汇鑫小额贷款
HUIXIN MICRO-CREDIT

Quanzhou Huixin Micro-credit Co., Ltd.*
泉州匯鑫小額貸款股份有限公司

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

Stock Code: 1577

ANNUAL REPORT **2018**

* for identification purpose only

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhou Yongwei (*Chairman*)
Mr. Wu Zhirui
Mr. Yan Zhijiang
Ms. Liu Aiqin

Non-executive Directors

Mr. Jiang Haiying
Mr. Zhu Jinsong (resigned on 12 June 2018)
Mr. Cai Rongjun (appointed on 12 June 2018)

Independent Non-executive Directors

Mr. Zhang Lihe
Mr. Lin Jianguo
Mr. Sun Leland Li Hsun

SUPERVISORS

Ms. Hong Lijun (*Chairwoman)*
Mr. Ng Seng Chuan (resigned on 12 June 2018)
Ms. Ruan Cen
Mr. Chen Jinzhu
Mr. Wu Lindi
Mr. Li Jiancheng (re-appointed on 12 June 2018)

AUDIT COMMITTEE

Mr. Zhang Lihe (*Chairman)*
Mr. Lin Jianguo
Mr. Zhu Jinsong (resigned on 12 June 2018)
Mr. Cai Rongjun (appointed on 12 June 2018)

REMUNERATION COMMITTEE

Mr. Lin Jianguo (*Chairman*)
Mr. Sun Leland Li Hsun
Mr. Wu Zhirui

NOMINATION COMMITTEE

Mr. Zhou Yongwei (*Chairman*)
Mr. Sun Leland Li Hsun
Mr. Zhang Lihe

JOINT COMPANY SECRETARIES

Mr. Yan Zhijiang
Ms. Ng Ka Man *(ACS, ACIS)*

AUTHORISED REPRESENTATIVES

Mr. Wu Zhirui
Mr. Yan Zhijiang

REGISTERED ADDRESS

12/F, Former Finance Building
No. 361 Feng Ze Street
Quanzhou
Fujian
PRC

HEADQUARTERS/PRINCIPAL PLACE OF BUSINESS IN THE PRC

12/F, Former Finance Building
No. 361 Feng Ze Street
Quanzhou
Fujian
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

GROUP WEBSITE

www.qzhuixin.net

STOCK CODE

1577

AUDITOR AND REPORTING ACCOUNTANT

Ernst & Young
Certified Public Accountants

LEGAL ADVISER

Stephenson Harwood *(as to Hong Kong laws)*

H SHARE REGISTRAR

Boardroom Share Registrars (HK) Limited
2103B, 21/F, 148 Electric Road
North Point
Hong Kong

PRINCIPAL BANKERS

The Agricultural Bank of China
Jinjiang Jinjing Sub-branch
No. 200 Zhong Xing Road, Jin Jing Town
Jinjiang City
Quanzhou
Fujian
PRC

Industrial and Commercial Bank of China
Xinmenjie Sub-branch
Building 11, Shop No. 02–09 South Area of Xinmen Street
Licheng District
Quanzhou
Fujian
PRC

Bank of China (Hong Kong) Limited
Hong Kong East Commercial Centre
13/F, Cambridge House, Taikoo Place
No. 981 King's Road
Island East
Hong Kong

Xiamen Bank
Quanzhou Branch
No. 474 Huxin Street
Licheng District
Quanzhou
Fujian
PRC

Chairman's Statement

Our Group is committed to becoming China's leading provider of microfinance services and our mission is "assisting in adding value to customers with professional and efficient services and good credit".

On behalf of the Board, I am hereby to present to the Shareholders our Group's operating results in 2018. For the year ended 31 December 2018, our net interest income amounted to RMB146.2 million, our net profit amounted to RMB88.0 million and our outstanding loans amounted to RMB1,000.3 million. Our Group has totally served 4,791 SMEs and individual customers.

Looking back at 2018, owing to the factors including China's domestic macroeconomic regulation, deleverage and Sino-US trade war, the domestic economy faced downward pressure to a certain extent, which has resulted problems such as decline in loan demand from customers and increase in potential risk exposure associated with customers in the PRC. Therefore, our Group made various adjustments in its business strategy, financing channels and organizational structure, so as to implement the strategic planning of our Group on a steady pace.

In terms of business strategy, we focused on increasing the proportion and size of low-risk credit assets, including real estate mortgage loans and tender loans, to reduce the overall business risk of our Group. Our Group collaborated with a well-known internet company to launch a medical cosmetology related consumption installment business and tapped into the internet-based consumer finance business, which is featured with high dispersion and low risk, for the first time. In addition, the relevant competent authority of Quanzhou City has extended the scope of operation of the microfinance company and expanded the customer base of our Company.

In terms of broadening financial channels, in order to utilize the financing function of capital market, increase the leverage ratio and broaden the financing channels, our Group had attempted to issue corporate bonds on the Shenzhen Stock Exchange, which was not successfully issued due to subsequent relevant policy adjustments. We will make unremitting efforts to continuously upgrade the credit rating of our Company and make attempt to issue corporate bonds or asset-backed securities.

In terms of organizational structure, our Group was continuously adjusted and optimized to adapt to the ever-growing assets size, product types and subsidiaries. It developed an organizational structure with the business department as the center, and standardized and minimized front-end business units in order to maintain the flexibility of business units. We achieved functions sharing and unified management in risk management, finance, administration and other services departments, and optimized the management lines of services departments, thus improving services efficiency.

Our Group will make full use of its capital and brand advantages after its Listing to broaden its financing and business pipeline, continuously innovate its loan products, provide different types of financing solutions and increase market share so as to create long-term reasonable returns for Shareholders.

Quanzhou Huixin Micro-credit Co., Ltd.
ZHOU Yongwei
Chairman

19 March 2019

Management Discussion and Analysis

INDUSTRY OVERVIEW

Since the CBIRC and the People's Bank of China (中國人民銀行) (the "**PBOC**") promulgated the *Guiding Opinions on the Pilot Operation of Microfinance Companies* (關於小額貸款公司試點的指導意見) in 2008, which first formalized the registration procedures for microfinance companies at the national level, China's microfinance industry has seen rapid expansion. In 2012, the State Council approved the establishment of a pilot financial reform zone in Quanzhou City, making Quanzhou City the third pilot financial reform zone in China. Fujian provincial government subsequently implemented a series of financial reform policies and measures aiming at developing and cultivating the local financial services sector and channeling private capital to SMEs and local microenterprises. In 2014, the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) designated Quanzhou City as a pilot zone for the comprehensive reform of the private economy, initiating reform programs that include improving the financial services sector as well as increasing the financial support of, and the financing resources available to, private enterprises. In December 2015, the State Council promulgated the *Plan for Promoting the Development of Inclusive Finance (2016–2020) (Guo Fa 2015 No. 74)* (推進普惠金融發展規劃 (2016–2020年) (國發201574號)), which aims to improve the quality and the coverage of inclusive finance service. In 2017, the government of Quanzhou City promulgated the *Opinions on Promoting the Sound and Sustainable Development of Micro-credit Companies, Pawnshop Companies and Financing Guarantee Companies* (泉州市人民政府關於促進小額貸款公司、典當行和融資擔保公司健康持續發展的若干意見), which encourages microfinance companies to develop innovative businesses. In 2018, the Quanzhou Financial Affairs Bureau (泉州市金融工作局) and certain other government departments promulgated the *Opinions on the Implementation of Strengthening Financial Services of Real Economy to further Facilitate and Reduce the Cost of the Financing* (關於加強實體經濟金融服務進一步緩解融資難融資貴的實施意見), which allow microfinance companies in Quanzhou to comprehensively carry out microfinance business mainly for SMEs and "agriculture, rural and farmers" (三農) in Quanzhou City.

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

BUSINESS OVERVIEW

Our Group is principally engaged in loan business and finance lease business. We conduct our loan business primarily through the Company and our finance lease business through Quanzhou Lianche Finance Leasing Co., Ltd. (泉州市連車融資租賃有限公司) ("**Lianche**"), a subsidiary of the Company, since October 2018.

Our Loan Business

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

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

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

Notes:

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

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

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

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

Notes:

(1) Calculated as the average balance of the principal amount of our outstanding performing loans at the end of each month for the year.

(2) Calculated by dividing the interest income derived from our performing loans for the year by the average balance of outstanding performing loans for the year.

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

Loan Portfolio

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

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

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

Revolving Loans and Term Loans

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

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

Loan Portfolio by Security

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

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

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

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

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

Collateral-backed Loans

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

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

Maturity Profile of Loan Portfolio

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

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

Note:

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

Past due loans

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

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

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

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

Loan Portfolio by Exposure Size

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

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

Notes:

(1) Loans granted to a single borrower under multiple loan agreements are aggregated for the purpose of the calculation of loan exposure size to such customer.

(2) Represents the principal amount of outstanding loans of each category divided by the total principal amount of our outstanding loans.

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

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

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

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

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

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

Notes:

(1) Represents the balance of impaired loans receivable divided by the balance of gross loans receivable. Impaired loan ratio indicates the quality of our loan portfolio.

(2) Represents the allowance for impairment losses for all loans divided by the balance of impaired loans receivable. The allowance for impairment losses for all loans includes allowances provided for performing loans which are assessed collectively and allowances provided for impaired loans receivable which are assessed individually. Allowance coverage ratio indicates the level of allowance we set aside to cover probable loss in our loan portfolio.

(3) Allowance for impairment losses reflects our management's estimate of the probable loss in our loan portfolio.

(4) Represents the allowance for impairment losses divided by the balance of gross loans receivable. Provision for impairment losses ratio measures the cumulative level of provisions.

(5) Represents the net charge of impairment allowance on loans receivable divided by our interest income. Loss ratio is a benchmark which our management uses to monitor our financial results in relation to impairment losses incurred.

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

Our Finance Lease Business

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

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

	For the year ended 31 December 2018
Average monthly balance of interest-generating finance lease receivables (RMB'000)	47,631
Range of interest rate	7.80% to 13.88%

Finance Lease Receivables by Security

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

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

Gross and Net Amounts of Lease Receivables

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

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

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

Compliance with Key Regulatory Requirements

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

Key requirements	Compliance status
The registered capital of a microfinance company in Fujian province shall not be lower than RMB100 million.	Our Group complied with such requirement for the year ended 31 December 2018.
The debt to net capital ratio of a microfinance company in Quanzhou City is capped at 100%.	Our Group complied with such requirement for the year ended 31 December 2018.
The interest rates charged by microfinance companies may not exceed the maximum loan interest rate specified by judicial departments, or lower than 0.9 times of the prevailing PBOC benchmark lending rate, pursuant to the *Interim Measures of Fujian Province for the Administration of Microfinance Companies* (福建省小額貸款公司暫行管理辦法). The *Provision on Issues Concerning Applicable Legal Norms for the Court's Trial of Lending Cases* (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) promulgated by the Supreme People's Court (最高人民法院) on 1 September 2015 provide that: (i) the interest on the loans with interest rates up to 24% per annum is valid and enforceable; (ii) as to the loans with interest rates per annum ranging from 24% (exclusive) and 36% (inclusive), if the interest on the loans has already been paid to the lender, and so long as such payment has not damaged the interest of the state, the community and any third parties, the courts will turn down the borrower's request to demand the return of the excess interest payment; and (iii) if the annual interest rate of a private loan is higher than 36%, the excess will not be enforced by the courts.	Our Group complied with such applicable requirement for the year ended 31 December 2018.

Key requirements	Compliance status
A microfinance company shall not grant loans to its own shareholders, directors, senior management and their related parties.	Our Group complied with such requirement for the year ended 31 December 2018.
The outstanding amount of loan made to the same borrower by a microfinance company cannot exceed 5% of the net capital of such microfinance company.	Our Group complied with such requirement for the year ended 31 December 2018.
Upon the Listing on 30 September 2016, the ratio of the balance of outstanding loans of up to a maximum of RMB5.0 million to a single borrower to the total balance of outstanding loans that is applicable to the Company shall not be lower than 70% (the "**Amended 70% Requirement**").	Our Group complied with the Amended 70% Requirement for the year ended 31 December 2018.
Risk assets of a finance leasing company shall not exceed ten times of its total net assets.	Our Group complied with such requirement for the year ended 31 December 2018.

FINANCIAL OVERVIEW

Interest Income, Net

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

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

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

Interest Income on loans receivable

Our interest income increased by 12.0% from RMB140.0 million for the year ended 31 December 2017 to RMB156.8 million for the year ended 31 December 2018. The average balance of our outstanding performing loans increased by 18.0% from RMB811.5 million in 2017 to RMB961.0 million in 2018. Such increases were primarily attributable to the steady expansion of our loan business.

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

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

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

Notes:

(1) Calculated as the average balance of the principal amount of our outstanding performing loans at the end of each month for the year indicated.

(2) Calculated by dividing the interest income derived from our performing loans for the year by the average balance of outstanding performing loans for the year.

Our loan business is primarily funded by our share capital as well as our bank borrowings. The average balance of our outstanding performing loans generally demonstrates a trend consistent with our capital base during the Reporting Period. For the years ended 31 December 2017 and 2018, our average effective interest rate per annum on our performing loans slightly decreased from 16.43% to 16.37%. Such decrease was primarily due to (i) the increase of the proportion of collateral-backed loans with low interest; and (ii) the charging of low interest rate to our high-quality customers.

Interest Expense

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

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

Notes:

(1) Calculated as the average balance of our bank borrowings at the end of each month for the year indicated.

(2) Calculated by dividing the interest expense for the year by average balance of bank borrowings for the year.

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

Net Charge of Impairment Allowance on Loans and Accounts Receivable

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

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

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

Operating and Administrative Expenses

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

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

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

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

Other Income and Gains, Net

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

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

Income Tax Expense

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

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

Net Profit and Total Comprehensive Income for the Year

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

Liquidity and Capital Resources

The H Shares of the Company became listed on the Main Board of the Stock Exchange on the Listing Date with net proceeds from the global offering of approximately HK$271.3 million (the "**Global Offering**") (after deducting underwriting commissions, the incentive fees and other estimated expenses in connection with the Global Offering). Due to relevant requirements stipulated by the SAFE, the expenses payable by the Company in connection with the Global Offering were not fully paid out of the proceeds from the global offering. Such expenses were settled by the Company using its own funds. As a result, the actual bank balance of the proceeds from the global offering amounted to approximately HK$292.3 million. For details, please refer to the announcement of change in use of proceeds of the Company dated 29 August 2017.

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

Cash Flows

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

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

Net Cash Flows From/(used in) Operating Activities

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

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

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

Net Cash Flows From/(used in) Investing Activities

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

For the year ended 31 December 2018, our net cash flows from investing activities was RMB21.4 million, which was mainly due to (i) the decrease of capital of Jinjiang Huixin Microfinance Co., Ltd. (晉江市匯鑫小額貸款有限公司, formerly known as Jinjiang Baiying Microfinance Co., Ltd.* (晉江市百應小額貸款有限責任公司)) ("**Jinjiang Microfinance**") and dividends income from Jinjiang Microfinance of RMB55.1 million; and (ii) the net cash outflows of RMB33.3 million for the acquisition of a subsidiary.

Net Cash Flows From Financing Activities

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

Cash Management

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

Selected Items of the Statements of Financial Position

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

Cash and Cash Equivalents

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

Loans and Accounts Receivable

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

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

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

Notes:

(1) Performing loans are collectively assessed for impairment.

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

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

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

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

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

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

Other Assets

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

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

Income Tax Payable

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

Other Payables

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

Indebtedness

Interest-bearing Bank Borrowings

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

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

Corporate Bond

On 11 December 2017, a proposed issue of bonds in the PRC with an aggregate amount of no more than RMB500.0 million (inclusive) (the "**Bonds**") had been approved by the Board and passed by the Shareholders by way of poll at the extraordinary general meeting of the Company on 5 February 2018. For more details, please refer to the announcement of the Company dated 11 December 2017, the circular of the Company dated 19 December 2017, the poll results announcement of the Company dated 5 February 2018, the annual report of the Company dated 23 April 2018 and the announcement of termination of proposed issue of Bonds of the Company dated 15 June 2018.

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

Contingent Liabilities

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

Capital Expenditures

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

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Capital expenditures		
— Micro-credit	**390**	1,225
— Finance lease	**41**	—
Total	**431**	1,225

Related Party Transactions

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

Commitment and Contractual Obligations

Operating Leases

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

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

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

Capital Commitments

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

Key Financial Ratios

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

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

Notes:

(1) Return on equity is calculated by dividing net profit attributable to owners of the parent for the year by the balance of equity attributable to owner of the Company as of the indicated date multiplied by 100%.

(2) Return on assets is calculated by dividing net profit and total comprehensive income for the year by the balance of total assets as of the indicated date multiplied by 100%.

(3) Gross loans to total assets ratio equals the gross loans and accounts receivable amount as of the indicated date divided by the total assets as of the same date and multiplied by 100%. Gross loans and accounts receivable represent our total loans receivable before the deduction of allowance for impairment.

(4) Gearing ratio equals net debt as of the indicated date divided by the aggregate of our capital and net debt as of the same date multiplied by 100%. It reflects our financial leverage.

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

Off-balance Sheet Arrangements

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

Foreign Currency Exposure

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

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

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

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

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

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

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

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

EMPLOYMENT AND EMOLUMENTS

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

PROSPECTS

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

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

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

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

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

Directors, Supervisors and Senior Management

DIRECTORS

Executive directors

Mr. Zhou Yongwei (周永偉) (formerly known as Mr. Zhou Lianqi (周連期)), aged 56, has been the Chairman and our executive Director since 8 January 2010. He is primarily responsible for corporate strategic planning and overall business development and management of our Group. Mr. Zhou has approximately 31 years of experience in finance and investment industry and has extensive experience in corporate management and business operation. Mr. Zhou joined our Group in 8 January 2010 as a Director. Mr. Zhou worked as a salesperson and deputy branch director in the Jinjing office, Jinjiang branch of the Bank of China from January 1981 to June 1987 and July 1987 to May 1993 respectively. He was responsible for the daily business operation management during the relevant period. He has worked as a director of Fujian Septwolves Industry (formerly known as Fujian Septwolves Clothing Industry Company Limited* (福建七匹狼製衣實業有限公司), a company principally engaged in design, manufacturing and sales of the clothing product and clothing raw materials since May 1993, which is listed on the Shenzhen Stock Exchange (stock code: 002029). He was responsible for strategic planning and overall management during the relevant period. Mr. Zhou has been a director and chairman of Fujian Septwolves Group (a company principally engaged in project investment and asset management) since January 1997 and October 2008 respectively. He was responsible for strategic planning and overall management during the relevant period. He worked as a director of Septwolves Group Holding (a company principally engaged in project investment and asset management) since February 2000 and he is responsible for strategic planning but does not participate in its daily management. In addition, he has also served as a director of various companies invested or controlled by Fujian Septwolves Group, including Fujian Baiying Financing Guarantee Co., Ltd.* (福建百應融資擔保股份有限公司) (formerly known as Jinjiang Financing Guarantee Co., Ltd.* (晉江融資擔保有限責任公司)).

Mr. Zhou obtained a bachelor's degree in economics and administration management from Nanjing Institute of Politics, the PRC (南京政治學院) in December 2013. Mr. Zhou was awarded the Bauhinia Cup Outstanding Entrepreneur Awards by the Hong Kong Polytechnic University on 28 November 2013. Mr. Zhou was recognized as the National Model Worker by the State Council in April 2010. He also serves as a member of the People's Congress of Fujian Province* (福建省人民代表大會) for a term from January 2013 to January 2018, a member of the Standing Committee of the People's Congress of Jinjiang City (晉江市人民代表大會) for a term from December 2011 to December 2016, the vice president of the Federation of Industry and Commerce of Xiamen City* (廈門市工商業聯合會) for a term from December 2017 to December 2022, the vice chairman of Fujian Overseas Chinese Federation* (福建省僑聯) for a term from September 2017 to September 2022, and was elected as the first president of Oversea Chinese Businessmen Federation of Quanzhou City* (泉州市僑商聯合會) in December 2012.

Mr. Wu Zhirui (吳智銳), aged 42, has joined our Group and has been our executive Director since 1 January 2011 and 20 November 2012, respectively. Mr. Wu was our non-executive Director between January 2010 and April 2010. He resigned in April 2010 and rejoined our Group on 1 January 2011 as a deputy general manager of the Company, responsible for participating in the day-to-day management of our business operations. He was subsequently promoted to the general manager of the Company on 20 November 2012. He is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations. Currently, Mr. Wu also served as a legal representative of Huixinxing. Mr. Wu has approximately 18 years of experience in enterprise management. Prior to joining our Group, he worked as the branch representative of Zhengzhou branch of Xiahua Monitor System Co., Ltd.* (廈華顯示系統有限公司) (being principally engaged in selling colorful monitor), being a subsidiary of Xiamen Overseas Chinese Electronic Co., Ltd.* (廈門華僑電子股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600870) (being principally engaged in the development, production and manufacturing of the components of electronic devises and hardware fittings) from September 2000 to March 2004. He was responsible for marketing management during the relevant period. From July 2006 to December 2007, Mr. Wu worked as a strategy consultant of Guangzhou Zhenglue Junce Management Consultancy Company Limited* (廣州正略均策管理諮詢有限公司) which was principally engaged in management consultancy. He was responsible for providing strategic and key steps planning during the relevant period. He worked as the general manager of the operation and management department of Septwolves Group Holding (being principally engaged in project investment and asset management) from December 2007 to December 2010 when he was responsible for participating in project investment and branch management and control.

Mr. Wu graduated from Xiamen University, the PRC (廈門大學) in July 2000 with a bachelor's degree in management. He subsequently obtained a master's degree in business administration from Xiamen University, the PRC (廈門大學) in June 2006.

Mr. Yan Zhijiang (顏志江), aged 37, has been our executive Director, secretary to the Board, deputy general manager and joint company secretary since 11 November 2013, 10 July 2014 and 3 September 2014, respectively. He resigned as a secretary to the Board in March 2017. He is primarily responsible for formulating and implementing our corporate governance measures and risk management policy, and implementing operation plans and participating in the day-to-day management of our business operations. Mr. Yan has approximately 15 years of experience in legal matter management/risk management. Mr. Yan joined our Group on 11 November 2013 as executive Director. Prior to joining our Group, he worked as a legal executive of Xiamen Xintaiyang Import and Export Trading Company Limited* (廈門新泰陽進出口貿易有限公司) (a company principally engaged in exporting, importing, processing and trading business) from July 2003 to January 2005 when he was responsible for corporate legal matters. From February 2005 to February 2006, he worked as a clerk of Dehua County People's Court* (德化縣人民法院) and was responsible for assisting the judge and records keeping. Mr. Yan worked as a trainee lawyer and lawyer in Xiamen Jianchang Law Office* (廈門建昌律師事務所) from February 2006 to May 2008. From June 2008 to July 2010, Mr. Yan worked as the head of legal department of Septwolves Group Holding when he was responsible for corporate legal matters. From August 2010 and March 2014, he worked as the general manager of the risk management department of Septwolves Group Holding. He was responsible for corporate legal matters and risk management matters during the relevant period. Mr. Yan received the Legal Professional Qualification Certificate issued by the Ministry of Justice of the PRC in February 2006, and has been a qualified Secretary to the Board as accredited by Shanghai Stock Exchange since 9 August 2013.

Mr. Yan obtained a bachelor's degree in law from Sun Yat-sen University, the PRC (中山大學) in July 2003.

Ms. Liu Aiqin (劉愛琴女士), aged 42, has been re-designated as our executive Director since 25 August 2017. Ms. Liu was a non-executive Director prior to her re-designation as an executive Director. Ms. Liu currently serves as the head of our financial department and is primarily responsible for the financial management and providing strategy advice to the business and operation of our Group. She has been the senior manager of the budget management department of Septwolves Group Holding from June 2015 to June 2017. She was a financial manager of Xiamen Septwolves Venture Capital Co., Ltd.* (廈門七匹狼創業投資有限公司) from September 2011 to June 2015. Ms. Liu worked as a remuneration and project accountant in Xiamen Broadcast and Television Group* (廈門廣播電視集團) from July 2008 to August 2011. From July 2000 to September 2004, she was employed by Xiamen Jinyang Harness Industry Company Limited* (廈門金洋馬具工業有限公司) and had served as a deputy general manager during the period.

Ms. Liu obtained a bachelor's degree in philosophy from Xiamen University, the PRC (廈門大學) in July 1999 and a master degree in management from Xiamen University, the PRC in July 2008. She obtained a certificate of intermediate level accountant qualification in August 2011.

Non-executive directors

Mr. Jiang Haiying (蔣海鷹), aged 43, has been our non-executive Director since 12 June 2015. He is primarily responsible for providing strategic advice to the business and operation of our Group. Mr. Jiang has over 25 years of experience in enterprise management. Mr. Jiang worked as the business manager of Fujian Huian Haoda Construction Company Limited* (formerly known as Fujian Huian Haoda Stoning Company Limited*) (福建省惠安豪達建設有限公司) from 1994 to 1997. Since October 2003, Mr. Jiang has worked as the general manager of Quanzhou Haoxiang.

Mr. Jiang graduated from the Otemon Gakuin University, the Japan (日本大阪追手門學院大學) in 26 March 2003 majoring in international economics. Mr. Jiang has been served as the vice president of the Young Entrepreneur Association of Quanzhou City* (泉州市青年企業家協會) and the Junior Chamber of Quanzhou City* (泉州市青年商會) since 2005. He also has been the vice president of the Stoning Trade Council of Huian County* (惠安縣石雕石材同業公會) since 2008. Since 2012, he has been served as a member of the Standing Committee of Huian County* (惠安縣常委會) and the vice president of the Stone Association of Fujian Province* (福建省石材行業協會) Mr. Jiang serves as a member of the People's Congress of Quanzhou City (泉州市人民代表大會) and an executive member of the Federation of Industry and Commerce of Quanzhou City*(泉州市工商業聯合會) since January 2017.

Mr. Cai Rongjun (蔡鎔駿), aged 32, has been our non-executive Director since 12 June 2018. He is primarily responsible for providing strategic advice to the business and operation of our Group. From January 2017 to present, Mr. Cai works as general manager of Fujian Panpan Investment LLC (福建盼盼投資有限公司). From September 2009 to present, Mr. Cai works as general manager of Anhui Junan Real Estate Development LLC (安徽君安房地產開發有限公司). Mr. Cai worked as general manager of Jinyuan Real Estate Development LLC (金源房地產發展有限公司) of Longyan City from September 2006 to September 2009.

From 2009 to present, Mr. Cai serves as standing vice president of Fujian Chamber (福建商會) of Chuzhou City, Anhui Province. From 2013 to present, Mr. Cai serves as member of Junior Chamber (青商會) of Fujian Province. He also served as a deputy of the 13th People's Congress of Anhui Province (安徽省第十三屆人大代表) in 2018.

Mr. Cai graduated from Jiangxi University of Technology (江西科技學院) majoring in business management in December 2016.

Independent non-executive directors

Mr. Zhang Lihe (張立賀), aged 42, has been our independent non-executive Director since 10 July 2014. He is primarily responsible for providing independent opinion and judgment to our Board, particularly with regard to the financial aspects of our Group. Mr. Zhang joined our Group on 10 July 2014 as a Director. Mr. Zhang worked successively as the project manager, senior manager and partner of Xiamen Tianjian Huatian Accounting Firm* (廈門天健華天會計師事務所), Tianjian Huazheng Zhongzhou (Beijing) Accounting Firm (Xiamen Branch)* (天健華證中洲(北京)會計師事務所(廈門分所)), Tianjian Guanghua Accounting Firm (Xiamen Branch)* (天健光華會計師事務所(廈門分所)) and Tianjian Zhengxin Accounting Firm* (Xiamen Branch)* (天健正信會計師事務所(廈門分所)) respectively from December 1999 to May 2012, and the partner of Grant Thornton Accounting Firm (Xiamen Branch)* (致同會計師事務所(廈門分所)) from June 2012 up to present.

Mr. Zhang is a certified public accountant in the PRC. Mr. Zhang obtained a master degree in accounting from Xiamen University, the PRC (廈門大學) in December 2007.

Mr. Lin Jianguo (林建國), aged 67, has been our independent non-executive Director since 12 June 2017. He is primarily responsible for providing independent opinion and judgment to our Board. Mr. Lin served in the Chinese People's Liberation Army from January 1969 to December 1987. After his military career, he worked in the Bank of China (中國銀行), successively as the vice president of Shishi Sub-branch, vice president of Jinjiang Sub-branch, president of Jinjiang Sub-branch, president of Shishi Sub-branch, vice president of Zhangzhou Branch, president of Fuqing Sub-branch and the investigator of Quanzhou Branch from February 1988 to October 2011.

Mr. Lin graduated from Northwestern Polytechnical University (西北工業大學) majoring in aerodynamics in November 1978.

Mr. Sun Leland Li Hsun (孫立勳), aged 57, has been our independent non-executive Director since 12 June 2017. He is primarily responsible for providing independent opinion and judgment to our Board. Mr. Sun has been an independent non-executive director of Chongqing Rural Commercial Bank Co., Ltd. (重慶農村商業銀行) (stock code: 3618) since 2011. He is also an independent non- executive director, chairman of the audit committee of Mizuho Securities Asia Limited (瑞穗證券亞洲有限公司) and a member of remuneration committee since 2014. Mr. Sun founded Pan Asian Mortgage Company Limited* (宏亞按揭證券有限公司), an innovative non-banking financial services company specializing in residential mortgage financing in Hong Kong in 2001. He was appointed as the chief operating officer of the Hong Kong Mortgage Corporation (香港按揭證券有限公司) by the Financial Secretary of Hong Kong SAR Government in 1997. Previously, he was a senior managing director of Bear Stearns Asia Limited (美國貝爾斯登亞洲有限公司), and an executive director of Goldman Sachs (Asia) L.L.C. (高盛(亞洲)有限公司).

Mr. Sun is a vice chairman of Hong Kong General Chamber of Commerce (香港總商會), honorary treasurer of Business and Professionals Federation of Hong Kong (BPF) (香港工商專業聯會) and a member of Executive Committee of Servicemen's Guides Association* (軍人輔導會). Previously, Mr. Sun was the president of The American Club in Hong Kong (香港美國會) and a member of Executive Committee (Treasurer) and board of governors of the American Chamber of Commerce in Hong Kong (香港美國商會).

Mr. Sun obtained his Master of Business Administration majoring in finance from the UCLA Anderson School of Management in June 1986 and was named as one of the 100 Most Inspirational Alumni in 2001. He is also a board member of the Fink Center for Finance & Investments since 2010.

Supervisors

Ms. Hong Lijun (洪麗君), aged 32, has been an employee representative Supervisor and the chairperson of the Supervisory Committee since 10 July 2014 and 15 December 2015, respectively. Ms. Hong joined our Group on 18 July 2011 as a business manager of the Company. She has been promoted as a senior manager of the Company since April 2013. She is primarily responsible for project due diligence and relationship maintaining. Prior to joining our Group, she worked as a client manager of the Quanzhou Tian'an Road sales office of Haitong Securities Co., Ltd.* (海通證券股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600837) and the Stock Exchange (stock code: 6837) which was principally engaged in securities brokerage, operation, underwriting, sponsorship, investment consultancy and financial advisory in securities trading and investment from September 2009 to May 2011. She was responsible for securities brokerage and securities investment consultancy during the relevant period.

Ms. Hong obtained a bachelor's degree in economics from Beijing Normal University, the PRC (北京師範大學) in July 2009.

Mr. Li Jiancheng (李建成), aged 31, has joined our Group as a Shareholder representative Supervisor since 4 February 2016. He resigned as a Shareholder representative Supervisor on 22 August 2017 and rejoined on 12 June 2018. Mr. Li worked as an office secretary of Septwolves Group Holding Co., Ltd.* (七匹狼控股集團股份有限公司) since April 2012.

Mr. Li completed his four-year study in art design from Zhejiang University (浙江大學) in July 2011.

Ms. Ruan Cen (阮岑), aged 38, has been an employee representative Supervisor since 10 July 2014. Ms. Ruan joined our Group in 1 March 2010 as an administration manager of the Company. She is primarily responsible for administrative work and team building. Prior to joining our Group, she worked as a salesperson of Quanzhou Qinggong Gongyi Importing and Exporting (Group) Co., Ltd.* (泉州輕工工藝進出口(集團)公司) (a company principally engaged in operating and agency in exporting and importing products and technology apart from the 16 kinds of export products organized uniformly by the government and 14 kinds of import products approved to be traded by the government) from July 2004 to June 2006 when she was responsible for assisting in the business of the company. She worked as a salesperson of Quanzhou Qingyi Co., Ltd.* (泉州輕藝股份有限公司) (a company principally engaged in operating and acting as agent in exporting and importing products and technology) from July 2006 to February 2010 when she was responsible for assisting in the business of the company.

Ms. Ruan obtained a bachelor's degree in international economics and trade from Huaqiao University, the PRC (華僑大學) in July 2004, and the qualification of intermediate economist in January 2011.

Mr. Chen Jinzhu (陳金助), aged 42, has been an independent Supervisor since 15 December 2015. From October 2000 to April 2002, Mr. Chen worked as a legal executive of Xiamen Xinhua Borui Productivity Development Company Limited* (廈門新華博瑞生產力發展有限公司). He worked as a trainee lawyer and lawyer in Fujian Jianchang Law Office* (福建建昌律師事務所) from May 2002 to October 2011. From November 2011 to January 2017, he worked as a lawyer of the Yingke (Xiamen) Law Firm* (北京盈科(廈門)律師事務所). Since January 2017, he has been a lawyer of Shanghai Co-effort (Xiamen) Law Firm* (上海協力(廈門)律師事務所). Mr. Chen received the Legal Professional Qualification Certificate issued by the Ministry of Justice of the PRC in March 2001.

Mr. Chen obtained a bachelor's degree in law from Northwest University of Politics and Law, the PRC (西北政法大學) in July 2000.

Mr. Wu Lindi (吳麟弟), aged 41, has been an independent Supervisor since 15 December 2015. Mr. Wu worked as a marketing engineer in China Unicom Zhangzhou Branch* (中國聯通漳州分公司) from July 2001 to September 2003. From October 2005 to December 2009, he worked as the project investment director in Xiamen International Trade Corporation* (廈門國貿集團股份有限公司). He was the general manager assistant of Xiamen Chuangyi Venture Investment Company Limited* (廈門創翼創業投資有限公司) from December 2009 to September 2015. Since October 2015, he worked as the senior manager of New Times Securities Co., Ltd* (新時代證券股份有限公司).

Mr. Wu obtained the qualification of intermediate economist on 14 August 2009 and is a certified public accountant of the PRC since 20 December 2009. Mr. Wu graduated from Xiamen University, the PRC (廈門大學) in July 2001 with a bachelor's degree in management. He subsequently obtained a master's degree in business administration from Xiamen University, the PRC (廈門大學) in July 2006.

Senior Management

For biographical details of Mr. Zhou Yongwei (周永偉), Mr. Wu Zhirui (吳智銳), Mr. Yan Zhijiang (顏志江) and Ms. Liu Aiqin (劉愛琴), please refer to the sub-section headed "Executive Directors" above.

Mr. Jiang Bin (蔣斌), aged 42, has jointed our Group since April 2015 and served as our deputy general manager since March 2017. He is primarily responsible for formulating and implementing our corporate governance measures, corporate strategies, and implementing operation plans and participating in the day-to-day management of our business operations. Mr. Jiang has approximately 11 years of experience in enterprise management. Prior to joining our Group, Mr. Jiang worked as vice president and executive director of Fujian Wonders Group LLC* (福建萬道集團有限公司) from July 2013 to April 2015. He was participated in incorporation and operation of the company and mainly responsible for formulating operation strategies, team development, development of financial system, and fund raising of the company. From August 2010 to July 2013, Mr. Jiang worked as president of Donghu sub-branch of Quanzhou Branch of CITIC Bank* (中信銀行(泉州東湖支行)). From January 2010 to July 2010, Mr. Jiang worked as deputy general manager of retail banking department of Quanzhou Branch of CITIC Bank* (中信銀行 (泉州分行)). From June 2007 to January 2010, Mr. Jiang was worked as deputy president of Donghu sub-branch of Quanzhou Branch of CITIC Bank* (中信銀行(泉州東湖支行)). He was responsible for retail banking business during the relevant period. From March 2004 to June 2007, Mr. Jiang worked as the manager of the wealth management department of Quanzhou Branch of CITIC Bank* (中信銀行(泉州分行)). He was responsible for the development of wealth management and new products, and marketing management during the relevant period. From September 2003 to March 2004, Mr. Jiang worked as a clerk of Quanzhou Branch of CITIC Bank* (中信銀行(泉州分行)). From September 1999 to September 2003, Mr. Jiang worked at credit card department and personal banking business department of Fujian Branch of Construction Bank of China* (中國建設銀行(福建省分行)).

Mr. Jiang obtained a bachelor's degree in economics from Fujian Agriculture University, the PRC (福建農業大學) (now known as Fujian Agriculture and Forestry University, the PRC (福建農林大學)) in July 1999, majoring in money and banking.

Mr. Lin Wuji (林戊己), aged 34, has been joined our Group since March 2014 as the securities affairs representative, senior manager and secretary to the Board of the Company successively. He is primarily responsible for the daily operations of the securities affairs of the Company and the Board, investor relations and regulatory authority maintenance. Mr. Lin has approximately 9 years of experience in investment and securities affairs. Prior to joining our Group, Mr. Lin worked as the investment manager and senior investment manager in Xiamen septwolves Venture Capital Co., Ltd.* (廈門七匹狼創業投資有限公司) from October 2010 to February 2014, respectively. He participated in venture capital investment, merge and acquisition, fund raising and management of investment and post-investment. From August 2008 to September 2010, Mr. Lin worked as an analyst and senior analyst in corporate strategy research department in Septwolves Group Holding, respectively. He was responsible for industry analysis and macro research and providing suggestion of investment decision.

Mr. Lin graduated and obtained a master's degree in business administration from Beijing University of Aeronautics and Astronautics* (北京航空航天大學) in June 2008. He obtained a bachelor's degree in bioengineering from China Agricultural University* (中國農業大學) in July 2006. In August 2013, Mr. Lin obtained the qualification of Secretary to the Board accredited by the Shanghai Stock Exchange.

Report of the Directors

The Directors are pleased to present the annual report together with the audited financial statements of our Group for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the PRC on 8 January 2010. Its principal place of business is in the PRC and its registered office is at 12/F, Former Finance Building, No. 361 Feng Ze Street, Quanzhou City, Fujian Province, the PRC. Its principal place of business in Hong Kong is at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

PRINCIPAL ACTIVITIES

We are primarily dedicated to providing local entrepreneurial individuals, SMEs and microenterprises with practical and flexible short-term financing solutions to support their continued development and address their ongoing liquidity needs.

BUSINESS REVIEW

A review of our Group's business for the year ended 31 December 2018 and a discussion on our Group's future business development are set out in the sections of "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. Certain financial key performance indicators are provided in the section of "Financial Summary" of this annual report.

Important events affecting our Group are provided in the sub-section of "Events after the Reporting Period" of this Report of the Directors.

ENVIRONMENT, SOCIAL AND GOVERNANCE

Our Group strictly complies with the requirements of Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules, and our Group is committed to incorporating the sustainable development principle into its corporate development strategies and daily operation and management and acting as responsible corporate citizen. For details, please refer to the section headed "Environmental, Social and Governance Report" of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

Our Group persists in maintaining good corporate governance and operating in compliance with the relevant requirements of laws and regulations in the PRC, rules and provisions of the Companies Ordinance, the Listing Rules and SFO in Hong Kong. For details, please refer to the sub-section headed "Compliance with key regulatory requirements" set out in section headed "Management Discussion and Analysis" of this annual report.

KEY RISK FACTORS

The key risks and uncertainties facing our Group are set out below:

Risks relating to our business

The Company operates in a highly regulated industry that is subject to continually evolving laws, regulations and policies, and the Company may be required to make significant changes to its operations from time to time in order to comply with changes in these laws, regulations and policies. Any new developments in the laws, regulations and policies governing the microfinance industry, including developments at the national, provincial or local level, could change or replace the laws, regulations and policies that are currently applicable to the Company. If the Company does not respond to the changes in a timely manner or fail to fully comply with the applicable laws and regulations, its financial condition, results of operations and business prospects could be adversely affected.

The Company mainly relies on the creditworthiness of its customers and/or their guarantors, rather than on collateral, which may limit its ability recover payments, from defaulting customers. If a customer defaults on a credit loan, which is a loan that is neither secured by collateral nor backed by any guarantee, the Company's only option is to go after the customer for collection. However, a customer's ability to repay the loan may be limited by various factors, such as the profitability of the customer's business, the development of industries relating to his business, and the local economy of the regions where he conducts business. If a credit loan customer's ability to repay the loan is adversely affected by any of these factors and such customer's default continues, the Company may suffer losses. If a customer defaults on a guaranteed loan, he may demand the customer and the guarantors to repay the principal of the loan and any interest accrued. However, in the event that the Company is unable to locate the guarantor, or the guarantor no longer has sufficient or any financial resources to make full repayment on the customer's behalf, the Company's financial condition and results of operations may be materially adversely affected.

The sustainability of the Company's business and future growth depends largely on its ability to effectively manage the credit risk of its loans and maintain a low impaired loan ratio. Any deterioration in its loan portfolio quality and increase in the impaired loan ratio could materially adversely affect its results of operations. If the Company fails to effectively manage credit risk of its loans and maintain a low impaired loan ratio, its business, financial condition and results of operations may be adversely affected.

Our Group's current operations in China are primarily in Quanzhou City. Any significant deterioration of the economy or business environment of Quanzhou City could materially adversely affect its financial condition and results of operations.

Risks relating to employees and senior managements

Our Group may be exposed to fraud or other misconduct committed by its employees, customers or other third parties. Although our Group has established risk management and internal control systems to monitor its operations and overall compliance, our Group can give no assurance that it will be able to identify incidents of non-compliance or suspicious transactions in a timely manner, or at all. Moreover, it may be difficult to deter or prevent fraud or misconduct, such as money laundering activities, and the measures our Group takes to prevent and detect such activities may not be effective, which could lead it to suffer financial losses as well as reputational damage.

Our Group's inability to attract, retain or secure key management and qualified personnel for its operations could hinder its continuing growth and success. Competition for experienced management and other qualified personnel is intense among microfinance companies and financial services providers, and there can be no assurance that our Group will be able to continue to attract and retain the qualified employees essential for its growth. Under such circumstances, if our Group is unable to recruit and retain replacement personnel with equivalent qualifications in time or at all, its growth and business prospects could be adversely affected.

Our Group's normal course of business is also exposed to a variety of key risks including credit risk, foreign currency risk, interest rate risk, price risk and liquidity risk. Details of the aforesaid risks are set out in note 34 to the Financial Statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

Interest income from our top five customers combined accounted for less than 30% of our total interest income for the year ended 31 December 2018.

During the year ended 31 December 2018, all of our top five customers were Independent Third Parties and none of our Directors, their close associates or our Shareholders holding more than 5% of our issued share capital, to the knowledge of our Directors, had any interest in any of our top five customers.

As a microfinance company, our Group does not have any major supplier.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of our Group are set out in the section of "Financial Summary" of this annual report. This summary does not form part of the audited financial statements.

FINANCIAL STATEMENTS

The financial results of our Group for the year ended 31 December 2018 and the financial position of our Group as of the date are set out in the section of "Financial Statements" of this annual report.

A discussion and analysis of our Group's performance during the year and material factors underlying its results and financial position are set out in the section of "Management Discussion and Analysis" of this annual report.

RESERVES

Details of movements in reserves of our Group during the year are set out in the section of "Consolidated Statement of Changes in Equity" of this annual report, of which details of reserves available for distribution to Shareholders are set out in note 27 to the Financial Statements of this annual report.

DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.05 per Share for the year ended 31 December 2018 (the "**Proposed Final Dividend**") to Shareholders whose names appear on the Company's register of members on Tuesday, 25 June 2019. Subject to the approval of the Shareholders at the Company's forthcoming AGM to be held on Wednesday, 12 June 2019, the Proposed Final Dividend is expected to be paid on or around Friday, 16 August 2019.

Subject to the laws, rules, regulations and the Articles and Association, the holders of Domestic Shares and H Shares shall be entitled to the dividend distribution or any other forms of the distribution as the same (otherwise specified in the laws, rules and regulations).

DIVIDEND POLICY

The Company may distribute the dividend by way of cash or any other form to the Shareholders. Declaration of dividends is subject to the discretion of the Board, depending on the financial results, cash flows, financial conditions, development stages and capital needs in the current period. The proposed distribution plan will be submitted by the Board for the Shareholders' consideration and approval at the general meeting by way of resolution. The distribution of dividend will completed within three months upon the approval at the general meeting by the Shareholders.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholder's entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 13 May 2019 to Wednesday, 12 June 2019, both days inclusive, during which period no share transfers will be registered. In order to qualify for attending and voting at the AGM, holders of H Shares shall lodge transfer documents accompanied by the relevant share certificates with H Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, or to the Company's registered office in the PRC at 12/F, Former Finance Building, No. 361 Feng Ze Street, Quanzhou City, Fujian Province, the PRC (for holders of Domestic Shares), for registration no later than 4:30 p.m. on Friday, 10 May 2019.

The payment of the Proposed Final Dividend is subject to the approval of the Shareholders at the AGM. For the purpose of determining the entitlement to the Proposed Final Dividend, the H Share register of members of the Company will be closed from Thursday, 20 June 2019 to Tuesday, 25 June 2019 (both days inclusive), during which period no transfer of H Shares will be registered. In order to be entitled to the Proposed Final Dividend, unregistered holders of H Shares should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with H Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, or to the Company's registered office in the PRC (for holders of Domestic Shares), for registration no later than 4:30 p.m. on Wednesday, 19 June 2019.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank and other borrowings as of 31 December 2018 are set out in note 24 to the Financial Statements of this annual report.

SHARE CAPITAL

There was no change in share capital of the Company during the year. Details of movements in the share capital of our Group during the year are set out in the section of "Consolidated Statement of Changes in Equity" of this annual report.

USE OF PROCEEDS FROM GLOBAL OFFERING

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

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

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

Notes:

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

(2) The remaining balance of the net proceeds for working capital and general corporate purpose was HK$48,300 as of 31 December 2018.

(3) The total remaining balance of the net proceeds was HK$451,300 as of 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as of the date of this annual report.

PRE-EMPTIVE RIGHTS

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

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

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

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year or subsisted at the end of the year.

DIRECTORS AND SUPERVISORS

The following table sets forth information concerning the Directors and Supervisors:

Directors

Name	Age	Position	Appointment Date
Mr. Zhou Yongwei (周永偉)	56	Chairman and executive Director	8 January 2010
Mr. Wu Zhirui (吳智鋭)	42	Executive Director	20 November 2012
Mr. Yan Zhijiang (顏志江)	37	Executive Director	11 November 2013
Ms. Liu Aiqin (劉愛琴)	42	Executive Director	25 August 2017
Mr. Jiang Haiying (蔣海鷹)	43	Non-executive Director	12 June 2015
Mr. Zhu Jinsong (朱金松)	50	Non-executive Director	10 July 2014 (resigned on 12 June 2018 due to his personal commitments on other business)
Mr. Cai Rongjun (蔡鎔駿)	32	Non-executive Director	12 June 2018
Mr. Zhang Lihe (張立賀)	42	Independent Non-executive Director	10 July 2014
Mr. Lin Jianguo (林建國)	67	Independent Non-executive Director	12 June 2017
Mr. Sun Leland Li Hsun (孫立勳)	57	Independent Non-executive Director	12 June 2017

Supervisors

Name	Age	Position	Appointment Date
Ms. Hong Lijun (洪麗君)	32	Chairwoman of the Supervisory Committee and employee representative Supervisor	10 July 2014
Mr. Ng Seng Chuan (黃成泉)	62	Shareholder representative Supervisor	10 July 2014 (resigned on 12 June 2018 due to his personal commitments on other business)
Ms. Ruan Cen (阮岑)	38	Employee representative Supervisor	10 July 2014
Mr. Chen Jinzhu (陳金助)	42	Independent Supervisor	15 December 2015
Mr. Wu Lindi (吳麟弟)	41	Independent Supervisor	15 December 2015
Mr. Li Jiancheng (李建成)	31	Shareholder representative Supervisor	4 February 2016 (resigned on 22 August 2017 due to the change in the number of supervisors for the Supervisory Committee under the Articles of Association and re-appointed on 12 June 2018)

The Company has received, from each of the independent non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and considers that all of the independent non-executive Directors are independent of the Company.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company and each service contract is for a term of three years. Our Group has not entered, and does not propose to enter, into any service contract with any of the Directors or Supervisors in their respective capacities as Directors and/or Supervisors which is not determinable by the employer within one year without the payment of compensation other than statutory compensation.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate Directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors and Supervisors are set out in note 10 to the Financial Statements of this annual report.

The remuneration to Directors is subject to the Shareholders' approval at the general meeting. The emoluments payable to the Directors and senior management are determined by the Board with recommendations of the remunerations of the Remuneration Committee, their respective contractual terms under their employment contracts or service contracts, having regard to their performance, our Group's operating results and comparable market statistics. No Directors or any of their respective associates was involved in deciding their own remuneration.

Remuneration paid to each of the two members of the senior management of the Company (except for four executive Directors) for the year ended 31 December 2018 is less than RMB600,000.

MANAGEMENT CONTRACTS

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

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As of 31 December 2018, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Name	Position	Nature of interest	Number of Shares(1)	Percentage in the relevant class of share capital(2)	Percentage in the total issued share capital(3)
Mr. Zhou Yongwei	Chairman and executive Director	Interest in controlled corporation(4)	203,932,000 Domestic Shares (L)	40.79%	29.99%
Mr. Jiang Haiying	Non-executive Director	Interest in controlled corporation(5)	50,000,000 Domestic Shares (L)	10.00%	7.35%

Notes:

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

(2) The calculation is based on the percentage of shareholding in Domestic Shares as of 31 December 2018.

(3) The calculation is based on the total number of 680,000,000 Shares in issue which comprised of 180,000,000 H Shares and 500,000,000 Domestic Shares as of 31 December 2018.

(4) Fujian Septwolves Group is directly interested in approximately 40.79% of the issued Domestic Shares of the Company. The disclosed interest represents the interest in the Company held by Fujian Septwolves Group, which is in turn approximately 37.82% owned by Mr. Zhou Yongwei, approximately 31.09% owned by Mr. Zhou Shaoxiong and approximately 31.09% owned by Mr. Zhou Shaoming. Mr. Zhou Yongwei controls more than one-third of the voting rights of Fujian Septwolves Group and is therefore deemed to be interested in its interest in the Company by virtue of the SFO.

(5) Quanzhou Haoxiang is directly interested in approximately 10% of the issued Domestic Shares of the Company. The disclosed interest represents the interest in the Company held by Quanzhou Haoxiang, which is in turn approximately 61.08% owned by Fujian Haoxiang Gardening (a company owned as to 53.33% by Mr. Jiang Haiying), approximately 34.05% owned by Mr. Jiang Haiying and approximately 4.87% owned by Fujian Huian Haoda Construction Company Limited* 福建省惠安豪達建設有限公司 (formerly known as Fujian Huian Haoda Stoning Company Limited). Therefore, Mr. Jiang Haiying is deemed to be interested in Quanzhou Haoxiang's interest in the Company by virtue of the SFO.

Save as disclosed above, as of 31 December 2018, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As of 31 December 2018, the persons or corporations (other than a Director, Supervisor or the chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Shareholders	Nature of interest	Number of shares(1)	Percentage in the relevant class of share capital(2)	Percentage in the total issued share capital(3)
Fujian Septwolves Group	Beneficial owner	203,932,000 Domestic Shares (L)	40.79%	29.99%
Xiamen Gaoxinhong	Beneficial owner	67,932,000 Domestic Shares (L)	13.59%	9.99%
Ms. Zhou Zehui(4)	Interest in controlled corporation	67,932,000 Domestic Shares (L)	13.59%	9.99%
Wealth Success(5)	Interest in controlled corporation	57,248,000 Domestic Shares (L)	11.45%	8.42%
Ms. Hong Jingxiao(5)	Interest in controlled corporation	57,248,000 Domestic Shares (L)	11.45%	8.42%
Mr. Cai Jinan(6)	Interest in controlled corporation	54,458,000 Domestic Shares (L)	10.89%	8.01%
Fujian Panpan	Beneficial owner	54,458,000 Domestic Shares (L)	10.89%	8.01%
Quanzhou Haoxiang	Beneficial owner	50,000,000 Domestic Shares (L)	10.00%	7.35%
Fujian Haoxiang Gardening(7)	Interest in controlled corporation	50,000,000 Domestic Shares (L)	10.00%	7.35%

Shareholders	Nature of interest	Number of shares[(1)]	Percentage in the relevant class of share capital[(2)]	Percentage in the total issued share capital[(3)]
Mr. Zeng Huanrong[(8)]	Interest in controlled corporation	34,246,000 H Shares (L)	19.03%	5.04%
Glory Asiapac Holdings Limited[(8)]	Interest in controlled corporation	34,246,000 H Shares (L)	19.03%	5.04%
Mr. Cai Jianchu	Beneficial owner	30,954,000 H Shares (L)	17.20%	4.55%
Mr. Wu Weiqi[(9)]	Interest in controlled corporation	20,554,000 H Shares (L)		
	Beneficial owner	8,516,000 H Shares (L)		
		29,070,000 H Shares (L)	16.15%	4.28%
Mr. Hong Erguan	Beneficial owner	29,416,000 H Shares (L)	16.34%	4.33%
Ms. Cheng Chau Yuet[(10)]	Beneficial owner	330,000 H Shares (L)		
	Interest of spouse	20,634,000 H Shares (L)		
		20,964,000 H Shares (L)	11.65%	3.08%
Mr. Chong Ming Ting[(11)]	Interest in controlled corporation	20,514,000 H Shares (L)		
	Beneficial owner	120,000 H Shares (L)		
	Interest of spouse	330,000 H Shares (L)		
		20,964,000 H Shares (L)	11.65%	3.08%
Yue Tai Investment Limited	Beneficial owner	20,554,000 H Shares (L)	11.42%	3.02%
Grand Wealth (HK) Investment Limited	Beneficial owner	20,514,000 H Shares (L)	11.40%	3.02%
Mr. Xu Yingyi	Beneficial owner	11,508,000 H Shares (L)	6.39%	1.69%

Notes:

(1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Domestic Shares or the H Shares (as the case may be).

(2) The calculation is based on the percentage of shareholding in the Domestic Shares or H Shares (as the case may be) as of 31 December 2018.

(3) The calculation is based on the total number of 680,000,000 Shares in issue which comprised of 180,000,000 H Shares and 500,000,000 Domestic Shares as of 31 December 2018.

(4) The disclosed interest represents the interest in the Company held by Xiamen Gaoxinhong, which is in turn approximately 59% owned by Xiamen Sifang, approximately 23% owned by Ms. Zhou Zehui and approximately 28% owned by Ms. Wu Changfeng, and Xiamen Sifang is in turn approximately 95% owned by Ms. Zhou Zehui. Therefore, each of Xiamen Sifang and Ms. Zhou Zehui is deemed to be interested in Xiamen Gaoxinhong's interest in the Company by virtue of the SFO.

(5) Quanzhou Yuanpeng is directly interested in approximately 11.45% of the issued Domestic Shares. The disclosed interest represents the interest in the Company held by Quanzhou Yuanpeng, which is wholly owned by Wealth Success, a company 100% owned by Ms. Hong Jingxiao. Therefore, each of Wealth Success and Ms. Hong Jingxiao is deemed to be interested in Quanzhou Yuanpeng's interest in the Company by virtue of the SFO.

(6) The disclosed interest represents the interest in the Company held by Fujian Panpan, which is in turn approximately 59% owned by Mr. Cai Jinan. Therefore, Mr. Cai Jinan is deemed to be interested in Fujian Panpan's interest in the Company by virtue of the SFO.

(7) The disclosed interest represents the interest in the Company held by Quanzhou Haoxiang, which is in turn approximately 51% owned by Fujian Haoxiang Gardening, approximately 39% owned by Mr. Jiang Haiying and approximately 10% owned by Fujian Huian Haoda Construction Company Limited* (福建省惠安豪達建設有限公司) (formerly known as Fujian Huian Haoda Stoning Company Limited). Therefore, Fujian Haoxiang Gardening is deemed to be interested in Quanzhou Haoxiang's interested in the Company by virtue of the SFO.

(8) Cheer Spread Enterprise Limited is directly interested in approximately 19.03% of the issued H Shares. The disclosed interest represents the interest in the Company held by Cheer Spread Enterprise Limited, which is wholly owned by Glory Asiapac Holdings Limited, a company 100% owned by Mr. Zeng Huanrong. Therefore, each of Glory Asiapac Holdings Limited and Mr. Zeng Huanrong is deemed to be interested in Cheer Spread Enterprise Limited's interest in the Company by virtue of the SFO.

(9) Yue Tai Investment Limited is directly interested in approximately 11.42% of the issued H Shares. The disclosed interest represents the interest in the Company held by Yue Tai Investment Limited, which is wholly owned by Mr. Wu Weiqi. Therefore, Mr. Wu Weiqi is deemed to be interested in Yue Tai Investment Limited's interest in the Company by virtue of the SFO.

(10) Ms. Cheng Chau Yuet is deemed to be interested in the 20,634,000 H Shares held by her spouse Mr. Chong Ming Ting by virtue of the SFO.

(11) The disclosed interest represents the interest in the Company held by Grand Wealth (HK) Investment Limited, which is wholly owned by Mr. Chong Ming Ting. Therefore, Mr. Chong Ming Ting is deemed to be interested in Grand Wealth (HK) Investment Limited's interest in the Company by virtue of the SFO. In addition, Mr. Chong Ming Ting is deemed to be interested in the 330,000 H Shares held by his spouse Ms. Cheng Chau Yuet by virtue of the SFO.

Save as disclosed above, as of 31 December 2018, the Directors were not aware of any other person or corporation having an interest or short position in Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' AND SUPERVISOR'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the sub-section headed "Connected Transaction" in this report, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or Supervisor or an entity connected with a Director or Supervisor had a material interest, either directly or indirectly subsisted as of 31 December 2018 or at any time during the year ended 31 December 2018.

CONTRACTS OF SIGNIFICANCE

During the year, there had been no contract of significance between the Company and a controlling Shareholder (as defined in the Listing Rules) of the Company.

COMPETING BUSINESS

None of the Directors and their close associates had any interest in any competing business with the Company during the year.

COMPLIANCE WITH NON-COMPETITION UNDERTAKING

Each of our Substantial Shareholders has confirmed to the Company that he/she/it has complied with the non-competition undertakings given by them to the Company during the year ended 31 December 2018. Pursuant to the non-competition agreement, the Substantial Shareholders agreed not to, and to procure their subsidiaries (other than the Company) and their close associates not to compete, either directly or indirectly, with the principal business and granted to the Company the option for new business opportunities, option for acquisitions and pre-emptive rights.

The Substantial Shareholders have further irrevocably undertaken in the non-competition agreement that, during the term of the non-competition agreement, they will not, and will also procure their subsidiaries (other than the Company) and their close associates not to, alone or with any other entity, in any form, directly or indirectly, engage in, participate in, assist or support a third party to engage in or participate in any business (other than the Finance Businesses) that competes, or is likely to compete, directly or indirectly with the principal business of the Company. The foregoing restrictions are subject to the fact that the Company may waive certain new business opportunities pursuant to the terms and conditions under the non-competition agreement.

The foregoing restrictions do not apply to (1) the Finance Businesses; (2) the purchase by Fujian Septwolves Group, its subsidiaries or close associates for investment purpose of not more than 10% equity interest in other listed companies whose business competes or is likely to compete with our principal business; or (3) the holding by Fujian Septwolves Group, its subsidiaries or close associates of not more than 10% equity interest in other companies whose business competes or is likely to compete with our principal business, as a result of a debt restructuring of such companies (collectively referred to as "**Investment Companies**" for scenarios (2) and (3)). For the avoidance of doubt, the exceptions above do not apply to such Investment Companies which Fujian Septwolves Group, its subsidiaries or close associates are able to control their respective board of directors notwithstanding the fact that not more than 10% of the equity interests of such Investment Companies are being held by Fujian Septwolves Group, its subsidiaries or close associates. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-competition undertakings and confirmed that all the undertakings thereunder have been complied with by each of the Substantial Shareholders.

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or Supervisor or their respective spouses or minor children, or were such rights exercised by them, or was the Company or any its subsidiaries a party to any arrangements to enable the Directors or Supervisors to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

CONTINUING DISCLOSURE REQUIREMENTS UNDER THE LISTING RULES

As of 31 December 2018, the Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

RETIREMENT SCHEME

Our Group participates in pension scheme organized by the government of Fujian Province for our Group's employees based in the PRC. Contributions to this retirement plan are charged to profit or loss as they became payable in accordance with the rules of the central pension scheme. Our Group has no obligation for the payment of pension benefits beyond the contributions described above.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the year ended 31 December 2018, the Company complied with all code provisions (the "**Code Provisions**") as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules.

Principal corporate governance practices adopted by the Company are set out in the section of "Corporate Governance Report" of this annual report.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2018, the Company initiated 14 new legal proceedings to recover overdue payments from our customers. We were not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against our Group for the year ended 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

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

On 31 January 2019, Huixinxing, a wholly-owned subsidiary of the Company, entered into the promoters agreement with Quanzhou Baiying Finance Holdings Limited* (泉州市百應金融控股有限公司) ("**Baiying Finance Holdings**"), pursuant to which the parties agreed to established a joint venture company in the PRC. The parties expected to invest a total of RMB50.0 million into the joint venture company by contributing to its registered capital. Huixinxing has agreed to contribute RMB30,000,000, being 60% of the proposed registered capital of the joint venture company, and Baiying Finance Holdings agreed to contribute RMB20,000,000, being 40% of the proposed registered capital of the joint venture company.

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

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

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

CONNECTED TRANSACTION

Fujian Septwolves Group is a Substantial Shareholder and hence a connected person of the Company. Therefore, related party transactions as disclosed in note 29 to the Financial Statements constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Since such guarantee will be conducted on normal commercial terms or better and will not be secured by the assets of the Company, the guarantee will constitute financial assistance to the Company from a connected person under Chapter 14A of the Listing Rules which is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

DONATION

No charitable and other donations were made by our Group during the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company has reviewed and discussed with the management and external auditors, Ernst & Young, the accounting principles and practices adopted by our Group, auditing, risk management and internal control systems and financial report matters including the review of our Group's annual results for the year ended 31 December 2018.

AUDITOR

The financial statements for the year ended 31 December 2018 have been audited by Ernst & Young, who has remained as the Company's auditor since the Listing Date and shall retire and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of Ernst & Young as an auditor of the Company is to be proposed at the AGM.

By order of the Board
Zhou Yongwei
Chairman and executive Director

19 March 2019

Report of the Supervisory Committee

The Supervisory Committee consists of five Supervisors, comprising one representative of Shareholders, namely Mr. Li Jiancheng (re-appointed on 12 June 2018) and Mr. Ng Seng Chuan (resigned on 12 June 2018); two representatives of employees, namely Ms. Hong Lijun (Chairwoman of the Supervisory Committee) and Ms. Ruan Cen; and two independent Supervisors, namely Mr. Chen Jinzhu and Mr. Wu Lindi.

ELECTION AND SERVICE CONTRACTS

Except for the employee representative Supervisors elected by employees, the Supervisors were elected by our Shareholders for a term of three years, which is renewable upon re-election and re-appointment at general meeting. Each of the Supervisors has entered into a service contract with the Company for the year ended 31 December 2018.

MEETING CONDUCTED BY THE SUPERVISORY COMMITTEE

The Supervisory Committee convened two meetings for the year ended 31 December 2018. Such meetings were held in compliance with requirements of relevant regulations and the Articles of Association.

WORK OF THE SUPERVISORY COMMITTEE

During the year ended 31 December 2018, for our Group's long term interests and Shareholders' interests, the Supervisory Committee acted in strict compliance with relevant laws, regulations, rules, regulatory documents, the Articles of Association and the Listing Rules and earnestly performed their duties of supervision as to the acts of the Directors and senior management of the Company as follows:

Financial information of our Group

The Supervisory Committee has verified our Group's 2018 financial statements, supervised and inspected our Group's implementation of relevant financial policies and legislations as well as details on our Group's assets, financial income and expenditure. It is of the opinion that the financial report for 2018 fairly reflected our Group's financial position and operating results.

Operation and internal control of our Group

The Supervisory Committee exercised supervision on a regular basis over the legal compliance and rationality of our Group's operation and management in its ordinary work.

The Supervisory Committee is of the opinion that, our Group's operation and internal control are sound and rational, and is in compliance with all applicable laws, regulations and rules and the Articles of Association, thus effectively controlled its exposure to various operating risks.

Performance and violations of the Directors and other senior management members

The Supervisory Committee exercised supervision over work performance of the Board and senior management of the Company.

The Supervisory Committee is of the opinion that the Directors and senior management of the Company have conscientiously and diligently performed their duties in compliance with resolutions of the general meetings, and none of their acts would prejudice the interests of our Group or the Shareholders. No violation of any laws or regulations or Articles of Association or any act which is adverse to the interests of our Group or the Shareholders has been found in the performance of the Directors and senior management of the Company during the year.

Looking forward, the Supervisory Committee will continue to carry out its duties in strict compliance with the Articles of Association and the relevant laws and regulations and protect the interests of the Shareholders.

Hong Lijun
Chairwoman of the Supervisory Committee

19 March 2019

The Company is committed to maintaining high standards of corporate governance and protecting the interests of its Shareholders in an open manner. The Board and the management of the Company has adopted the Code Provisions of the CG Code set out in Appendix 14 to the Listing Rules and reviewed its corporate governance practice from time to time. During the Reporting Period, the Company has fully complied with the Code Provisions.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established three Board committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**") (each a "**Board Committee**" and collectively the "**Board Committees**"), to oversee different areas of the Company's affairs.

As of 31 December 2018, the Board comprised four executive Directors, namely Mr. Zhou Yongwei, Mr. Wu Zhirui, Mr. Yan Zhijiang and Ms. Liu Aiqin, two non-executive Directors, namely, Mr. Jiang Haiying, Mr. Zhu Jinsong (resigned on 12 June 2018) and Mr. Cai Rongjun (appointed on 12 June 2018) and three independent non-executive Directors, namely, Mr. Zhang Lihe, Mr. Lin Jianguo and Mr. Sun Leland Li Hsun.

Their biographical details are set out in the section headed "Directors, Supervisors and Senior Management" of this annual report. A list of the Directors identifying their roles and functions and whether they are independent non-executive Directors is available on the websites of the Stock Exchange and the Company.

There is no financial, business, family or other material or relevant relationships among members of the Board, Supervisors and members of the senior management of the Company.

DUTIES OF THE BOARD OF DIRECTORS AND THE SENIOR MANAGEMENT

The functions and duties of the Board include but are not limited to: convening Shareholders' general meetings and reporting the Board's work at the Shareholders' general meetings; implementing the resolutions passed at the Shareholders' general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for the increase or decrease in registered capital and for the issue of bonds; preparing plans for merger, division or dissolution of the Company; hiring or dismissing the general manager, the secretary of the Board, the vice general manager and other senior management, and deciding their remuneration; preparing the plan to amend the Articles of Association and exercising other power, functions and duties as conferred by the Articles of Association.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of our Group, and the training and continuous professional development of Directors and senior management of the Company. The Board also reviews the disclosures in the Company's Corporate Governance Report to ensure compliance.

The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Company's businesses to the executive Directors and members of senior management of the Company. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

All Board members have separate and independent access to the Company's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at our Group's expense upon their request.

The major duties of the senior management are formulating and implementing our corporate governance measures, risk management, financial management and business management policy and supervising and participating daily operations of the Company.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

During the year, the Board held seven meetings to develop, review and monitor the policies and practices on corporate governance and legal and regulatory compliance of the Company. The senior management supervised the daily operations of the Company, identified and reported the potential risks to the Board.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of our Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of our Group and that he is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

The Company provided the training materials on the latest development of the Listing Rules regarding their duties and the general introduction of Chapter 7 of the Listing Rules to ensure compliance and enhance their awareness of good corporate governance practices in December 2018.

All Directors have participated in continuous professional development and provided a record of training they received for the year ended 31 December 2018.

A summary of training received by the Directors for the year ended 31 December 2018 is as follows:

Name of Directors	Types of training
Executive Directors	
Zhou Yongwei	A
Wu Zhirui	A
Yan Zhijiang	A, B
Liu Aiqin	A
Non-executive Directors	
Jiang Haiying	A
Zhu Jinsong (resigned on 12 June 2018)	N/A
Cai Rongjun (appointed on 12 June 2018)	A
Independent Non-executive Directors	
Zhang Lihe	A
Lin Jianguo	A
Sun Leland Li Hsun	A

Notes:

A: Reading materials
B: Attending seminars and/or conferences and/or forums

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Zhou Yongwei is the Chairman responsible for planning our Group's strategies, developing the overall business and managing our Group, providing leadership for the Board, ensuring that Board works effectively and act in the best interest of our Group and all Shareholders. The Chairman is also responsible for ensuring good corporate governance practices.

Mr. Wu Zhirui, as the general manager of the Company, is in charge of formulating and implementing our corporate strategies, overseeing our overall business development, implementing operation plans and participating in the day-to-day management.

DIRECTORS' INSURANCE

Our Group has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company. They serve actively on the Board and Board Committees to provide their independent and objective views.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers that all of the independent non-executive Directors are independent under these independence criteria and are capable of effectively exercising independent judgement.

BOARD COMMITTEES

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee and Remuneration Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. The terms of reference of the Audit Committee, Nomination Committee and Remuneration Committee are respectively available on the websites of the Stock Exchange and the Company.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The Audit Committee consists of three members, namely Mr. Zhang Lihe (independent non-executive Director), Mr. Lin Jianguo (independent non-executive Director), Mr. Cai Rongjun (non-executive Director, appointed on 12 June 2018) and Mr. Zhu Jinsong (non-executive Director, resigned on 12 June 2018). Mr. Zhang Lihe currently serves as the chairman of the Audit Committee.

The primary duties of the Audit Committee are to review and supervise our financial reporting process, risk management and internal control systems, nominate and monitor external auditors and to provide advice and comments to the Board.

The Audit Committee held two meetings during the year ended 31 December 2018. The Audit Committee has: (i) reviewed the financial statements and results of the Company for the year ended 31 December 2017 and interim financial statements and results of the Company for the six month ended 30 June 2018, including the accounting principles and practices adopted by the Company, report prepared by the external auditor covering major findings in the course of the audit; (ii) reviewed the policies and practices on corporate governance and the effectiveness of the Audit Committee, selection and appointment of the external auditors and the Company's risk management and internal control procedures and systems; and (iii) reviewed the terms of reference of Audit Committee.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Lin Jianguo (independent non-executive Director), Mr. Sun Leland Li Hsun (independent non-executive Director) and Mr. Wu Zhirui (executive Director). Mr. Lin Jianguo currently serves as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to evaluate the performance, make recommendations on the remuneration of our senior management, executive Directors and non-executive Directors to members of the Board, review and approve compensation payable to executive directors and management for any loss or termination of office, and also review and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct.

The major objective of our remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to review and determine the level of remuneration and compensation packages (including incentive plans) of the Directors, Supervisors and senior management, the Remuneration Committee will make reference to, among other things, the level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors, Supervisors and senior management and the performance of our Group. No Director takes part in any discussion on his/her own remuneration.

The Remuneration Committee held one meeting during the year ended 31 December 2018. The Remuneration Committee has: (i) reviewed the remuneration policy and structure relating to the Directors, Supervisors and senior management of the Company and the effectiveness of the Remuneration Committee; and (ii) discussed and suggested the service contract and remuneration of Mr. Cai Rongjun.

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Zhou Yongwei (executive Director), Mr. Sun Leland Li Hsun (independent non-executive Director) and Mr. Zhang Lihe (independent non-executive Director). Mr. Zhou Yongwei currently serves as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to assess the independence of independent non-executive Directors, make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management and recommend to the Board on the appointment or re-appointment of Directors.

The Nomination Committee held one meeting during the year ended 31 December 2018. The Nomination Committee has: (i) reviewed the structure, size and composition of the Board and assessed independence of the independent non-executive Directors; (ii) made recommendations to the Board on the appointment of Mr. Cai Rongjun; (iii) reviewed nomination policy and the effectiveness of the Nomination Committee; and (iv) reviewed the terms of reference of Nomination Committee.

CORPORATE GOVERNANCE FUNCTIONS

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

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and the disclosures in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND SUPERVISORS

The attendance record of each of (i) the Directors at the meetings of the Board and Board Committee; and (ii) the Supervisors at the meeting of Supervisory Committee held during the year ended 31 December 2018 is set out in the table below. The Directors did not authorise any alternate Director to attend Board or Board Committee meetings.

	Attendance/Number of Meetings			
Name of Directors	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
Mr. Zhou Yongwei *(Chairman)*	7/7	1/1	N/A	N/A
Mr. Wu Zhirui	7/7	N/A	1/1	N/A
Mr. Yan Zhijiang	7/7	N/A	N/A	N/A
Ms. Liu Aiqin	7/7	N/A	N/A	N/A
Mr. Jiang Haiying	7/7	N/A	N/A	N/A
Mr. Zhu Jinsong (resigned on 12 June 2018)	2/2	N/A	N/A	1/1
Mr. Cai Rongjun (appointed on 12 June 2018)	5/5	N/A	N/A	1/1
Mr. Zhang Lihe	7/7	1/1	N/A	2/2
Mr. Lin Jianguo	7/7	N/A	1/1	2/2
Mr. Sun Leland Li Hsun	7/7	1/1	1/1	N/A

	Attendance/Number of Meetings	
Name of Supervisors	**15 March 2018**	**27 August 2018**
Ms. Hong Lijun *(Chairwoman)*	1/1	1/1
Mr. Ng Seng Chuan (resigned on 12 June 2018)	1/1	N/A
Ms. Ruan Cen	1/1	1/1
Mr. Chen Jinzhu	1/1	1/1
Mr. Wu Lindi	1/1	1/1
Mr. Li Jiancheng (re-appointed on 12 June 2018)	N/A	1/1

BOARD PROCEEDINGS

Pursuant to the Articles of Association, the Board is required to hold at least two Board meetings each year, to be convened and hosted by the Chairman. In compliance with Code Provision A.1.3 of the CG Code, a notice of at least fourteen days shall be dispatched for a regular Board meeting. The notice shall state the time and venue by which the Board meeting will be convened.

The quorum for a Board meeting is the presence of more than half of the total number of Directors. A Director may attend the Board meeting in person, or appoint another Director in writing as his proxy to attend the Board meeting. The secretary to the Board is responsible for preparing and keeping the documents and records of Board meetings.

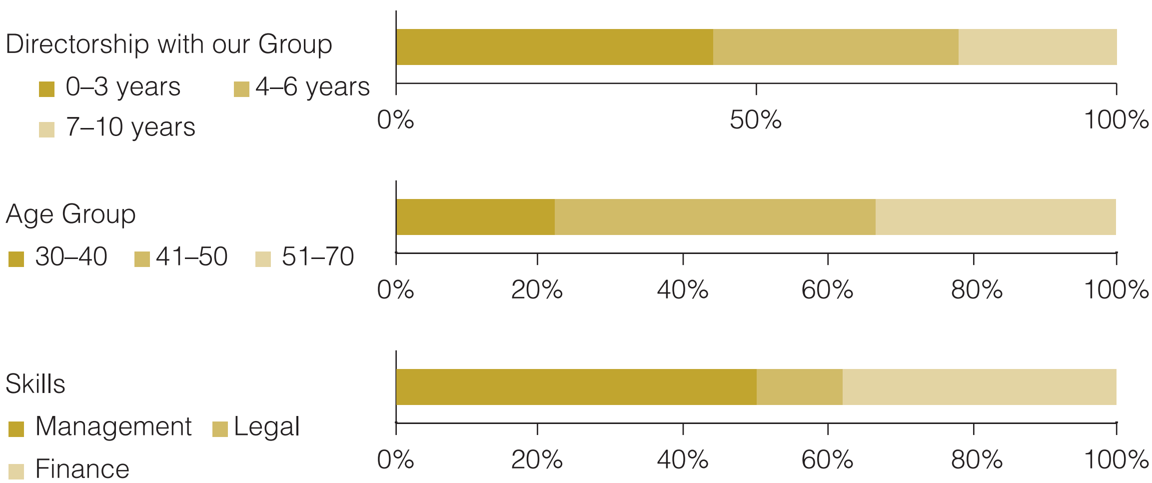
During the year ended 31 December 2018, there were seven Board meetings held and all Directors attended the meetings that they were required to attend.

GENERAL MEETINGS

During the year ended 31 December 2018, the Company convened one general meeting which was held on 12 June 2018. All Directors attended the meetings that they were required to attend.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "**Board Diversity Policy**") on 29 September 2016 in accordance with the requirement set out in the CG Code. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard to the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, relationship with other Board members and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates could bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.



SUPERVISORY COMMITTEE

The Supervisory Committee consists of five Supervisors, comprising one representative of Shareholders, namely Mr. Li Jiancheng (re-appointed on 12 June 2018) and Mr. Ng Seng Chuan (resigned on 12 June 2018); two representatives of employees, namely Ms. Hong Lijun (the chairwoman of the Supervisory Committee) and Ms. Ruan Cen; and two independent Supervisors, namely Mr. Chen Jinzhu and Mr. Wu Lindi. Except for the employee representative Supervisors elected by employees, the Supervisors were elected by our Shareholders for a term of three years, which is renewable upon re-election and re-appointment.

The functions and duties of the Supervisory Committee include, but not limited to: reviewing and verifying financial reports, business reports and profit distribution proposals prepared by the Board; and if in doubt, appointing certified public accountants and practicing auditors to re-examine our Group's financial information; monitoring the financial activities of our Group, supervising the performance of the Directors, the president and other senior management members, and monitoring whether they had acted in violation of the laws, regulations and Articles of Association in the performance of their duties; requesting the Directors, the president and senior management members to rectify actions which are damaging to our Group's interests; and exercising other rights given to them under the Articles of Association.

NOMINATION POLICY

In order to nominate suitable candidates to the Board for it to consider and make recommendations to Shareholders for election at general meetings, the secretary of the Nomination Committee shall call a meeting with the list and information of the candidates. For proposing candidates to stand for election at a general meeting, a circular which contains the names, brief biographies, independence, proposed remuneration and any other information as required pursuant to the applicable laws and regulations, will be sent to the Shareholders. Other than the nomination recommended by the Board for election, the Shareholders can serve a notice in writing of the intention to propose that certain person for election as a Director. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Nomination Committee has the discretion to nominate any person as it considers appropriate and in assessing the suitability of a proposed candidate, the criteria as set out below will be used as reference.

- Reputation;
- Qualification, accomplishment and experience in financial services industry;
- Commitment in performing the duties as a Director and a member of the Board committees (if applicable); and
- Board diversity, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge, relationship with other Board members and length of service, and the potential contributions can be brought to the Board.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company and each service contract is for a term of three years. Directors and Supervisors shall be elected by our Shareholders at the Shareholders' general meeting with a term of three years. Each independent Director can be extended upon re-election.

Save as disclosed above, the Company has not entered, and does not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors and/or Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

UPDATES ON DIRECTORS' AND SUPERVISORS' INFORMATION

Saved as disclosed in this report, there were no other changes in Directors and Supervisors during the Reporting Period. Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors and Supervisors are set out below:

- Mr. Zhu Jinsong resigned as a non-executive Director and ceased to be a member of Audit Committee due to his personal commitment on other business on 12 June 2018.
- Mr. Cai Rongjun appointed as a non-executive Director and a member of the Audit Committee on 12 June 2018.
- Mr. Ng Seng Chuan resigned as a Supervisor on 12 June 2018 due to his personal commitments on other business.
- Mr. Li Jiancheng appointed as a Supervisor on 12 June 2018.

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 for carrying out securities transactions of the Company by the Directors and Supervisors. After specific enquiry with all Directors and Supervisors, they have confirmed fully compliance with the relevant standards stipulated in the Model Code during the Reporting Period.

JOINT COMPANY SECRETARIES

Mr. Yan Zhijiang, an executive Director of the Company, is one of the joint company secretaries. Ms. Ng Ka Man, a manager of the Listing Department of TMF Hong Kong Limited, the external service provider, is our joint company secretary. Mr. Yan Zhijiang is the primary contact person of the Company. Both Mr. Yan and Ms. Ng, as the joint company secretaries, have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

RESPONSIBILITIES OF FINANCIAL REPORTING

The Board acknowledges its responsibility to prepare our Group's financial statements which give a true and fair view of our Group's state of affairs, results and cash flows for the year in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Companies Ordinance. Our Group has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. To the best knowledge of the Directors, there are no material uncertainties relating to events or conditions that may affect the business of our Group or cast doubts on its ability to continue as a going concern.

The responsibilities of Ernst & Young, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" of this annual report.

EXTERNAL AUDITOR

Ernst & Young has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of these audit and non-audit services performed by Ernst & Young and considered that such services have no adverse effect on the independence of the external auditor.

During the year ended 31 December 2018, our Group paid Ernst & Young and its member firms a total fee of RMB1,300,000 (tax inclusive) for audit services and RMB50,000 (tax inclusive) in connection with environmental, social and governance ("**ESG**") report for non-audit service.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

COMMUNICATION WITH SHAREHOLDERS

The Company aims to, via its corporate governance structure, provide all Shareholders an equal opportunity to exercise their rights in an informed manner and allow all Shareholders to engage actively with the Company. The Company convenes the Shareholders' general meetings in compliance with the relevant rules and Shareholders' communication policy which was adopted by the Company on 29 September 2016 and highly values the opinions, suggestions and concerns of the Shareholders. Directors, Supervisors and senior management of the Company will attend the meetings.

SHAREHOLDERS' RIGHTS

Under the Articles of Association, the Shareholders enjoy, among others, the following rights:

- ### Participation at general meetings

  The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings.

- ### Enquires and proposals to the Board

  The Company encourages Shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board Committees at the general meetings or providing written notice of such proposals for the attention of the company secretary of the Company at its principal place of business in Hong Kong at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

- ### Convening extraordinary general meetings

  Pursuant to the Articles of Association, the Board shall convene an extraordinary general meeting within two months when Shareholder(s) individually or collectively holding 10% or more of the outstanding Shares of the Company carrying voting rights request so in writing. The Board shall convene an extraordinary general meeting or class Shareholders' meeting as soon as practicably upon receipt of the foresaid written request. The aforesaid number of Shareholding shall be calculated as of the date of the submission of the written request by the Shareholder(s). A Shareholder's general meeting shall be convened in accordance with the Articles of Association.

- **Procedures for putting forward proposals at a general meeting**

  In overseeing and monitoring the business operation of the Company, the Shareholders have the right to put forward proposals and raise inquiries. Shareholders holding 5% or more of the Company's voting shares have the right to put up ad hoc proposals in writing to the Company, and the Company shall include such ad hoc proposals into the agenda for such general meeting if they are matters falling within the functions and powers of general meeting.

CONSTITUTIONAL DOCUMENTS

The Articles of Association were adopted with effect from the Listing Date and amended on 19 April 2017 and 22 August 2017 pursuant to the resolutions of the Shareholders passed at the general meetings, respectively. The Articles of Association are available on the websites of the Stock Exchange and the Company.

A proposed amendment of the Articles of Association was approved by the Board on 19 March 2019 and will be available on the websites of the Stock Exchange and the Company after the approval of the Shareholders at the AGM and all necessary filing procedures obtained from the relevant authorities in the PRC. For more details, please refer to the Company's 2018 annual results announcement dated on 19 March 2019 and circular dated on 24 April 2019.

INVESTOR RELATIONS

During the year ended 31 December 2018, the Company has maintained corporate transparency and communications with the Shareholders and the investment community through timely distribution of announcements and/or other publications and well-organized meetings and visits to enhance understanding by investors. the Company's website provides an effective communication platform to keep the market abreast of the latest developments.

RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 2018, the Board complied with the Code Provisions on risk management and internal control as set out in the CG Code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Company. The 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. In addition to the Board's oversight responsibilities, the Company has developed a risk management process to identify, evaluate and manage significant risks and to resolve material internal control defects (if any). Senior management of the Company is responsible for the annual risk reporting process. Manager of the risk management department meets with members of the senior management to review and assess risks and discuss solutions to address material internal control defects (if any), including any changes relevant to a given year. The risk assessment is reviewed by certain members of the senior management of the Company. Senior management of the Company monitors risks and takes measures to mitigate risks in day-to-day operations and presents the results of risk assessment to the Audit Committee and the Board for their review.

Credit risk is the most significant risk inherent in our business. We have developed a credit risk management system in accordance with the type and size of our loans, the types of our customers as well as the local legal and economic environment. Our risk management procedures mainly consist of due diligence reviews on customers, risk assessments, multilevel assessments and approval processes, post-loan grant reviews and collections, with varying levels of scrutiny generally according to the amount and type of loans granted. The Company has adopted the following measures:

- establishing a sound corporate governance structure with clearly defined duties of the Board, the Supervisory Committee and senior management;
- establishing a loan assessment committee under the Board and collective decision making procedures to mitigate the risk relating to personal judgment or prejudice of a single decision maker in a loan approval procedure;
- establishing a vertical risk management system to ensure the independence of our risk management;
- establishing and continuously improving operational procedures and internal control system, and utilizing information technology system to control the implementation of each procedure. In particular, we have adopted and have strictly implemented measures to prevent and detect potential employee frauds, such as dual investigation and due diligence process, the policy of separating the investigation and evaluation of loan applications or risk assessment process from the approval of loans, multilevel assessments and approval procedure, on-site visits and inspection, and interviews conducted by senior managers with the owner or management of the customers;
- implementing a performance-based compensation scheme for employees;
- establishing procedures for business manager in charge to rotate among revolving loans projects annually; and
- providing employees with professional training, especially to those who are responsible for assessment and approval process.

The Company is fully aware of its obligations under Chapter 13 of the Listing Rules and the SFO and the overriding principle that inside information of the Company should be announced immediately. Stringent internal structures have been designed for the handling and dissemination of inside information. The Company reviews from time to time its internal policies and guidelines on inside information or potentially price sensitive information with reference to its own and industry circumstances and the Guide on Disclosure of Inside Information issued by the SFO. The Company's policy contains a strict prohibition on unauthorised use of confidential or inside information and has established and implemented procedures for responding to external enquiries about the Company's affairs.

During the year ended 31 December 2018, the Company followed the rules and procedures on regulating the disciplines and actions of all employees in external media communications and designated key spokespersons of the Company in all external media communications. The purpose of streamlining the communications of the Company with the media is to regulate all media communication activities, protect the interests of the Company and keep inside information strictly confidential prior to its disclosure. The Board has overseen our Group's risk management and internal control systems on an ongoing basis. The Board has reviewed the risk management and internal control systems of our Group annually. The systems are considered to be effective and adequate in reducing the exposure to the carious quantifiable risks inherent in our operations. For details of the key risks and uncertainties facing the Company, please refer to sub-section headed "Key Risk Factors" set out in the section of "Report of the Directors" of this annual report. The Company does not have in place an independent internal audit function as the Board is of the view that the appointment is not imminent under current circumstances, taking into account the current structure and scope of the Company's operations.

Environmental, Social and Governance Report

ABOUT THE REPORT

Overview

This report is the third ESG report published by Quanzhou Huixin Micro-credit Co., Ltd., which documents our ESG management approaches and performances.

Reporting period

The data in this report cover the period from 1 January to 31 December 2018, unless otherwise specified.

Reporting cycle

ESG report is released annually. This is our third report, and the reporting year is in alignment with our fiscal year.

Reporting scope

Unless otherwise specified, this report covers the Company and its subsidiaries.

Reporting reference

This report was prepared according to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules.

Data explanation

The data in this report comes from the Group's internal system.

Board approval

Upon review by the management, this report was approved by the Board on 19 March 2019.

CORPORATE GOVERNANCE

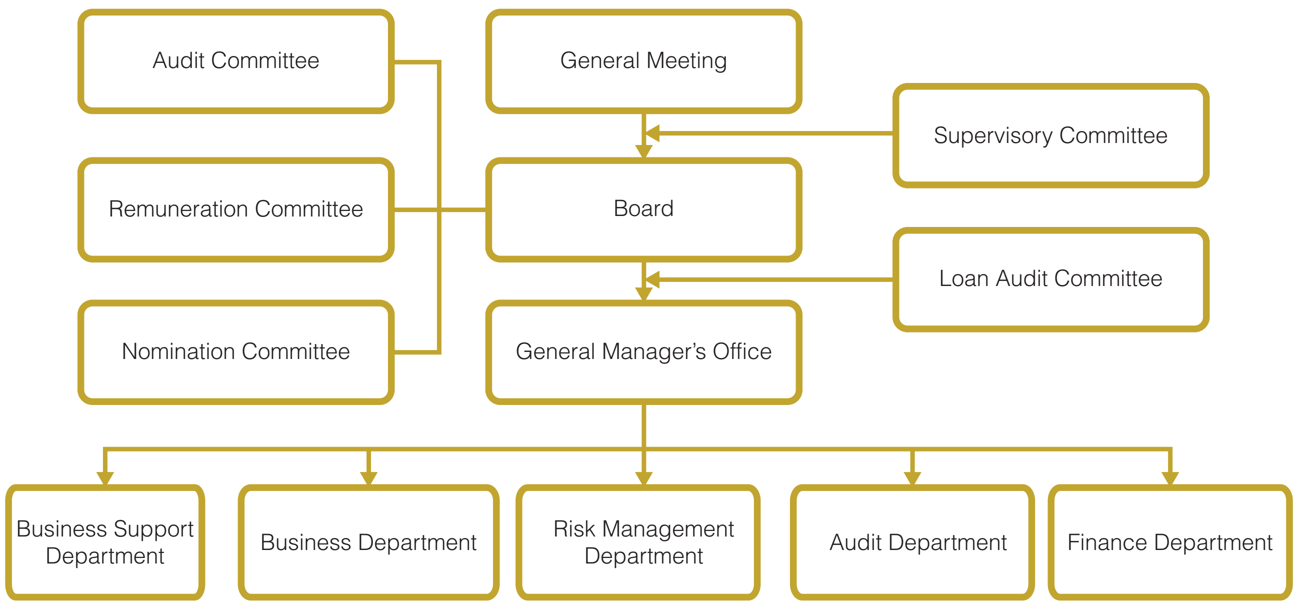
Corporate culture

Corporate culture guides the principles and values of a company, the appearance and spirit of all staff members and represents the soft power of an enterprise. Our Group continues to develop its business while emphasizing corporate culture-building. We have already established a cultural system, consisting of our mission, vision and core values. During the Reporting Period, we remained true to our original aspirations by continually pursuing our development target as well as embedding our core values in operation.

Mission	Assisting in adding value to customers with professional and efficient services and good credit
Vision	Becoming China's leading provider of microfinance services
Core values	Integrity, Responsibility, Professionism, Innovation, Cooperation

Governance structure

The Company strictly complies with the applicable laws and regulations including the *Company Law of the PRC* (中華人民共和國公司法) and the Listing Rules. We are committed to ensuring a well-defined corporate governance structure and maintaining high level of corporate governance with the aim to protect the interests of our investors and other stakeholders. The Company's governance structure is shown as below:

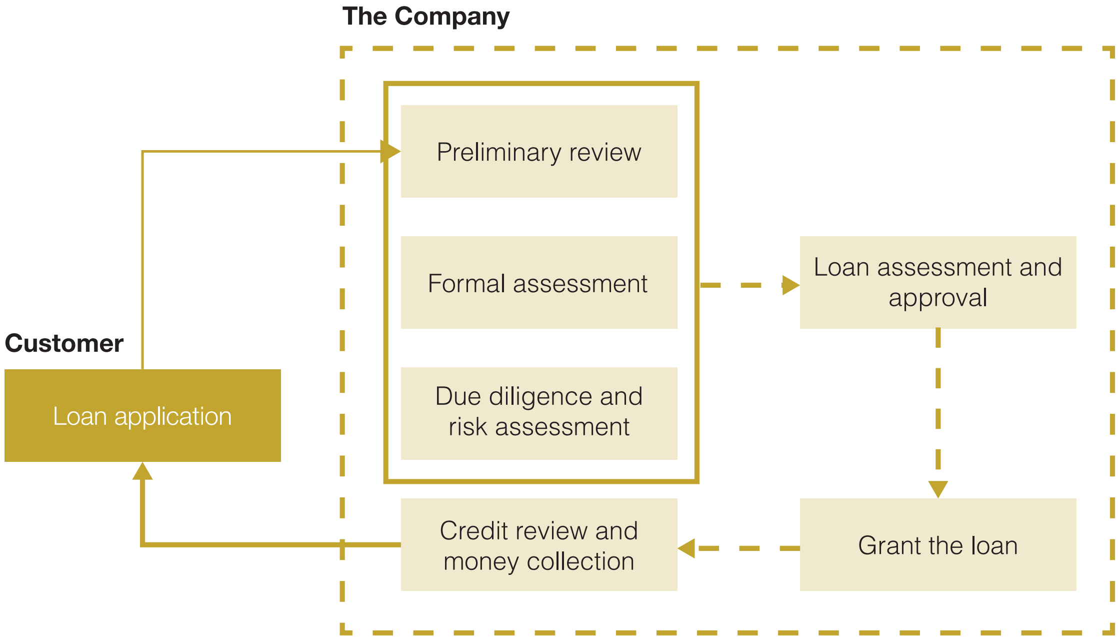


For more detailed information of corporate governance, please refer to the "Corporate Governance Report" of this annual report.

Risk control

Loan risk control

As a microfinance company, we regard credit risk control as our priority. The figure below shows the standardized credit risk control system established by our Group, indicating that the credit risk is controlled both before and during the loan period. We strictly implemented the following risk control procedure for each loan:



At the beginning of 2018, confronting the downward trajectory of economy, our Group decided to strengthen the risk control of our loan recovery mainly by decentralizing the lending, raising guarantee requirements, and attaching more emphasis on verifying the use of our customers' loan funds.

Understanding that by only setting up an ordered internal loan risk control system was not sufficient to minimize our Group's overall loan risk, we actively provided education to our customers in order to improve their risk awareness as well as risk prevention capability.

Compliance risk control

Compliance with laws and regulations is essential for our Group's integrity, standardization and steady development. In strict compliance with the requirements of national and local regulations, such as the *Guiding Opinions on the Pilot Operation of Microfinance Companies promulgated by the People's Bank of China* (中國人民銀行關於小額貸款公司試點的指導意見), *Interim Measures of Fujian Province for the Administration of Microfinance Companies* (福建省小額貸款公司暫行管理辦法), *Pilot Measures of Cross-county Operation of Microfinance in Quanzhou* (泉州市小額貸款公司跨縣域經營試點實施方案), *Opinions on Promoting the Sound and Sustainable Development of Micro-credit Companies, Pawnshop Companies and Financing Guarantee Companies promulgated by the government of Quanzhou city* (泉州市人民政府關於促進小額貸款公司、典當行和融資擔保公司健康持續發展的若干意見) and the code of conducts, ethics and integrity, we have established a robust system of compliance management.

The compliance structure established by our Group is led by the Board Committee and Supervisory Committee. It is overseen by the senior management and managed by the General Manager and Risk Management Department, along with the coordination among all internal control departments. The Board, Supervisory Committee and Senior Management are responsible for the effectiveness of the compliance structure. All our employees are required to observe the regulations, sign a compliance commitment and follow the business code of conducts strictly.

For more detailed information of risk control, please refer to the sub-section "Risk Management and Internal Control" in the "Corporate Governance Report" of this annual report.

Anti-financial crime

As a financial service enterprise, financial misdeeds are prohibited in our operation, and we show zero tolerance in our operation. Our Group is constantly attaching great importance of establishing honest and faithful corporate culture and working style. According to the requirements of the *Anti-money Laundering Law of the PRC* (中華人民共和國反洗錢法) and the regulations issued by China Banking Regulatory Commission (中國銀行業監督管理委員會), we have developed a set of internal policies and procedures regarding anti-money laundering, anti-bribery and corruption to avoid the financial crime. To ensure our employees and customers comply with the requirements imposed by our Group's financial crime management, all are required to sign the integrity commitment and the anti-money laundering commitment, respectively.

Internal Control

- Include binding terms in employment contract
- Require our employees to sign integrity commitment
- Strengthen integrity and anti-money laundering education to our employees

External Control

- Include binding terms in service contract
- Require our customers to sign anti-money laundering commitment

Anti-fraud and anti-corruption

Our Group has established Anti-fraud and Anti-corruption Reporting Procedures (反舞弊及欺詐行為舉報制度), which explain fraud and corruption behavior in detail and specify the reporting process when fraud and corruption behavior is observed. We have set up a dedicated reporting hotline and built a comprehensive procedure to handle complaints and reports.

The office under the Audit Committee is responsible for gathering and categorizing complaints and reports before delivering to the Audit Committee. The Audit Committee or the Board, depending on the severity of the reported cases, is responsible for ruling and determining disciplinary actions. Any suspected crime cases will be escalated to the judicial departments.

During the Reporting Period, there was no incident regarding conflict of interest, fraud or bribery.

Anti-money laundering

Our Group believes that anti-money laundering management is of considerable significance for a financial service enterprise. In order to comply with the Order No. 3 issued by the People's Bank of China (中國人民銀行令2016第3號) and fulfill anti-money laundering responsibilities and obligations, we have established Measures of Anti-money Laundering Management (反洗錢工作管理辦法), which explicates money laundering behavior and measures to prevent money laundering risk. The anti-money laundering incentive mechanism has also been established to strengthen internal control.

Meanwhile, in order to enhance anti-money laundering knowledge and skills, our Group cultivate employee awareness of anti-money laundering and conduct standardized, high-quality training regarding anti-money laundering for our employees covering all lines and levels.

Honors and awards

1. "2018 Top 100 Service Providers in Quanzhou" issued by the Government of Quanzhou City

2. "Large Taxpayer" title for businesses whose annual tax is over RMB30 million in 2017, awarded by the Government of Licheng District of Quanzhou City, Fujian Province

3. Title of "Key Enterprise in 2018", awarded by the Government of Licheng District of Quanzhou City, Fujian Province

4. Our Company was accredited AA by Fujian Branch of Lianhe Credit Information Credit Information Service Co., Ltd. (聯合信用管理有限公司福建分公司) relating to our credit during the year of 2017

ESG MANAGEMENT

As the largest licensed microfinance company in Quanzhou listed on the Hong Kong Stock Exchange since September 2016, our Group strives to promote inclusive finance and fulfill social responsibility. We review our ESG management on an ongoing basis, and we incorporate ESG into our business management to promote the Group's sustainable development, as well as realizing and protecting the most important interests of our investors, employees and other stakeholders. Our ESG management system is shown below:

Board	• Be responsible for assessing and determining ESG-related risks • Ensure the development of a suitable and effective ESG risk management and internal control system • Review and approve ESG policies and ESG report
Board office	• Enforce ESG risk management and internal control measures • Guide the executive team on ESG projects • Review and approve ESG policies • Review and approve ESG report and confirm the accuracy of performance indicator data
Executive Team	• Promote the implementation of various ESG policies among all departments • Report to the Board office on the implementation of ESG project • Compile ESG performance indicators' data • Prepare of ESG report

Stakeholder communication

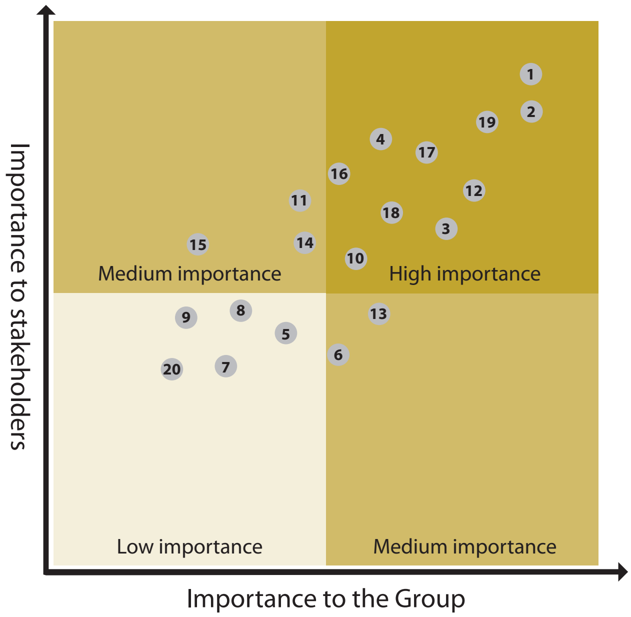
Our Group identified our stakeholders and established the communication mechanism to communicate and respond to stakeholders' demands in a timely and sincere manner in 2018.

Stakeholders identified include:

Stakeholder	Focus on issues	Forms of communications	Frequency
Government	1. Promote local economic development 2. Anti-corruption 3. Industry participation	1. Government documents 2. Interviews 3. Conference	Irregularly scheduled
Regulatory body	1. Compliance operation 2. Industry participation 3. Risk control	1. Policies and regulations 2. Year-end appraisal 3. Industry conference 4. Reporting	Irregularly scheduled
Shareholder	1. Corporate culture 2. Risk control 3. Compliance operation	1. Shareholders' meeting 2. Periodic announcements	Regularly scheduled
Customer	1. Inclusive finance 2. Customer relations 3. Customer privacy 4. Product and service quality 5. Better customer service	1. Customer feedback 2. Official website 3. Official hotline	Irregularly scheduled
Supplier	1. Supply chain management	1. Procurement information and contract 2. Negotiation	Irregularly scheduled
Employee	1. Employee interests 2. Employee training and development 3. Health and safety 4. Employee remuneration and rights	1. Employee representatives' congresses 2. Periodic internal communication	Irregularly and Regularly scheduled
Community	1. Promote local economic development 2. Inclusive finance 3. Charity	1. Industry conference 2. Financing solutions	Irregularly scheduled

Materiality matrix

For our third ESG report, we conducted the materiality assessment to identify the important ESG issues that are relevant to our Group's operation through peer benchmarking and interviews. We identified the following 10 highly important ESG issues and 5 moderately important issues, which are stated in this report. The materiality matrix is shown as below:



1	Compliance operation	11	Service innovation
2	Risk control	12	Inclusive finance
3	Corporate culture	13	Employee interests
4	Anti-corruption	14	Employee training and development
5	Charity	15	Health and safety
6	Industry participation	16	Promote local economic development
7	Energy saving and emission reduction	17	Product and service quality
8	Water conservation	18	Customer relations
9	Waste classification	19	Customer privacy
10	Employee remuneration and benefits	20	Supply chain management

CUSTOMER AND SUPPLIER

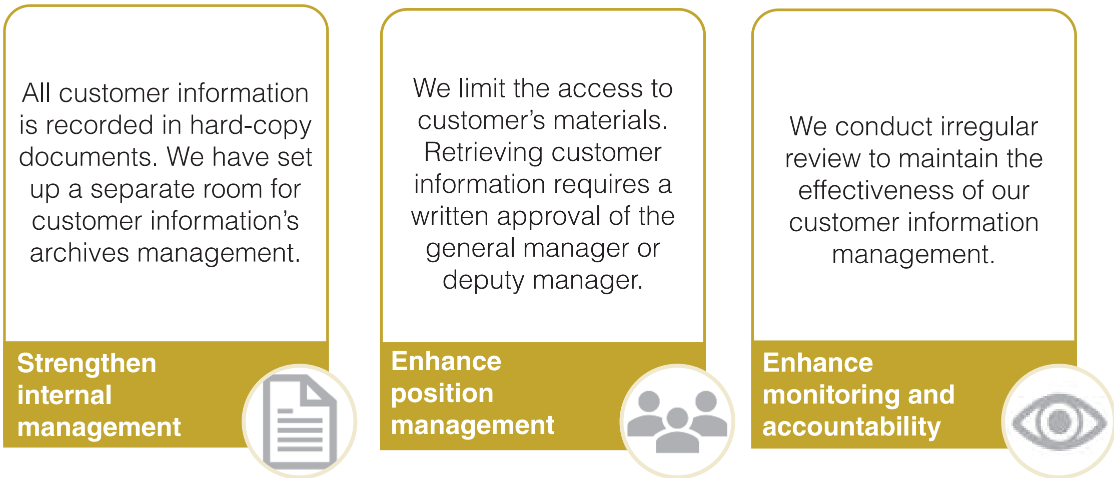
Customer relations

Our Group strictly complies with the *Anti-unfair Competition Law of the PRC* (中華人民共和國反不正當競爭法) and other applicable laws and regulations relating to advertising, labelling and the redress method, and are committed to providing quality products and services as well as outstanding experience for our customers. During the Reporting Period, we served 4,791 customers, representing approximately an eightfold increase from last year by earning good customer relations and recognitions.

We value every customer's feedback which we will receive via official hotline and respond in a timely manner. Each complaint is requested to be replied within 24 hours and resolved as soon as possible. During the Reporting Period, we received no customer complaint.

Customer privacy

We strictly comply with the *Law of the PRC on the Protection of Consumer Rights and Interests* (中華人民共和國消費者權益保護法), and ensure the legitimate rights and interests of our customers, especially on customer privacy. We consider customer details as our Group's confidential information, and demand our employees to act in accordance with the confidentiality requirements to safeguard the information. Illegally disclosing, spying, and stealing customer information are strictly prohibited. Therefore, we adopted the following protective measures:



Service innovation

Our Group supports the growth of small and micro enterprises and satisfy the diverse financing needs of our customers. We strive to provide more standardized for our customers to address their needs in a timely manner. During the Reporting Period, we expand our service portfolio by introducing housing loan and automobile finance lease service for more small and micro customers.

Moreover, our Group enhanced internet-oriented development for the purpose of creating more channels to reach potential customers. We created an online loan application platform which enables customers to apply for standardized, personal products such as housing loan and automobile finance lease in small value. The platform improves our operational efficiency and service quality.

Supply chain management

As a financial service company, supply chain management is not of major concern in our operation. We also have established a stringent supplier screening system to ensure that our suppliers comply with our ESG principles and have sound management on potential environmental and social risks.

Our suppliers primarily provide source of funding, office supplies and decoration services. In terms of procurement, we make purchases and leases through both online and offline channels. Some of our Group's devices are leased, such as printers, copiers and scanners, and all office paper is purchased online. We carefully control the procurement cost and select the best supplier after comparison.

During the Reporting Period, our Group was not aware of any actual or potential significant negative influence due to misconduct of suppliers in business ethnics, environmental protection and labor measures.

GREEN OPERATION

Environmental policy

Our Group regards the protection of environment and natural resources as an important responsibility in our operation. We strictly comply with the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法), the *Energy Conservation Law of the PRC* (中華人民共和國節約能源法) and other relevant laws and regulations. Also, we actively adopt measures and encourage staff to minimize the environmental impact of our business.

Environmental performance

Our Group insists on saving energy and resources. As our Group operates mainly in an office setting, we have implemented waste classification system in the office, continued to take a series of green office initiatives, and considered other environmentally-friendly measures. These help alleviate the burden on the natural environment.

Reduce resource consumption	• Set temperature limit for air conditioners • Avoid unnecessary electricity and water use • Ensure no energy and water wastage outside working hours
Reduce solid waste generation	• Promote paperless office and print on both sides • Reuse draft paper • Collect waste paper separately for easier recycling
Reduce air emission	• Establish vehicle management system to standardize vehicle use • Phase out old vehicles and conduct maintenance regularly • Encourage the use of public transportation

Summary of environmental KPIs

Resource consumption	2018		2017		
Category	Total	Per capita	Total	Per capita	Unit
Electricity	79,222	1,002.81	42,023	1,135.76	Kilowatt hour
Gasoline					
92#	13,628	172.51	12,141	328.14	Liter
95#	14,323	181.30	11,727	316.95	Liter
97#	266	3.37	/	/	Liter
98#	1,381	17.48	1,577	42.62	Liter
Total	29,598	374.66	25,445	687.71	Liter
Paper	1,312	16.61	301	8.14	Kilogram

Emissions	2018		2017		
Category	Total	Per capita	Total	Per capita	Unit
Greenhouse gas					
Direct greenhouse gas emissions from vehicles[1] (CO_2 equivalent)	80.15	1.01	68.90	1.86	Metric ton
Indirect greenhouse gas emissions of electricity consumption (CO_2 equivalent)	55.73	0.71	29.56	0.80	Metric ton
Total	135.88	1.72	98.46	2.66	Metric ton
Air Emissions					
NO_x					
Emissions from electricity consumption	110.91	1.40	58.83	1.59	Kilogram
SO_2					
Emissions from electricity consumption	166.37	2.11	88.25	2.39	Kilogram
Particulate					
Emissions from electricity consumption	15.84	0.20	8.40	0.23	Kilogram

Note: The statistical scope of 2017 environmental KPIs only includes the Company.

[1] Due to the business nature of our Group, the direct greenhouse gas emissions comprise mainly the emissions as a result of fuel consumption from mobile sources (i.e. vehicles).

Due to the business nature of our Group, we do not have significant generation of hazardous waste, non-hazardous waste, use of packaging materials, as well as any actual or potential significant negative impacts on the environment and natural resources. During the Reporting Period, there was no problem in sourcing water.

EMPLOYEE

Employment policy

Talents are the foundation of our sustainable growth, and we devoted to recruiting and retaining high-caliber employees. Our Group strictly complies with the relevant regulations, such as the *Labor Law of the PRC* (中華人民共和國勞動法)*, Labor Contract Law of the PRC* (中華人民共和國勞動合同法)*, Law on Safeguarding Women's Interests and Rights of the PRC* (中華人民共和國婦女權益保障法)*, Special Provisions on the Labor Protection of Female Employees* (女職工勞動保護特別規定), etc. We treat our job applicants and employees fairly and equally regardless of their country of origin, race, nationality, religion, age, gender, sexual orientation, political affiliation, marital status and other social identities, and do not discriminate against any job applicants or employees for any reason. Our Group holds the principle of gender equality. As of 31 December 2018, the gender ratio of employees was 5.7:4.3 (male : female).

Our Group prohibits employment of child labor, forced or compulsory labor. We strictly comply with the *Protection of Minors Law of the PRC* (中華人民共和國未成年人保護法) and *Provisions on the Prohibition of Using Child Labor* (禁止使用童工規定). We have implemented employee screening procedures to avoid hiring child labors during recruitment. During the Reporting Period, there was no incident of child labor or forced labor.

Our Group has established the human resources management system to optimize human resources-related procedures. Through fair recruitment, training, promotion, remuneration, welfare, holidays, and other lawful rights and benefits, we offer our employees the best environment to thrive. In addition, we have set up a system to legally and fairly deal with the termination of labor contracts, termination negotiation, dismissal and other procedures.

Employment performance

Remuneration and welfare

Our Group has established law-abiding, objective, fair, and comprehensive remuneration system, including basic salary, performance-based compensation and bonus. We offer our employees with equal and reasonable remuneration according to the type of work, position, capability and performance.

Our Group has established a welfare system to reward our employees and facilitate talent attraction. Our employee welfare includes regular welfare and other welfare.

Regular welfare	• Social insurance (endowment insurance, unemployment insurance, work injury insurance, maternity insurance and medical insurance) • Accident insurance • Housing accumulation fund • Employee leave (public and statutory holidays, annual leave, marital leave, maternity leave and paternity leave, nursing leave, bereavement leave, sick leave, excuse leave, work-related injury leave, etc.)
Other welfare	• Poverty subsidy • Meal allowance • Medical examination • Uniform • Team activity funding • Travel allowance • Hospital consolation money • Baby bonus • Pension • Housing allowance

Training and career development

Our Group attaches great importance to employee training. We provide multiple and diversified training to improve the professional competitiveness and quality of our employees. In addition to improving on-site training activities, we have refined our online academy project and streamlined the online learning processes to facilitate employee training within their busy schedule. The online learning platform offers multiple learning courses suitable for different levels of employees. Our employees can log onto the online learning platform through computer, mobile phone and WeChat.

As of 31 December 2018, the number of training participants totaled 100, covering 63.29% of total employees. Employees' training expense was RMB71,592.

Internal training	**New staff**	• On-boarding training • Internal tutorial system
	Specialized business	**Legal affairs** • Corporate governance • Contract management • Real rights and security interest **Finance and financial management** • Financial analysis and risk prevention of credit personnel • Strategic financial analysis and decision-making
	Sharing session	• Business sharing, book sharing, etc.
External training	**Seminar and learning courses**	• Professional capacity building

In terms of the external training, Mr. Yan Zhijiang, executive Director, participated in the 48th joint secretarial association training. The training was held by the Hong Kong Institute of Chartered Secretaries from 28 to 30 November 2018 and themed "Constantly enhancing professional development".

Moreover, our Group has implemented a dual-track promotion mechanism, providing clear promotion path for our employees. One track is for management employees and the other is for professional employees. We have adopted the 360-degree appraisal method to ensure fair promotion. We hope both management employees and professional employees can grow and develop in their fields.

Communication and care

Our Group highly cares about employee's physical and mental health through advocating work-life balance. We organize different forms of team-building activities and festive events for our employees every year. These help strengthen the communication among employees, enhance our Group's unity, and strike a better work-life balance. During the Reporting Period, our team building expense accumulated to RMB104,625.

- In January, we held our Group's annual meeting where all staff had dinners and celebrated the new year together
- In May, we organized company tour to Cambodia for our employees

- In September, we staged Mid-autumn Festival ceremony and arranged dinners for all staff
- In December, we organized gift exchange activities among employees
- Every month we hold birthday party to celebrate birthdays with employees

Our Group takes care of employees who are in trouble. If an employee encounters sudden, serious illness or family misfortune, we would organize fundraiser to help the employee overcome the difficulties.

Health and safety

Our Group has always attached importance to employees' health and safety. We provide medical examinations for our employees annually, and have purchased personal health and accident insurance for our employees. We are dedicated to establish and maintain a safe, healthy and people-oriented office environment. Additionally, we conduct fire drill regularly every year to improve employees' safety awareness and skills. During the Reporting Period, there was no work-related death or injury at our workplace.

We follow a working hour system of no more than 8 working hours every day and no more than 40 hours every week. This is in line with the national and regional requirements. Meantime, we also encourage our employees to exercise after work.

Summary of employment KPIs

Employee statistics	Male	Female	Total	Unit	Ratio
Classified by age					
=<30 years old	18	16	34	Person	43.04%
31–40 years old	22	16	38	Person	48.10%
>=41years old	5	2	7	Person	8.86%
Classified by level					
Senior management	5	3	8	Person	10.13%
Intermediate management	13	3	16	Person	20.25%
General staff	27	28	55	Person	69.62%
Classified by education					
Below bachelor degree	10	9	19	Person	24.05%
Bachelor degree	31	22	53	Person	67.09%
Master degree and higher	4	3	7	Person	8.86%
Total	**45**	**34**	**79**	**Person**	
Sex ratio	**56.96**	**43.04**	**100**	**%**	

Employee statistics	Number of employees trained	Training ratio	Average training hours
Classified by level			
Senior management	2	25.00%	4
Intermediate management	14	87.50%	7.05
General staff	34	63.63%	7.65
Classified by gender			
Male	32	71.11%	9.51
Female	18	52.94%	4.04
Total	**50**	**63.29%**	**7.16**

Employee statistics	
Overall	**Employee turnover rate**
Total turnover rate	11.11%
Classified by gender	
Male	11.90%
Female	10.00%
Classified by age	
=<30 years old	6.25%
31–40 years old	15.15%
>=41years old	14.29%

COMMUNITY PARTICIPATION

Promote industry development

A good industry environment can promote the development of our Group. We eagerly support the development of Quanzhou Local Finance Association, and have become the Association's president unit. We always foster close relations with local regulatory bodies via hosting and participating in a series of industry conferences. Our Group also took the initiative to undertake the pilot work of implementing financial innovation policies and developing the business, promoting the extension of microfinance companies' operation scope.

- In May, we participated in the learning courses for senior management hosted by Quanzhou Local Finance Association
- In September, we invited peers to our Group to exchange experience
- In November, we participated in the financial industry seminar held by the local Financial Work Bureau
- In December, we participated in the ZOL Forum (中關村論壇) with the theme of financial science and technology

Support environmental protection

Over the past year, our Group kept up with the national green development strategy and seek harmonization between economic development and environmental protection. We promote the transformation of green industries through reasonably allocating credit resources and supporting environmentally-friendly businesses. In compliance with national environment protection policy and plan, we continue to adopt last year's policy to support environmental protection.

Overcapavity, high pollution and high energy consumption industries will not be approved for our loan service.

Relevant environmental requirements and permits are mandatory provision to our customers.

Lower lending rates will be offered to environmentally-conscious enterprises.

Support the real economy and local economic development

In 2018, in order to facilitate the development of a healthy and sustainable local economy, our Group forged ahead with determination and confidence to address excess capacity with financial leverage. We contributed to local economic construction by continual and increasing support for real economy, domestic consumption and loans to microenterprises and SMEs. Various loans granted for supporting real economy amounted to RMB2,959 million during the Reporting Period. Additionally, we actively fulfill the tax obligation, and we won the "Large Taxpayer" title awarded by the Government of Licheng District of Quanzhou City, Fujian Province, in 2017. During the Reporting Period, the Company's total tax amounted to RMB39.6 million.

Inclusive finance

Our Group has always aligned its development with livelihood of the local people, and devoted itself to help to build a harmonious society, actively embrace the development of "inclusive finance". During the Reporting Period, our Group has diversifying our loan products, including revolving credit facility, joint-guarantee loan, targeted payment loan, bridge loans and collateralized quick-access loans, to offer various practical and flexible short-term financing solutions for entrepreneurs, microenterprises and SMEs. We aim to gradually expand our financial products portfolio and reinforce operational efficiency to speed up customers' engagement and address their ongoing liquidity needs, building a brighter future together.

ESG KPIS INDEX

	General disclosures and KPIs	Section
A1		Green operation
A1.1	The types of emissions and respective emissions data	Summary of environmental KPIs
A1.2	Greenhouse gas emissions in total (in ton) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Summary of environmental KPIs
A1.3	Total hazardous waste produced (in ton) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Because of the business nature, the amount of hazardous waste produced was insignificant, and it is not a material issue for our Group.
A1.4	Total non-hazardous waste produced (in ton) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Because of the business nature, the amount of non-hazardous waste produced was insignificant, and it is not a material issue for our Group.
A1.5	Description of measures to mitigate emissions and results achieved	Description of measures can refer to Environmental performance. Results achieved can refer to Summary of environmental KPIs.
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	As explained in A1.3 and A1.4.
A2		Green operation
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	Summary of environmental KPIs
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Water consumption is limited, and it is not a material issue for our Group.
A2.3	Description of energy use efficiency initiatives and results achieved	Since our Group only operates in the office, this KPI is not a material issue for our Group. We did not have initiatives during the Reporting Period. Relevant initiatives will be proposed in the future.
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Our Group's water is sourced from municipal supply, and the quantity is limited.
A2.5	Total packaging material used for finished products (in ton) and, if applicable, with reference to per unit produced	Because of the business nature, the amount of packaging material used was insignificant, and it is not a material issue for our Group.
A3		Green operation
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Because of the business nature of our Group, it is not applicable for our Group.
B1		Employment policy
B1.1	Total workforce by gender, employment type, age and geographical region	Summary of employment KPIs
B1.2	Employee turnover rate by gender, age and geographical region	Summary of employment KPIs

	General disclosures and KPIs	Section
B2		Employment performance
B2.1	Number and rate of work-related fatalities	Health and safety
B2.2	Lost days due to work injury	There was no work-related death or injury in our Group.
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and safety
B3		Employment performance
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	Summary of employment KPIs
B3.2	The average training hours completed per employee by gender and employee category	Summary of employment KPIs
B4		Employment policy
B4.1	Description of measures to review employment practices to avoid child and forced labor	Employment performance
B4.2	Description of steps taken to eliminate such practices when discovered	Employment performance
B5		Supply chain management
B5.1	Number of suppliers by geographical region	It will be disclosed in the future.
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Because of the business nature, it is not applicable to our Group.
B6		Customer and supplier
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Because of the business nature of our Group, it is not applicable to our Group.
B6.2	Number of products and service related complaints received and how they are dealt with	Customer relations
B6.3	Description of practices relating to observing and protecting intellectual property rights	Because of the business nature of our Group, it is not applicable to our Group.
B6.4	Description of quality assurance process and recall procedures	Because of the business nature of our Group, it is not applicable to our Group.
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Customer privacy
B7		Anti-financial crime
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Anti-fraud and anti-corruption
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-fraud and anti-corruption
B8		Community participation
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Community participation
B8.2	Resources contributed (e.g. money or time) to the focus area	Community participation

LIST OF MAIN LAWS AND REGULATIONS

Category	Main laws and regulations complied with
Corporate governance	Company Law of the PRC (中華人民共和國公司法)
	Anti-Money Laundering Law of the PRC (中華人民共和國反洗錢法)
	Listing Rules (上市規則)
	Guiding Opinions on the Pilot Operation of Microfinance Companies promulgated by the People's Bank of China (中國人民銀行關於小額貸款公司試點的指導意見)
	Order No.3 issued by the People's Bank of China (中國人民銀行令〔2016〕第3號)
	Interim Measures of Fujian Province for the Administration of Microfinance Companies (福建省小額貸款公司暫行管理辦法)
	Pilot Measures of Cross-County Operation of Microfinance in Quanzhou (泉州市小額貸款公司跨縣域經營試點實施方案)
	Opinions on Promoting the Sound and Sustainable Development of Micro-credit Companies, Pawnshop Companies and Financing Guarantee Companies promulgated by the government of Quanzhou city (泉州市人民政府關於促進小額貸款公司、典當行和融資擔保公司健康持續發展的若干意見)
Customer and supplier	Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法)
	Law of the PRC on the Protection of Consumer Rights and interests (中華人民共和國消費者權益保護法)
Green operation	Environmental Protection Law of the PRC (中華人民共和國環境保護法)
	Energy Conservation Law of the PRC (中華人民共和國節約能源法)
	Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法)
Employee	Labor Law of the PRC (中華人民共和國勞動法)
	Labor Contract Law of the PRC (中華人民共和國勞動合同法)
	Law on Safeguarding Women's Interests and Rights of the PRC (中華人民共和國婦女權益保障法)
	Special Provisions on the Labor Protection of Female Employees (女職工勞動保護特別規定)
	Protection of Minors Law of the PRC (中華人民共和國未成年人保護法)
	Provisions on the Prohibition of Using Child Labor (禁止使用童工規定)

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

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

To the shareholders of Quanzhou Huixin Micro-credit Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Quanzhou Huixin Micro-credit Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 148 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans and accounts receivable	
As at 31 December 2018, the Group's loans and accounts receivable consisted of loans receivable and lease receivables, and accounted for 80% of the total assets of the Group. The determination of allowance for impairment of loans and accounts receivable is a key area of judgement. The adoption of HKFRS 9 has changed the Group's accounting for loan loss impairment by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. The measurement of ECL requires the application of significant judgment and increases complexity which include the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL models (for exposures assessed individually or collectively), such as the expected future cash flows and forward-looking macroeconomic factors. The disclosures relating to the loans and accounts receivable and allowance for impairment of loans and receivables are included in note 7 and note 17 to the consolidated financial statements.	We obtained an understanding of the controls over the approval, recording and monitoring of loans and accounts receivable. We also assessed the effectiveness of key controls over the application of the impairment methodology, the governance for the ECL models, inputs and assumptions used by the Group in calculating the ECL. For the collectively assessed ECL, we assessed the reasonableness of the Group's ECL models, including the model input, model design, model performance for significant portfolios. We assessed the reasonableness of the Group's criteria for assessing if there has been a significant increase in credit risk that allowances for loans and accounts receivable should be measured on a lifetime ECL basis. We also assessed whether historical experience is representative of current circumstances and of the recent losses incurred in the portfolios and assessed the reasonableness of forward-looking adjustments. For allowance for impaired loans and receivables determined on an individual basis, we assessed the indicators and assumptions for impairment, the quantification of allowance for impairment including the forecasts of future cash flows, the valuation of underlying collateral and estimates of recoverable amounts. We also assessed the adequacy of the disclosures relating to loans and accounts receivable and allowance for impairment of loans and accounts receivable, which are included in note 7 and note 17 to the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the 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 THE DIRECTORS 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgement 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.

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the 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 Ng Chi Keung.

Ernst & Young
Certified Public Accountants

Hong Kong
19 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

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

Consolidated Statement of Financial Position

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

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

Wu Zhirui
Director

Yan Zhijiang
Director

Consolidated Statement of Changes in Equity

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

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

Consolidated Statement of Cash Flows

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

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**114,239,904**	119,866,513
Adjustments for:			
Share of profit of an associate		**(9,140,326)**	(4,965,901)
Depreciation and amortisation	5	**644,516**	844,846
Impairment charged	7	**18,296,302**	1,897,198
Accreted interest on impaired loans		**(3,226,428)**	(2,047,895)
Foreign exchange loss, net		**728,902**	4,350,028
Loss on disposal of items of property and equipment		**1,896**	4,568
Interest expense	6	**10,618,071**	1,077,592
		132,162,837	121,026,949
Increase in financial assets at fair value through profit or loss		**(19,670,000)**	(5,000,000)
Increase in loans and accounts receivable		**(81,877,675)**	(113,516,067)
Increase in other assets		**(9,352,321)**	(1,056,961)
Increase in other payables		**8,922,368**	2,294,306
Net cash flows from operating activities before tax		**30,185,209**	3,748,227
Income tax paid		**(26,926,743)**	(32,884,638)
Net cash flows from/(used in) operating activities		**3,258,466**	(29,136,411)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(431,221)**	(1,224,524)
Purchase of a shareholding in an associate		**—**	(172,511,850)
Acquisition of a subsidiary	4	**(33,293,218)**	—
Dividends received from an associate		**7,185,000**	—
Return of investment in an associate		**47,900,000**	—
Net cash flows from/(used in) investing activities		**21,360,561**	(173,736,374)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from new bank borrowings		**200,000,000**	140,000,000
Repayment of bank borrowings		**(140,000,000)**	—
Interest paid		**(10,463,463)**	(895,375)
Dividends paid	13	**(34,000,000)**	(34,000,000)
Net cash flows from financing activities	28	**15,536,537**	105,104,625
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**40,155,564**	(97,768,160)
Cash and cash equivalents at beginning of year		**12,291,149**	114,409,337
Effect of foreign exchange rate changes, net		**(728,902)**	(4,350,028)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**51,717,811**	12,291,149

1. CORPORATE AND GROUP INFORMATION

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

During the year, the principal activity of the Company and its subsidiaries (collectively referred to as the "**Group**") was the provision of loans to small and medium enterprises ("**SMEs**"), microenterprises, and entrepreneurial individuals.

Information about subsidiaries

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

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

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

2. BASIS OF PREPARATION

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

Basis of consolidation

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

2. BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

3.1 Changes in Accounting Policies and Disclosures

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

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

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

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

3.1.1 HKFRS 9 Financial Instruments

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

(a) Classification and measurement

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

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.1 Changes in Accounting Policies and Disclosures (Continued)

3.1.1 HKFRS 9 Financial Instruments (Continued)

(b) Impairment

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

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

3.2 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.2 Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

Business combinations and goodwill

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

Fair value measurement

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

(i) the entity and the Group are members of the same group;

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

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

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

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

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

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

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

Property and equipment and depreciation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

Property and equipment and depreciation (Continued)

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

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

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

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

Intangible assets (other than goodwill)

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

The estimated useful lives of intangible assets are as follows:

Categories	Estimated useful life
Software	1 to 3 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

Leases

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

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

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

Initial recognition and measurement

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at fair value through profit or loss

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

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

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

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

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

General approach

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

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

General approach (Continued)

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

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

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

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

Parameters of ECL measurement

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

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

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

Financial assets carried at amortised cost

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

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

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

Revenue recognition

Interest income

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

Dividend income

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

Employee benefits

Employee retirement scheme

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

Borrowing costs

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

Dividends

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.3 Summary of Significant Accounting Policies (Continued)

Foreign currencies

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

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

Repossessed assets

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

3.4 Significant Accounting Judgements and Estimates

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

Provision for expected credit losses on loans and accounts receivables

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

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

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

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.4 Significant Accounting Judgements and Estimates (Continued)

Deferred tax assets and liabilities and current income tax charge

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

Impairment of goodwill

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

4. BUSINESS COMBINATIONS

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

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

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

(Amounts expressed in RMB unless otherwise stated)

4. BUSINESS COMBINATIONS (CONTINUED)

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

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

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

5. SEGMENT REPORTING

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

(a) The micro-credit business provides credit facilities to SMEs, microenterprises and entrepreneurial individuals; and

(b) The finance lease business is primarily engaged in providing automobile lease service for individuals.

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

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

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

Year ended 31 December 2018	**Micro-credit business**	**Finance lease business**	**Total**
Segment revenue			
Interest income	155,940,665	848,349	156,789,014
Interest expense	(10,618,071)	—	(10,618,071)
Interest income, net	145,322,594	848,349	146,170,943
Segment results	114,265,362	(25,458)	114,239,904

(Amounts expressed in RMB unless otherwise stated)

5. SEGMENT REPORTING (CONTINUED)

Year ended 31 December 2018	Micro-credit	Finance lease	Total
Segment assets	1,226,528,295	67,805,487	1,294,333,782
Reconciliation			
Elimination of intersegment receivables			(2,000,000)
Total assets			1,292,333,782
Segment liabilities	225,301,367	2,805,634	228,107,001
Reconciliation			
Elimination of intersegment payables			(2,000,000)
Total liabilities			226,107,001
Other segment Information			
Impairment losses on loans and accounts receivable, net	18,235,015	61,287	18,296,302
Share of profit of an associate	9,140,326	—	9,140,326
Depreciation and amortisation	600,575	43,941	644,516
Investment in an associate	131,533,077	—	131,533,077
Capital expenditure*	389,849	41,372	431,221

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

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

Geographical information

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

(Amounts expressed in RMB unless otherwise stated)

6. INTEREST INCOME

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

7. IMPAIRMENT LOSSES ON LOANS AND ACCOUNTS RECEIVABLE

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

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

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

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

(Amounts expressed in RMB unless otherwise stated)

8. OTHER INCOME AND GAINS, NET

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

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

9. PROFIT BEFORE TAX

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

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

(Amounts expressed in RMB unless otherwise stated)

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

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

1 Resigned as director in June 2018
2 Appointed as director in June 2018
3 Resigned as supervisor in June 2018
4 Appointed as supervisor in June 2018

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

(Amounts expressed in RMB unless otherwise stated)

10. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

	Year ended 31 December 2017			
Name	Fees	Salaries, allowances and benefits in kind	Contributions to a defined contribution scheme	Total
Executive Directors				
Zhou Yongwei	—	—	—	—
Wu Zhirui	—	942,595	36,729	979,324
Yan Zhijiang	—	486,965	36,702	523,667
Liu Aiqin[6]	—	235,826	15,608	251,434
Non-executive Directors				
Wang Wenbin[1]	—	—	—	—
Zhu Jinsong	—	—	—	—
Jiang Haiying	—	—	—	—
Liu Aiqin[3,6]	—	—	—	—
Independent Non-executive Directors				
Cai Yi[2]	46,433	—	—	46,433
Zhang Lihe	87,228	—	—	87,228
Wang Yiming[2]	—	—	—	—
Sun Leland Li Hsun[4]	47,521	—	—	47,521
Lin Jianguo[4]	47,521	—	—	47,521
Supervisors				
Ng Seng Chuan	—	—	—	—
Li Jiancheng[5]	—	—	—	—
Hong Lijun	10,000	372,980	32,803	415,783
Ruan Cen	10,000	125,628	26,442	162,070
Wu Lindi	20,000	—	—	20,000
Chen Jinzhu	20,000	—	—	20,000
Wang Shijie[5]	4,500	97,965	16,374	118,839
	293,203	2,261,959	164,658	2,719,820

1 Resigned as director in March 2017
2 Retired as director in June 2017
3 Appointed as director in March 2017
4 Appointed as director in June 2017
5 Resigned as supervisor in August 2017
6 Re-designated as executive director in August 2017

(Amounts expressed in RMB unless otherwise stated)

11. FIVE HIGHEST PAID INDIVIDUALS

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

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

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

	2018	2017
Nil — RMB1,000,000	2	2

12. INCOME TAX EXPENSE

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

The Group conducts all of its businesses in Mainland China and the applicable income tax rate is generally 25% in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008.

(Amounts expressed in RMB unless otherwise stated)

12. INCOME TAX EXPENSE (CONTINUED)

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

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

13. DIVIDENDS

	2018	2017
Proposed and paid dividend	34,000,000	34,000,000

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

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

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

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

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

15. CASH AND CASH EQUIVALENTS

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

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

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Wealth management products	**53,000,000**	31,000,000

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

17. LOANS AND ACCOUNTS RECEIVABLE

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

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

(Amounts expressed in RMB unless otherwise stated)

17. LOANS AND ACCOUNTS RECEIVABLE (CONTINUED)

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

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

(i) Performing loans are collectively assessed for impairment.

(ii) Impaired loans to customers include those with objective evidence of impairment.

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

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

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

(Amounts expressed in RMB unless otherwise stated)

17. LOANS AND ACCOUNTS RECEIVABLE (CONTINUED)

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

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

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

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

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

(Amounts expressed in RMB unless otherwise stated)

17. LOANS AND ACCOUNTS RECEIVABLE (CONTINUED)

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

	31 December 2018
Lease receivables	
Due within 1 year	25,303,073
Due in 1 to 2 years	23,096,534
Due in 2 to 3 years	8,398,091
	56,797,698

	31 December 2018
Net lease receivables	
Due within 1 year	20,713,596
Due in 1 to 2 years	20,908,152
Due in 2 to 3 years	8,053,061
	49,674,809

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

18. INVESTMENT IN AN ASSOCIATE

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

(Amounts expressed in RMB unless otherwise stated)

18. INVESTMENT IN AN ASSOCIATE (CONTINUED)

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Jinjiang Huixin Microfinance Co., Ltd. ("**JJHX**") (formerly known as Jinjiang Baiying Microfinance Co., Ltd.*)	Ordinary shares	Jinjiang, China	47.9%	Provision of micro-credit

The Group's shareholding in the associate all comprises equity shares held by the Company. JJHX is accounted for using the equity method.

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

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

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

(Amounts expressed in RMB unless otherwise stated)

19. PROPERTY AND EQUIPMENT

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

(Amounts expressed in RMB unless otherwise stated)

20. GOODWILL

	Lianche
Cost at 1 January 2018, net of accumulated impairment	–
Acquisition of a subsidiary (note 4)	**2,221,017**
Cost at 1 December 2018, net of accumulated impairment	**2,221,017**
At 31 December 2018:	
Cost	**2,221,017**
Accumulated impairment	–
Net carrying amount	**2,221,017**

Impairment testing of goodwill

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

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

The carrying amounts of goodwill are as follows:

	31 December 2018
Finance lease	**2,221,017**

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

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

Discount rates — The discount rates used reflect specific risks relating to the relevant units.

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

(Amounts expressed in RMB unless otherwise stated)

21. OTHER INTANGIBLE ASSETS

	Software
Cost:	
At 1 January 2017	890,000
Additions	64,400
At 31 December 2017	**954,400**
Acquisition of a subsidiary	**280,000**
At 31 December 2018	**1,234,400**
Accumulated amortisation:	
At 1 January 2017	634,441
Charge for the year	319,959
At 31 December 2017	**954,400**
Acquisition of a subsidiary	**116,667**
Charge for the year	**23,333**
At 31 December 2018	**1,094,400**
Net carrying amount:	
At 31 December 2018	**140,000**
At 31 December 2017	—

(Amounts expressed in RMB unless otherwise stated)

22. DEFERRED TAX ASSETS

The movements in the deferred tax assets are as follows:

	Impairment allowance on loans
At 1 January 2017	1,459,976
Recognised in profit or loss (Note 12)	(13,887)
At 31 December 2017	**1,446,089**
Recognised in profit or loss (Note 12)	**670,322**
At 31 December 2018	**2,116,411**

The Group has a tax loss arising in the subsidiary of RMB454,014 in 2018 that will be available for offsetting against future taxable profits within a period of five years.

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

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

23. OTHER ASSETS

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

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

(Amounts expressed in RMB unless otherwise stated)

24. INTEREST-BEARING BANK BORROWINGS

	2018	2017
Guaranteed bank loans repayable:		
Within one year	**200,336,825**	140,182,217

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

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

25. OTHER PAYABLES

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

26. SHARE CAPITAL

	31 December 2018	31 December 2017
Issued and fully paid ordinary shares of RMB1 each	**680,000,000**	680,000,000

27. RESERVES

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

Capital reserve

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

Surplus reserve

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

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

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

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

General reserve

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

Distributable profit

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

(Amounts expressed in RMB unless otherwise stated)

28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

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

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

29. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel of the Group

	2018	2017
Salaries and other short-term employee benefits	**2,860,422**	2,708,811

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

(b) Loan guarantee

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

(Amounts expressed in RMB unless otherwise stated)

30. CONTINGENT LIABILITIES

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

31. OPERATING LEASES

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

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

32. COMMITMENTS

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

	2018	2017
Contracted, but not provided for:		
Software	556,553	820,408

(Amounts expressed in RMB unless otherwise stated)

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

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

	31 December 2017
Financial assets	
Financial assets at fair value through profit or loss	31,000,000
Loans and receivables	
— Cash and cash equivalents	12,291,149
— Loans and accounts receivable	919,519,129
— Other receivables	1,040,537
	963,850,815
Financial liabilities	
Financial liabilities at amortised cost	
— Interest-bearing bank borrowings	140,183,217
— Other payables	2,613,673
	142,796,890

34. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

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

- Centralised credit management procedures;

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

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

- Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.

- Special-mention: Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.

- Substandard: Borrower's ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay the principal and interest. Losses may ensue even when collateral or guarantees are invoked.

- Doubtful: Borrowers cannot repay the principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.

- Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

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

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

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Impairment assessment

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

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

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

Criteria for judging significant increases in credit risk

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

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

Quantitative criteria

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

Qualitative criteria

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

Backstop criteria

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

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Impairment assessment (Continued)

Definition of credit-impaired financial asset

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

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

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

Parameters of ECL measurement

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

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

Forward-looking information

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

(Amounts expressed in RMB unless otherwise stated)

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Collateral and other credit enhancements

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

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

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

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

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

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

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

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

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit quality of loans receivable

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

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

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

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

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

Analysis of risk concentration

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

(b) Foreign currency risk

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

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

(Amounts expressed in RMB unless otherwise stated)

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Foreign currency risk (Continued)

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

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

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

(c) Interest rate risk

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

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

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

(Amounts expressed in RMB unless otherwise stated)

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

	31 December 2018					
	Overdue	Less than 3 months	3 to 12 months	1 to 5 years	Floating rate	Total
Financial assets:						
Cash at banks	–	–	–	–	51,716,367	51,716,367
Loans and accounts receivable	55,978,535	270,360,171	545,719,755	164,926,637	–	1,036,985,098
Subtotal	55,978,535	270,360,171	545,719,755	164,926,637	51,716,367	1,088,701,465
Financial liabilities:						
Interest-bearing bank borrowing	–	–	–	–	200,000,000	200,000,000
Subtotal	–	–	–	–	200,000,000	200,000,000
Exposure to interest sensitivity	55,978,535	270,360,171	545,719,755	164,926,637	(148,283,633)	888,701,465

	31 December 2017					
	Overdue	Less than 3 months	3 to 12 months	1 to 5 years	Floating rate	Total
Financial assets:						
Cash at banks	–	–	–	–	12,289,628	12,289,628
Loans receivable	13,719,653	286,899,957	435,183,994	183,715,525	–	919,519,129
Subtotal	13,719,653	286,899,957	435,183,994	183,715,525	12,289,628	931,808,757
Financial liabilities:						
Interest-bearing bank borrowing	–	–	–	–	140,000,000	140,000,000
Subtotal	–	–	–	–	140,000,000	140,000,000
Exposure to interest sensitivity	13,719,653	286,899,957	435,183,994	183,715,525	(127,710,372)	791,808,757

(Amounts expressed in RMB unless otherwise stated)

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

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

Changes in variables	**2018 Impact on profit before tax**	2017 Impact on profit before tax
+ 50 basis points	**(741,418)**	(638,552)
– 50 basis points	**741,418**	638,552

(d) Price risk

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

(e) Liquidity risk

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

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

(Amounts expressed in RMB unless otherwise stated)

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

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

	31 December 2018					
	On demand	Overdue	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
Financial assets:						
Cash and cash equivalents	51,717,811	–	–	–	–	51,717,811
Financial assets at fair value through profit or loss	53,000,000	–	–	–	–	53,000,000
Loans and accounts receivable	–	76,850,910	310,460,657	580,372,574	185,752,959	1,153,437,100
Other assets	–	–	123,361	996,139	329,406	1,448,906
Subtotal	104,717,811	76,850,910	310,584,018	581,368,713	186,082,365	1,259,603,817
Financial liabilities:						
Interest-bearing bank borrowings	–	–	3,338,325	205,669,500	–	209,007,825
Other payables	–	–	2,155,866	–	6,600,000	8,755,866
Subtotal	–	–	5,494,191	205,669,500	6,600,000	217,763,691
Net	104,717,811	76,850,910	305,089,827	375,699,213	179,482,365	1,041,840,126

	31 December 2017					
	On demand	Overdue	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
Financial assets:						
Cash and cash equivalents	12,291,149	–	–	–	–	12,291,149
Financial assets at fair value through profit or loss	31,000,000	–	–	–	–	31,000,000
Loans receivable	–	20,623,858	326,128,952	480,106,516	220,858,735	1,047,718,061
Other assets	–	–	888,282	–	152,255	1,040,537
Subtotal	43,291,149	20,623,858	327,017,234	480,106,516	221,010,990	1,092,049,747
Financial liabilities:						
Interest-bearing bank borrowings	–	–	1,979,250	144,860,158	–	146,839,408
Other payables	–	–	1,213,673	1,400,000	–	2,613,673
Subtotal	–	–	3,192,923	146,260,158	–	149,453,081
Net	43,291,149	20,623,858	323,824,311	333,846,358	221,010,990	942,596,666

(Amounts expressed in RMB unless otherwise stated)

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018.

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

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

(Amounts expressed in RMB unless otherwise stated)

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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

(Amounts expressed in RMB unless otherwise stated)

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

	31 December 2017					
	On demand	Overdue	Less than 3 months	3 to less than 12 months	After 12 months	Total
Assets:						
Cash and cash equivalents	12,291,149	—	—	—	—	12,291,149
Financial assets at fair value through profit or loss	31,000,000	—	—	—	—	31,000,000
Loans receivable	—	13,719,653	286,899,957	435,183,994	183,715,525	919,519,129
Investment in an associate	—	—	—	—	177,477,751	177,477,751
Property and equipment	—	—	—	—	1,375,125	1,375,125
Deferred tax assets	—	—	—	—	1,446,089	1,446,089
Other assets	—	—	1,406,011	708,524	11,106,849	13,221,384
Subtotal	43,291,149	13,719,653	288,305,968	435,892,518	375,121,339	1,156,330,627
Liabilities:						
Interest-bearing bank borrowings	—	—	182,217	140,000,000	—	140,182,217
Income tax payable	—	—	13,097,652	—	—	13,097,652
Other payables	—	—	7,063,788	—	—	7,063,788
Subtotal	—	—	20,343,657	140,000,000	—	160,343,657
Net	43,291,149	13,719,653	267,962,311	295,892,518	375,121,339	995,986,970

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

(Amounts expressed in RMB unless otherwise stated)

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2018

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

As at 31 December 2017

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

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

37. EVENTS AFTER THE REPORTING PERIOD

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

(Amounts expressed in RMB unless otherwise stated)

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

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

(Amounts expressed in RMB unless otherwise stated)

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

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

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved and authorised for issue by the Company's board of directors on 19 March 2019.

Financial Summary

The following is a summary of assets and liabilities of our Group as of 31 December 2014, 2015, 2016, 2017 and 2018 of the results of our Group for each of the years ended 31 December 2014, 2015, 2016, 2017 and 2018.

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
RESULTS					
Interest income	134,301	135,882	143,693	140,015	**156,789**
Profit before tax	98,074	100,351	114,281	119,867	**114,240**
Income tax expense	(24,605)	(25,096)	(28,762)	(28,900)	**(26,256)**
Net profit and total comprehensive income for the year	73,469	75,255	85,519	90,966	**87,983**
ASSETS AND LIABILITIES					
Total assets	740,822	747,679	960,886	1,156,331	**1,292,334**
Total liabilities	156,959	118,561	21,866	160,344	**226,107**
Total equity	583,863	629,118	939,021	995,987	**1,066,227**

Note: The summary of assets and liabilities of the Company as of 31 December 2014 and 2015 and the summary of the results of the Company for the years ended 31 December 2014 and 2015 have been extracted from the Prospectus.

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"AGM"	the annual general meeting of our Group to be held at 7/F, Nanyi Square Office, No. 666 Feng Ze Street, Feng Ze District, Quanzhou City, Fujian Province, the PRC at 10:00 a.m. on Wednesday, 12 June 2019
"Articles of Association"	the articles of association of our Group as amended from time to time
"Board" or "Board of Directors"	the board of directors of the Company
"CBIRC"	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), which was formed by a merger of former China Banking Regulatory Commission (中國銀行業監督管理委員會) and former China Insurance Regulatory Commission (中國保險業監督管理委員會) in 2018; or, where the context so requires, China Banking Regulatory Commission
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" and "PRC" do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
"Company"	Quanzhou Huixin Micro-credit Co., Ltd.* (泉州匯鑫小額貸款股份有限公司), a joint stock company established in the PRC with limited liability on 8 January 2010 converted from the predecessor company, Quanzhou Licheng District Huixin Microcredit Co., Ltd.* (泉州市鯉城區匯鑫小額貸款有限公司), on 18 August 2014, the H Shares of which are listed on the Hong Kong Stock Exchange (stock code:1577)
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC-incorporated entities
"Finance Businesses"	certain other finance-related businesses in which or Substantial Shareholders and their respective close associates had interests, namely, the provision of financing guarantee services through Fujian Baiying Financing Guarantee Co., Ltd.* (福建百應融資擔保股份有限公司), the provision of finance leasing services through Xiamen Baiying Finance Leasing Co., Ltd.* (廈門市百應融資租賃有限公司), the provision of pawn loan services through Xiamen Borong Pawn Co., Ltd.* (廈門博融典當有限公司) and Fujian Yuanheng Pawn Co., Ltd.* (福建元亨典當有限公司), and the provision of microcredit services in Xiamen City through Xiamen Siming Baiying Microcredit Co., Ltd.* (廈門思明百應小額貸款有限公司), and the provision of settlement services, entrusted loans services, loans to and taking deposits from any of the Holdco Group Member Companies through Fujian Septwolves Group Finance Co., Ltd.* (福建七匹狼集團財務有限公司)
"Fujian" or "Fujian Province"	Fujian Province (福建省), a province located in the southeastern coast of China

"Fujian Economic and Information Technology Commission"	Fujian Provincial Economic and Information Technology Commission (福建省經濟和信息化委員會), which was formed by a merger of former Fujian Provincial Economic and Trade Commission (福建省經濟貿易委員會) and former Fujian Provincial Municipal Bureau of Information Technology (福建省信息化局) in 2014; or, where the context so requires, Fujian Provincial Economic and Trade Commission (福建省經濟貿易委員會)
"Fujian Haoxiang Gardening"	Fujian Haoxiang Gardening Building Decoration Engineering Co., Ltd.* (福建豪翔園林建設有限責任公司)
"Fujian Panpan"	Fujian Panpan Biotech Co., Ltd.* (福建盼盼生物科技股份有限公司)
"Fujian Septwolves Group"	Fujian Septwolves Group Co., Ltd.* (福建七匹狼集團有限公司)
"Fujian Xiyuan"	Fujian Anxi Xiyuan Investment Co., Ltd.* (福建省安溪溪源投資有限公司)
"Group", "we", "us" or "our"	the Company and its subsidiaries
"HKAS"	Hong Kong Accounting Standards
"HKFRS(s)"	Hong Kong Financial Reporting Standards
"H Share(s)"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
"H Share Registrar"	Boardroom Share Registrars (HK) Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huixinxing"	Quanzhou Huixinxing Investment Co., Ltd.* (泉州匯鑫行投資有限責任公司) established in the PRC with limited liability on 19 October 2017, a wholly-owned subsidiary of the Company
"Independent Third Party(ies)"	(an) individual(s) or (a) company(ies) who or which, as far as the Directors are aware after having made all reasonable enquiries, is/are not (a) connected person(s) of our Group within the meaning of the Listing Rules and are independent of and not connected with the Company and its directors, chief executive, and Substantial Shareholders or any of its subsidiaries or their respective associates
"Listing"	the listing of the H Shares on the Main Board of the Stock Exchange
"Listing Date"	30 September 2016, the day on which the H Shares became listed on the Hong Kong Stock Exchange

"Listing Rules"	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Prospectus"	the prospectus of the Company dated 19 September 2016 in connection with the Hong Kong public offering
"Quanzhou" or "Quanzhou City"	Quanzhou City (泉州市), Fujian Province
"Quanzhou Haoxiang"	Quanzhou Haoxiang Stone Co., Ltd.* (泉州豪翔石業有限公司)
"Quanzhou Yuanpeng"	Quanzhou Yuanpeng Clothing and Textile Co., Ltd.* (泉州市遠鵬服飾織造有限公司)
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"Reporting Period"	the period for the year ended 31 December 2018
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	Domestic Share(s) and/or H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"SMEs"	small and medium-sized enterprise(s)
"Substantial Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, collectively refers to Fujian Septwolves Group, Mr. Zhou Yongwei and Ms. Chen Pengling
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Wealth Success"	Wealth Success Enterprise Limited (成康企業有限公司)

* *for identification purpose only*

汇鑫小额贷款
HUIXIN MICRO-CREDIT

Quanzhou Huixin Micro-credit Co., Ltd.*
泉州匯鑫小額貸款股份有限公司