assets at fair value through profit or loss (Continued)

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December	
	2018	2017
Non-current assets		
Equity securities at fair value through profit or loss	**440**	—
Current assets		
PRC Listed equity securities	**31,327**	50,961
	31,767	50,961

Listed equity securities with fair value of RMB31.3 million (31 December 2017: RMB51.0 million) have been pledged with a securities company to secure borrowings with principal amount of RMB15.5 million (31 December 2017: RMB27.0 million) from the securities company (Note 30(c)).

(ii) Amounts recognized in profit or loss

During the year, the following (losses)/gains were recognized in profit or loss:

	Year ended 31 December	
	2018	2017
Fair value losses — listed equity securities *(Note 8)*	**(19,634)**	(15,486)
Cash dividend of listed equity securities *(Note 8)*	**953**	429
	(18,681)	(15,057)

(iii) Risk exposure and fair value measurements

Information about the Group's exposure to price risk is provided in Note 4.1. For information about the methods and assumptions used in determining fair value please refer to Note 4.2.

Notes to the Consolidated Financial Statements (Continued)

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25 CASH AT BANK AND CASH ON HAND

	As at 31 December	
	2018	2017
Cash on hand	**1,444**	1,767
Demand deposits with banks	**132,292**	256,150
Term deposits with banks with original maturities over 3 months, net	**664,228**	683,728
Term deposits with banks with original maturities over 3 months, gross	**664,392**	683,728
Less: ECL allowances	**(164)**	N/A
	797,964	941,645

Cash at bank and cash on hand were denominated in the following currencies:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
RMB	**200,858**	256,735
US dollar	**587,437**	633,797
Hong Kong dollar	**9,833**	51,113
	798,128	941,645

Cash and cash equivalents of the Group were determined as follows:

	As at 31 December	
	2018	2017
Cash at bank and cash on hand	**797,964**	941,645
Less: Unrestricted term deposits with banks with original maturities over 3 months	**(126)**	(308,350)
Restricted term deposits pledged with banks with original maturities over 3 months	**(664,102)**	(375,378)
	133,736	257,917

As at 31 December 2018, restricted term deposits of US$85.2 million (2017: US$49.8 million), which is equivalent to RMB584.6 million (2017: RMB325.4 million), were pledged with banks to secure bank borrowings with principal amount of RMB491.0 million (2017: RMB306.0 million) (Note 30).

As at 31 December 2018, restricted term deposits of RMB78.7 million (2017: RMB50.0 million) were pledged with banks to secure bank borrowings with principal amount of RMB74.0 million (2017: RMB47.5 million) (Note 30).

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26 SHARE CAPITAL

	Number of shares	Ordinary shares HK$	Ordinary shares RMB
Issued and fully paid			
As at 31 December 2018 and 31 December 2017	1,086,787,000	HK$10,867,870	8,631,935

27 SHARE PREMIUM AND OTHER RESERVES

		Other reserves				
	Share premium	Capital reserve	Statutory reserve	General reserve	Share-based payments reserve	Total
At 1 January 2017	548,237	500,000	77,715	4,417	2,607	1,132,976
Private placement of new shares	45,879	—	—	—	—	45,879
Issue of shares under employee share scheme	7,877	—	—	—	(1,908)	5,969
Share-based payments — Value of employee services (b)(i)	—	—	—	—	4,272	4,272
Transactions with Non-controlling interests	—	6,963	—	—	—	6,963
At 31 December 2017	601,993	506,963	77,715	4,417	4,971	1,196,059
At 1 January 2018	601,993	506,963	77,715	4,417	4,971	1,196,059
Share-based payments — Value of employee services (b)(i)	—	—	—	—	2,200	2,200
At 31 December 2018	601,993	506,963	77,715	4,417	7,171	1,198,259

(a) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

Notes to the Consolidated Financial Statements (Continued)

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27 SHARE PREMIUM AND OTHER RESERVES (Continued)

(b) Share-based payments

The grant of share options to enable eligible participants as incentives or rewards for their contribution or potential contribution to the Group was approved on 13 September 2016. Under the share option scheme, the Company granted 50,000,000 share options to directors and selected employees on 13 September 2016 with an exercise price of HK$0.62 per share. Options are conditional on the employee completing one or two years' service (the vesting period). The options become exercisable starting one or two years from the grant date, subject to whether the Group achieved 60% or above of the target profit attributable to owners of the Company approved by the Board of Directors in 2016 and 2017 separately, or whether the Group achieved 60% or above of the cumulative target profit attributable to owners of the Company approved by the Board of Directors in 2016 and 2017 together. The options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Set below are summaries of options granted and forfeited under the plan:

	Year ended 31 December 2017	
	Average exercise price in HK$ per share option	Number of share options (thousands)
As at 1 January	0.62	50,000
Granted	—	—
Exercised	0.62	(11,550)
Forfeited	0.62	(10,443)
Aa at 31 December	0.62	28,007
Vested and exercisable at 31 December 2017	0.62	28,007

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27 SHARE PREMIUM AND OTHER RESERVES (Continued)

(b) Share-based payments (Continued)

	Year ended 31 December 2018	
	Average exercise price in HK$ per share option	Number of share options (thousands)
As at 1 January	**0.62**	**28,007**
Granted	**—**	**—**
Exercised	**—**	**—**
Forfeited	**0.62**	**(769)**
Aa at 31 December	**0.62**	**27,238**
Vested and exercisable at 31 December 2018	**0.62**	**27,238**

(i) **Share-based payments — value of employee services**

Options are granted for no consideration and vest based on whether the Group achieved the profit target described above. The weighted average fair value of options granted in 2016 determined using the Black-Scholes valuation model was HK$0.82 per option. The significant inputs into the model were weighted average share price of HK$0.62 at the grant date, exercise price shown above, volatility of 51.79%, no dividend yield, an expected option life of five years, and an annual risk-free interest rate of 0.66%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices from the listing date.

Share options outstanding at the end of the year will expire on 12 September 2021.

Employee benefit expense of RMB2.2 million was recognized for share options granted to directors and employees for the year ended 31 December 2018 (2017: RMB4.3 million).

28 RETAINED EARNINGS

Movements in retained earnings were as follows:

	As at 31 December	
	2018	2017
Balance 1 January	**505,247**	454,343
Change in accounting policy	**(6,891)**	—
Net profit for the year	**60,996**	50,904
Dividends provided for or paid	**(11,696)**	—
Balance 31 December	**547,656**	505,247

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

29 OTHER CURRENT LIABILITIES

	As at 31 December	
	2018	2017
Accrued employee benefits	**11,034**	10,011
Turnover tax and other tax payable	**3,010**	1,553
Investment payable	**390**	—
Other financial liabilities	**7,344**	2,450
	21,778	14,014

As at 31 December 2018, the Group's other financial liabilities were non-interest bearing. The fair value approximates their carrying amounts due to their short maturities (2017: same).

30 BORROWINGS

	As at 31 December	
	2018	2017
Bank borrowings (a)	**766,286**	844,812
Borrowings from microfinance companies (b)	**55,000**	68,174
Borrowings from securities company (c)	**15,540**	27,051
Private placement note (d)	**13,250**	19,510
Interests of holders of consolidated SEs — Suzhou Qian Dai	**—**	191,421
	850,076	1,150,968

(a) Bank borrowings are all with maturity within one year and bear fixed interest rates ranging from 4.35% to 6.09% per annum in the year ended 31 December 2018 (2017: fixed rate from 4.35% to 5.66%).

As at 31 December 2018, bank borrowings with principal amount of RMB491.0 million (2017: RMB306.0 million) were secured by restricted term deposits of US$85.2 million (2017: US$49.8 million) (Note 25).

As at 31 December 2018, bank borrowings with principal amount of RMB74.0 million (2017: RMB47.5 million) were secured by restricted term deposits of RMB78.7 million (2017: RMB50.0 million) (Note 25).

As at 31 December 2018, bank borrowings with principal amount of RMB200.0 million (31 December 2017: RMB370.0 million) were guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (Note 35(b)).

The fair values of bank borrowings approximate their carrying amounts as the discounting impact is not significant.

The Group's borrowings are denominated in RMB.

As at 31 December 2018, the Group had no undrawn bank borrowing facilities (31 December 2017: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

30 BORROWINGS (Continued)

(b) As at 31 December 2018, borrowings from microfinance companies with principal amount of RMB55.0 million are guaranteed by Wuzhong Group (31 December 2017: RMB68.0 million) (Note 35(b)).

(c) As at 31 December 2018, borrowings from a securities company with principal amount of RMB15.5 million are pledged by listed equity investment held by the Group (2017: RMB27.0 million) (Note 24).

(d) As at 31 December 2018, private placement note with principal amount of RMB12.5 million are guaranteed by Wuzhong Group (31 December 2017: RMB19.5 million) (Note 35(b)).

31 CASH FLOW INFORMATION

(a) Cash generated from operations

		Year ended 31 December	
	Note	**2018**	2017
Profit before income tax from			
Continuing operations		**110,795**	93,582
Discontinued operations		**—**	—
Profit before income tax including discontinued operations		**110,795**	93,582
Adjustments for			
Depreciation and amortisation	*10*	**2,835**	1,129
Employee benefits expenses — share based payments	*11*	**2,200**	4,272
ECLs/Impairment losses	*12*	**107,292**	10,142
Net losses on derecognition of financial assets measured at amortized cost		**58**	—
Fair value loss on financial assets	*8*	**19,634**	8,577
Interest expense	*7*	**54,637**	74,237
Net investment (gain) of disposal of subsidiaries		**—**	(8,150)
Net exchange differences		**(562)**	674
Change in operating assets and liabilities, net of effects from purchase of controlled entity:			
Decrease in term deposit with banks		**12,431**	31,261
(Increase)/decrease in other current assets		**(97,634)**	2,250
Decrease in loans to customers		**87,518**	69,584
Increase/(decrease) other current liabilities		**7,714**	(2,728)
Net increase in financial assets at fair value		**—**	41,459
Cash generated from operations		**306,918**	326,289

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

31 CASH FLOW INFORMATION (Continued)

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Net debt	As at 31 December 2018	As at 31 December 2017
Cash and cash equivalents	**133,736**	257,917
Borrowings — repayable within one year	**(850,076)**	(1,150,968)
Net debt	**(716,340)**	(893,051)
Cash and liquid investments	**133,736**	257,917
Gross debt — fixed interest rates	**(850,076)**	(1,150,968)
Net debt	**(716,340)**	(893,051)

	Other current assets Cash/ bank overdraft	Liabilities from financing activities Borrow. due within 1 year	Total
Net debt as at 1 January 2017	191,216	(1,288,306)	(1,097,090)
Cash flows	67,375	137,338	204,713
Foreign exchange adjustments	(674)	—	(674)
Net debt as at 31 December 2017	257,917	(1,150,968)	(893,051)
Net debt as at 1 January 2018	**257,917**	**(1,150,968)**	**(893,051)**
Cash flows	**(124,743)**	**300,892**	**176,149**
Foreign exchange adjustments	**562**	**—**	**562**
Net debt as at 31 December 2018	**133,736**	**(850,076)**	**(716,340)**

32 CONTINGENCIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (2017: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

33 COMMITMENTS

(a) Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2018	2017
Within one year	**4,665**	5,722
Later than one year but no later than 5 years	**5,302**	5,335
	9,967	11,057

(b) Capital commitments

	As at 31 December	
	2018	2017
Hillcrest Associated Limited (a)	**438**	—

(a) The purchase consideration of Hillcrest Associated Limited is HKD1.0 million, of which HKD0.5 million (equivalent to RMB0.4 million) has not been paid by the Group as at 31 December 2018 (31 December 2017: Nil).

34 ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for current borrowings are:

		As at 31 December	
	Note	**2018**	2017
Current			
Floating charge			
Cash at bank and cash on hand	*25*	**664,102**	375,378
Financial assets at fair value through profit or loss	*24*	**31,327**	50,961
Total current assets pledged as security		**695,429**	426,339
Total non-current assets pledged as security		**—**	—
Total assets pledged as security		**695,429**	426,339

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

35 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or excise significant influence over the other party in making financial and operating decisions of the Group. Parties are also considered to be related if they are subject to common control. Members of directors, key management and their close family member are also considered as related parties.

Names of related parties	Nature of relationship
Wuzhong Jiaye	Direct equity holder of Wuzhong Pawnshop
Wuzhong Group	Controlling shareholder of Wuzhong Jiaye before Reorganization
Jiangsu Wuzhong Real Estate Group Co., Ltd. (江蘇吳中地產集團有限公司) ("Wuzhong Real Estate")	A related party controlled by Wuzhong Group
Wuzhong America Services for Cultural Education and Communication Ltd ("Wuzhong America")	A related party controlled by Wuzhong Group
BVI companies wholly owned by each of the Ultimate Shareholders ("BVI entities owned by the Ultimate Shareholders")	Related parties controlled by each of the Ultimate shareholders
Tricor Services Limited ("卓佳專業商務有限公司") ("Tricor")	Company Secretary
Shenzhen Zuanying Internet Co., Ltd. (深圳鑽盈互聯網有限公司) ("Shenzhen Zuanying")	Associate
Suzhou Huiying Precious Metals Co., Ltd. ("蘇州匯盈貴金屬有限公司")	Related parties controlled by the ultimate shareholders

(b) Significant transactions with related parties

The Group had the following significant transactions with related parties:

	Year ended 31 December	
	2018	2017
Other operating income from Shenzhen Zuanying	**4,931**	—
Interest expenses paid to Wuzhong Group	**476**	—
Bank borrowings guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (in principal amount at year-end) *(Note 30(a))*	**200,000**	370,000
Borrowings from microfinance companies guaranteed by Wuzhong Group (in principal amount at year-end) *(Note 30(b))*	**55,000**	68,000
Private placement note guaranteed by Wuzhong Group (in principal amount at year-end) *(Note 30(d))*	**12,540**	19,510

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

35 RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

	As at 31 December	
	2018	2017
Amounts due to related parties		
Due to BVI entities owned by the Ultimate Shareholders	**633**	633

(d) Key management personnel compensation

Key management comprises six members including the executive directors, the vice president, the assistant to the president and the risk control director. The compensation paid or payable to key management for employee services is shown below:

	As at 31 December	
	2018	2017
Basic salaries	**2,383**	2,923
Discretionary bonuses	**2,969**	3,455
Pension and other social security obligations	**575**	420
Share based payments	**716**	1,485
	6,643	8,283

(e) Key management personnel services provided by management entity

For the year ended 31 December 2018, the Group paid RMB71 thousand to Tricor Services Limited for the joint company secretary services (2017: RMB70 thousand).

36 SUBSEQUENT EVENT

A dividend in respect of the year ended 31 December 2018 of HK$0.0130 per share, amounting to a total dividend of HK$14.1 million (equivalent to approximately RMB12.4 million), is to be proposed at the annual general meeting on 28 May 2019 (2017: A dividend in respect of the year ended 31 December 2017 of HK$0.0132 per share, amounting to a total dividend of HK$14.3 million (equivalent to approximately RMB12.0 million), was proposed at the annual general meeting on 28 May 2018). These financial statements do not reflect this dividend payable.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2018	2017
ASSETS		
Non-current assets		
Investments in subsidiaries	**362,718**	361,518
Current assets		
Amounts due from related parties	**625,167**	584,138
Dividends receivable	**50,170**	44,450
Cash at bank and cash on hand	**6,832**	50,809
Total current assets	**682,169**	679,397
Total assets	**1,044,887**	1,040,915
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the Company		
Share capital	**8,632**	8,632
Share premium	**1,003,966**	1,003,966
Other reserves	**7,171**	4,971
Accumulated gains	**13,397**	12,096
Total equity	**1,033,166**	1,029,665
Liabilities		
Current liabilities		
Amounts due to related parties	**9,272**	9,272
Dividends payable	**1,256**	—
Other current liabilities	**1,193**	1,978
Total liabilities	**11,721**	11,250
Total equity and liabilities	**1,044,887**	1,040,915

The balance sheet of the Company was approved by the Board of Directors on 26 March 2019 and was signed on its behalf

Wu Min
Executive Director

Zhang Changsong
Executive Director

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

	Share Premium	Other Reserve	Retained earnings
At 1 January 2017	950,210	1,081	(26,917)
Profit for the year	—	—	39,013
Private placement of new shares	45,879	—	—
Share-based payments- Issue of shares	7,877	(1,908)	—
Share-based payments- Value of employee services	—	5,798	—
At 31 December 2017	1,003,966	4,971	12,096
At 1 January 2018	**1,003,966**	**4,971**	**12,096**
Profit for the year	**—**	**—**	**12,997**
Dividends provided for or paid	**—**	**—**	**(11,696)**
Share-based payments- Value of employee services	**—**	**2,200**	**—**
At 31 December 2018	**1,003,966**	**7,171**	**13,397**

38 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2017:

	Salaries	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Estimated monetary value of other benefits *(Note (a))*	Fees	Total
Year ended 31 December 2017						
Executive directors:						
CHEN Yan'nan (陳雁南) (b)	702	660	—	350	—	1,712
WU Min (吳敏) (b)	746	660	43	403	—	1,852
ZHANG Chang'song (張長松)	600	600	42	332	—	1,574
Independent non-executive directors:						
ZHANG Hua'qiao (張化橋)	—	—	—	175	251	426
TSE Yat Hong (謝日康)	—	—	—	175	251	426
FENG Ke (馮科)	—	—	—	175	251	426
Non- executive directors:						
ZHUO You	—	—	—	88	—	88
ZHANG SHU	—	—	—	88	—	88
ZHANG Cheng	—	—	—	88	—	88
	2,048	1,920	85	1,874	753	6,680

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

38 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2018:

	Salaries	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Estimated monetary value of other benefits *(Note (a))*	Fees	Total
Year ended 31 December 2018						
Executive directors:						
WU Min (吳敏) (b)	746	660	49	266	–	1,721
ZHANG Chang'song (張長松)	600	660	49	243	–	1,552
CHEN Yan'nan (陳雁南) (b)	292	300	–	198	–	790
Independent non-executive directors:						
ZHANG Hua'qiao (張化橋)	–	–	–	99	263	362
TSE Yat Hong (謝日康)	–	–	–	99	263	362
FENG Ke (馮科)	–	–	–	99	263	362
Non- executive directors:						
ZHUO You	–	–	–	50	–	50
ZHANG SHU	–	–	–	50	–	50
ZHANG Cheng	–	–	–	50	–	50
LING Xiao'ming (凌曉明) (c)	–	–	–	–	–	–
	1,638	1,620	98	1,154	789	5,299

(a) Other benefits include share-based payment and insurance premium.

(b) CHEN Yan'nan ceased to be the Chairman of the Group from 1 June 2017. WU Min was appointed as the Chairman of the Group effective from 1 June 2017. CHEN Yan'nan ceased to be the Executive director of the Group from 28 May 2018.

(c) LING Xiao'min was appointed as a non-executive director of the Group effective from 28 May 2018.

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meaning set out below.

"Articles" or "Articles of Association"	the articles of association of our Company (as amended from time to time)
"Board" or "Board of Directors"	the board of directors of our Company
"China" or "the PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company" or "our Company"	China Huirong Financial Holdings Limited, a company incorporated in the Cayman Islands with limited liability on 11 November 2011, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
"Contractual Arrangements"	a series of contracts entered into by Huifang Tongda, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders (as the case may be), details of which are described in the section headed "Our History and Reorganisation — Contractual Arrangements" in the Prospectus
"Director(s)"	the director(s) of our Company
"Dongshan Micro-finance"	Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.* (蘇州市吳中區東山農村小額貸款有限公司), a limited liability company established in the PRC on 26 December 2012, which is an indirect holding subsidiary of our Company
"EIT Law"	the Enterprise Income Tax Law of the People's Republic of China
"Global Offering" or "IPO"	the Hong Kong public offering and the international offering of Shares
"Greater Suzhou Area"	Suzhou city and the four county-level cities that are governed by the Suzhou city government, namely, Changshu, Kunshan,Taicang and Zhangjiagang
"Group", "our Group", "we", "our" or "us"	our Company, its subsidiaries and the PRC Operating Entity (the financial results of which have been consolidated and accounted for as the subsidiary of our Company by virtue of the Contractual Arrangements) or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries (or before such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be)
"Hengyue Consulting"	Suzhou Xinqu Hengyue Management Consulting Co., Ltd.* (蘇州新區恒悅管理諮詢有限公司), a limited liability company established under the laws of the PRC on 22 October 2007, one of the direct shareholders of the PRC Operating Entity

Definitions (Continued)

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huida Factoring"	Suzhou Huida Commercial Factoring Company Limited* (蘇州匯達商業保理有限公司), a limited liability company established in the PRC on 30 May 2016, which is an indirect wholly-owned subsidiary of our Company
"Huifang Jiada"	Suzhou Huifang Jiada Information Technology Company Limited* (蘇州匯方嘉達資訊科技有限公司), a limited liability company established in the PRC on 15 December 2016, which is an indirect wholly-owned subsidiary of our Company
"Huifang Rongda"	Suzhou Huifang Rongda Internet Technology Company Limited* (蘇州匯方融達網路科技有限公司), a limited liability company established in the PRC on 8 May 2015, which is an indirect wholly-owned subsidiary of our Company
"Huifang Rongtong"	Suzhou Huifang Rongtong SME Guided Turnover Loan Fund (Limited Partnership)* (蘇州匯方融通中小微企業轉貸引導基金合夥企業(有限合夥)), a limited partnership company established in the PRC on 1 September 2017, which is an indirect holding subsidiary of our Company
"Huifang Technology"	Suzhou Huifang Management Consulting Co., Ltd.* (蘇州匯方管理諮詢有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on 29 December 2011, which is an indirect wholly owned subsidiary of our Company. On 12 December 2013, the name of Suzhou Huifang Management Consulting Co. Ltd.* (蘇州匯方管理諮詢有限公司) was changed to Suzhou Huifang Technology Co. Ltd.* (蘇州匯方科技有限公司) upon the approval from Administration for Industry and Commercial of Suzhou, Jiangsu
"Huifang Investment"	Huifang Investment Limited* (匯方投資有限公司), a limited liability company incorporated under the laws of Hong Kong on 5 December 2011 and a wholly-owned subsidiary of our Company
"Huifang Tongda"	Suzhou Huifang Tongda Management Consulting Co., Ltd* (蘇州匯方同達管理諮詢有限公司), a limited liability company established in the PRC on 10 February 2012 which is an indirect wholly-owned subsidiary of our Company. On 11 December 2013, the name of Suzhou Huifang Tongda Management Consulting Co., Ltd* (蘇州匯方同達管理諮詢有限公司) was changed to Suzhou Huifang Tongda Information Technology Co., Ltd* (蘇州匯方同達信息科技有限公司) upon the approval from Administration for Industry and Commercial of Wuzhong, Suzhou
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange

Definitions (Continued)

"Listing Date"	28 October 2013 on which the Shares are listed on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC Operating Entity" or "Wuzhong Pawnshop"	Suzhou Wuzhong Pawnshop Co., Ltd.* (蘇州市吳中典當有限責任公司), a limited liability company established under the laws of the PRC on 21 December 1999, formerly known as 吳縣市吳中典當行有限公司 (Wuxian Wuzhong Pawnshop Co., Ltd.), a company which we do not own but the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements
"PRC Shareholders"	Mr. Zhu Tianxiao, Mr. Zhang Xiangrong, Mr. Ge Jian, Mr. Chen Yannan, Mr. Wei Xingfa, Mr. Yang Wuguan and Mr. Zhuo You, who are the ultimate and indirect shareholders of the Company. Except for Mr. Zhuo You, who is a non-executive Director of the Company, none of the other PRC Shareholders is a director or chief executive member of the Company
"Prospectus"	prospectus of the Company dated 16 October 2013 in relation to the Global Offering
"Reorganisation"	the reorganisation of the Group in preparation of the Listing, details of which are set out in the section headed "Our History and Reorganisation — Reorganisation" in the Prospectus
"Reporting Year"	the year ended 31 December 2018
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share(s)"	ordinary shares(s) in the capital of the Company with normal value of HK$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Sifang Investment"	Sifang Investment Limited* (四方投資有限公司), a limited liability company incorporated under the laws of the British Virgin Islands on 22 November 2011 and a wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tongda Investment"	Tongda Investment Limited* (同達投資有限公司), a limited liability company incorporated under the laws of the British Virgin Islands on 22 November 2011 and a wholly-owned subsidiary of the Company with no substantial business activity

Definitions (Continued)

"Track Record Period"	the four fiscal years of our Company ended 31 December 2011, 2012, 2013 and 2014
"Wuzhong Group"	Jiangsu Wuzhong Group Co., Ltd.* (江蘇吳中集團有限公司), a limited liability company established under the laws of the PRC on 26 May 1992, formerly known as Jiangsu Wuzhong Group Co.* (江蘇吳中集團公司)
"Wuzhong Jiaye"	Jiangsu Wuzhong Jiaye Group Co., Ltd.* (江蘇吳中嘉業集團有限公司), a limited liability company established under the laws of the PRC on 25 April 2005, formerly known as Jiangsu Wuzhong Jiaye Investment Co., Ltd.* (江蘇吳中嘉業投資有限公司), one of the direct shareholders of the PRC Operating Entity
"Wuzhong Real Estate"	Jiangsu Wuzhong Real Estate Group Co., Ltd.* (江蘇吳中地產集團有限公司), a limited liability company established under the laws of the PRC on 13 August 1992, formerly known as Jiangsu Wuzhong Dongwu Property Development Co.* (江蘇吳中東吳產業開發公司), Wuxian Dongwu Property Development Co.* (吳縣市東吳產業開發公司), and Jiangsu Wuzhong Dongwu Property Development Co., Ltd.* (江蘇吳中東吳產業開發有限公司)

* For identification purpose only

In this annual report, the terms "associate", "close associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Glossary

The glossary contains explanations of certain terms and definitions used in this annual report in connection with us and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"average loan amount"	the aggregate outstanding loan amount of a certain type of loans divided by the number of outstanding loans of that type as of an indicated date
"CAGR"	compound annual growth rate
"charge-off ratio"	impairment charge for an indicated period divided by ending balance of the gross amount of loans to customers of the same period and multiplied by 100%
"cost to income ratio"	administrative expenses of an indicated period divided by net revenue of the same period and multiplied by 100%
"gross loan yield"	interest income from loans to customers of an indicated period divided by the average of the beginning and the ending balances of gross loan amount multiplied by 100%
"impaired loan ratio"	the aggregate amount of individually impaired loans as of an indicated date divided by the gross amount of loans to customers as of the same date and multiplied by 100%
"appraised loan-to-value ratio"	the outstanding principal amount of a loan as of the calculation date divided by the appraised value of the underlying collateral securing such loan as decided in the loan application review process and multiplied by 100%
"net interest margin"	net interest income for an indicated period divided by the average of the beginning and the ending balance of interest earning assets of the same period, which equals the sum of the ending balances of (i) loans to customers and (ii) deposit with banks and multiplied by 100%
"return on average assets"	profit attributable to equity holders for an indicated period divided by the average of the beginning and the ending balances of total assets of the same period and multiplied by 100%
"return on average equity"	profit attributable to equity holders for an indicated period divided by the average of the beginning and the ending balances of total equity of the same period and multiplied by 100%

CHINA HUIRONG FINANCIAL HOLDINGS LIMITED

中國匯融金融控股有限公司