佐力科創小額貸款股份有限公司
Zuoli Kechuang Micro-finance Company Limited

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock code: 6866

ANNUAL REPORT 2018

CONTENTS

DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Acting in Concert Agreement"	an agreement entered into by Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy and dated 28 April 2014
"AFR (三農)"	customers engaged in agricultural businesses and/or rural development activities, and/or customers residing in rural areas
"AGM"	an annual general meeting of the Company to be held at Conference Room, 3th Floor, Zuoli Building, No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC on Friday, 28 June 2019 at 3:00 p.m.
"Articles of Association"	the articles of association of the Company
"Bangni Fiber"	浙江邦尼耐火纖維有限公司 (Zhejiang Bangni Refractory Fiber Co., Ltd.*)
"Board" or "Board of Directors"	the board of Directors
"Board of Supervisors"	the board of Supervisors
"Chief Financial Controller"	the chief financial controller of the Company
"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Company", "we", "us" or "our"	佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited*), a joint stock company incorporated in the PRC with limited liability on 18 August 2011 and converted from our Predecessor Company on 28 April 2014, the H Shares of which are listed on the Hong Kong Stock Exchange (stock code: 6866)
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and in case of the Company, means Zuoli Holdings, Puhua Energy, Mr. Yu Yin, Mr. Yu Youqiang, Deqing Yintian, Mr. Shen Haiying, Dingsheng Investment and Mr. Zhang Jianming
"CSRC"	the China Securities Regulatory Commission
"Deqing Yintian"	德清銀天股權投資管理有限公司 (Deqing Yintian Equity Investment and Management Company Limited*)
"Dingsheng Investment"	德清鼎盛股權投資管理有限公司 (Deqing Dingsheng Equity Investment and Management Company Limited*)
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB by PRC nationals and/or PRC-established entities
"Group"	the Company and its subsidiaries

"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
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Jinhui Micro-finance"	德清金匯小額貸款有限公司 (Deqing Jinhui Micro-finance Company Limited*), a non-wholly owned subsidiary of the Company
"Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Listing Date"	13 January 2015, the day on which the H Shares became listed on the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Predecessor Company"	德清佐力科創小額貸款有限公司 (Deqing Zuoli Kechuang Micro-finance Company Limited*), a limited liability company established in the PRC on 18 August 2011 and the predecessor of the Company
"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 the "PRC" do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
"Promoter(s)"	the promoters that established the Company on 28 April 2014. At the time of our establishment, our promoters comprised 6 corporate shareholders and 44 individual shareholders
"Puhua Energy"	德清普華能源有限公司 (Deqing Puhua Energy Company Limited*)
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"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)
"SME(s)"	small and medium enterprise(s), as defined in the Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises (關於印發中小企業劃型標準規定的通知)
"Supervisor(s)"	the supervisor(s) of the Company
"Xingyao Micro-finance"	杭州市高新區(濱江)興耀普匯小額貸款有限公司 (Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd.*), a non-wholly owned subsidiary of the Company
"Xing Yao Construction"	杭州興耀建設集團有限公司 (Hangzhou Xing Yao Construction Group Co., Ltd*)
"Zuoli Holdings"	佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*)

* For identification purposes only

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yu Yin *(Chairman)*
Mr. Zheng Xuegen *(Vice-Chairman)*
Mr. Yang Sheng *(Vice-Chairman)*
Mr. Hu Haifeng (resigned on 18 April 2019)

Non-executive Director

Mr. Pan Zhongmin (formerly known as Pan Zhongming)

Independent non-executive Directors

Mr. Ho Yuk Ming, Hugo
Mr. Jin Xuejun
Ms. Huang Lianxi

SUPERVISORS

Mr. Dai Shengqing *(Chairman)*
Ms. Yang Zhenlan
Mr. Wang Peijun

AUDIT COMMITTEE

Mr. Ho Yuk Ming, Hugo *(Chairman)*
Mr. Jin Xuejun
Ms. Huang Lianxi

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Jin Xuejun *(Chairman)*
Mr. Yu Yin
Mr. Ho Yuk Ming, Hugo

NOMINATION COMMITTEE

Ms. Huang Lianxi *(Chairman)*
Mr. Yu Yin
Mr. Jin Xuejun

LOAN APPROVAL COMMITTEE

Mr. Yang Sheng *(Chairman)*
Mr. Zheng Xuegen
Ms. Hu Fangfang

COMPANY SECRETARY

Ms. Ho Wing Yan *(ACIS, ACS(PE))*

AUTHORISED REPRESENTATIVES

Mr. Yu Yin
Ms. Ho Wing Yan *(ACIS, ACS(PE))*

REGISTERED OFFICE

No. 399 Deqing Avenue
Wukang Road
Deqing County
Huzhou City
Zhejiang Province
PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 399 Deqing Avenue
Wukang Road
Deqing County
Huzhou City
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

33rd Floor, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

COMPANY'S WEBSITE

www.zlkcxd.cn

STOCK CODE

6866

AUDITOR

KPMG
Certified Public Accountants

LEGAL ADVISERS

ONC Lawyers *(as to Hong Kong laws)*
Dacheng Law Offices *(Dacheng Shanghai) (as to PRC laws)*

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

Shanghai Pudong Development Bank Co., Ltd.
(Huzhou Deqing Sub-branch)
Nos. 720 to 728 Wuyuan Street
Wukang Road, Deqing County
Huzhou Corty, Zhejiang Province
PRC

FINANCIAL SUMMARY

The following is a summary of assets and liabilities of the Group as at 31 December 2014, 2015, 2016, 2017 and 2018 and of the results of the Group for each of the years ended 31 December 2014, 2015, 2016, 2017 and 2018.

RESULTS	Year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Interest income	160,237	212,128	243,360	314,301	**337,536**
Profit before taxation	124,575	196,961	200,869	209,382	**191,212**
Income tax	(31,176)	(50,442)	(50,333)	(53,530)	**(48,312)**
Profit and total comprehensive income for the year	93,399	146,519	150,536	155,852	**142,900**
Profit attributable to the equity shareholders of the Company	93,399	146,086	146,147	148,828	**136,968**
ASSETS AND LIABILITIES					
Total assets	1,177,417	1,522,570	2,033,266	2,217,262	**2,427,471**
Total liabilities	206,538	126,977	568,691	597,393	**674,454**
Total equity	970,879	1,395,593	1,464,575	1,619,869	**1,753,017**

CHAIRMAN'S STATEMENT

2018 was the year during which the financial industry experienced a painful transition and coincided with the overall downward pressure on the macro economy. Faced with a series of policies and market re-orientation, the Company actively responded to the situation, adjusted the structure in a timely manner, striving to achieve a steady pace of development.

On behalf of the Board, I would like to express my gratitude to our Shareholders and stakeholders who have been following and supporting the development of the Company and all of our employees who have been striving for the best results for the Company. On behalf of the Group, I would like to present to you our operating results for 2018.

In the past year, although our development has encountered many obstacles due to macroeconomic and environmental policies, the overall development trend is still worthy of recognition due to timely adjustments. In 2018, our loans scale reached RMB4,569.728 million; interest income reached RMB337.536 million; net profit reached RMB142.900 million; and amounts attributable to equity shareholders of the Company reached RMB136.968 million.

In 2018, the Company completed the business reorganization together with Jinhui Micro-finance, a non-wholly owned subsidiary of the Company, transforming it into the Group's main platform for conducting micro-finance business. At the same time, due to regulatory requirements, the development layout of the online micro-loans business has changed and the main business was accordingly adjusted in structure and direction.

We will deepen the concept of innovative product design, fully taping the depth of the market, and provide customers with convenient and flexible financing services based on the principle of small amount and dispersion through efficient and rapid means to ensure the healthy and sustainable development of our core business.

Upholding the stability of micro-finance business, our core business, we will continue to accelerate the pace of transformation and upgrading in 2019, so that the Group's business will develop towards a more diversified and more specialized direction.

By order of the Board
佐力科創小額貸款股份有限公司
(Zuoli Kechuang Micro-finance Company Limited*)
Yu Yin
Chairman

22 March 2019

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

We carried out our microfinance business in the PRC, and our business is mainly conducted in Deqing County, Huzhou City and Binjiang District, Hangzhou City, the PRC, where the main market share comes from Deqing County. Deqing has experienced robust economic development and growth in recent years, and is placed among the nation's top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). Deqing has been designated as a "technological outstanding county (科技強縣)", a "financial innovation demonstration county (金融創新示範縣)" as well as the "financial back-office base in Yangtze River Delta (長三角金融後台基地)" by the Zhejiang provincial government of the PRC. A number of new high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has helped to promote the development of the local financial services industry.

Competition within the microfinance industry in Zhejiang remains intense. As of 31 December 2018, the number of microfinance companies in Zhejiang reached 330 in total. The average registered capital per microfinance company amounted to RMB0.175 billion. The average loan balance per microfinance company amounted to RMB0.206 billion.

As of 31 December 2018, apart from the Group, there were three other microfinance companies in Deqing. The accumulated aggregate amount of loans granted by the Group and the three microfinance companies for the year ended 31 December 2018 reached RMB5.8 billion (2017: RMB13.774 billion), out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 78.8% (2017: 85.4%). As of 31 December 2018, the balance of loans of the Group and these three microfinance companies reached RMB3.3 billion (2017: RMB3.595 billion), out of which the balance of loans of the Group accounted for approximately 72.6% (2017: 60%).

BUSINESS OVERVIEW

As at 31 December 2018, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Financial Work Office of the People's Government of Zhejiang Province. We have been providing financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes.

Our customer base primarily consists of customers engaged in AFR (三農), the SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc.

Due to the increase in the size of our loan portfolio and strong demand for financing of our customers, our gross loan balance (excluding accrued interest) increased from RMB2,144.9 million as at 31 December 2017 to RMB2,396.4 million as at 31 December 2018.

The following table sets out our registered capital, gross outstanding loans and advances to customers and leverage ratio as at the dates indicated:

	As at 31 December 2018	As at 31 December 2017
Registered capital (RMB'000)	1,180,000	1,180,000
Gross outstanding loans and advances to customers (excluding accrued interest, RMB'000)	2,396,383	2,144,943
Leverage ratio[1]	2.03	1.82

Note:

(1) Represents the gross outstanding loans and advances to customers (excluding accrued interest) divided by registered capital.

For the years ended 31 December 2017 and 2018, our average interest rates for loans were 15.4% and 14.8%, respectively. Our average loan interest rate decreased slightly during the aforesaid period mainly due to our continuous focus on serving customers with stronger repayment ability in 2018, to which we charged relatively low interest rates in order to effectively control the credit risk under the influence of the external economic environment.

We primarily served the SMEs and micro enterprises, customers engaged in AFR (三農) in Huzhou City and Hangzhou City and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc.

The following table sets out the number of our loans by size as at the dates indicated:

	As at 31 December 2018	As at 31 December 2017
Up to RMB500,000	4,074	10,543
Over RMB500,000 to RMB1 million (inclusive)	133	215
Over RMB1 million to RMB5 million (inclusive)	364	327
Over RMB5 million	95	55
Total number of outstanding loans and advances to customers	4,666	11,140

As at 31 December 2017 and 2018, approximately 96.6% and 90.2% of loan contracts were loan amount in our loan contracts up to RMB1 million, respectively. Among our loan contracts, the higher proportion of loans with amount up to RMB1 million was mainly due to our main targets of service, including the SMEs and micro enterprises, individuals in the agricultural, industrial and service sectors in Huzhou City and Hangzhou City and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc., the loan amount granted to whom are generally lower.

Loan Portfolio by Security

The following table sets out our loan portfolio by security as at the dates indicated:

	As at 31 December 2018 RMB'000	%	As at 31 December 2017 RMB'000	%
Unsecured loans[(1)]	53,584	2.2	269,879	12.6
Guaranteed loans	2,282,460	95.3	1,813,468	84.5
Collateralized loans	54,899	2.3	61,546	2.9
Pledged loans	5,440	0.2	50	0.0
Sub-total	2,396,383	100.0	2,144,943	100.0
Accrued interest	18,868		—	
Total gross outstanding loans and advances to customers	2,415,251		2,144,943	

Note:

(1) Our unsecured loans are generally of small amounts, with short terms, and granted to customers who have good credit history upon assessing the risks involved in the loans during our credit evaluation process.

The following table sets out the maturity profile of the original term of our loans as at the dates indicated:

	As at 31 December 2018 RMB'000	%	As at 31 December 2017 RMB'000	%
Due within three months	14,377	0.6	137,347	6.4
Due between three months and six months	323,555	13.5	501,943	23.4
Due between six months and one year	2,029,895	84.7	1,475,071	68.8
Due more than one year	28,556	1.2	30,582	1.4
Sub-total	2,396,383	100.0	2,144,943	100.0
Accrued interest	18,868		—	
Total gross outstanding loans and advances to customers	2,415,251		2,144,943	

The following table sets out our loan portfolio by exposure size as at the dates indicated:

	As at 31 December 2018 RMB'000	%	As at 31 December 2017 RMB'000	%
Up to RMB500,000	175,767	7.4	470,315	21.9
Over RMB500,000 to RMB1 million (inclusive)	120,486	5.0	193,218	9.0
Over RMB1 million to RMB5 million (inclusive)	1,054,540	44.0	910,510	42.5
Over RMB5 million	1,045,590	43.6	570,900	26.6
Sub-total	2,396,383	100.0	2,144,943	100.0
Accrued interest	18,868		—	
Total gross outstanding loans and advances to customers	2,415,251		2,144,943	

The following table sets out the breakdown of our total gross outstanding loans and advances to customers analysed by methods for assessing allowances for impairment losses as at the dates indicated:

	As at 31 December 2018			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
Gross loans and advances to customers	2,314,865	28,024	72,362	2,415,251
Less: Allowances for impairment losses	(68,298)	(7,817)	(57,054)	(133,169)
Net loans and advances to customers	2,246,567	20,207	15,308	2,282,082

	As at 31 December 2017		
	Loans and advances for which allowances are collectively assessed RMB'000	Loans and advances for which allowances are individually assessed RMB'000	Total RMB'000
Gross loans and advances to customers	2,112,012	32,931	2,144,943
Less: Allowances for impairment losses	(64,935)	(25,618)	(90,553)
Net loans and advances to customers	2,047,077	7,313	2,054,390

The following table sets out our key operating data as at the dates indicated:

	As at 31 December 2018	As at 31 December 2017
Impaired loan ratio(1)	**3.0%**	1.5%
Balance of impaired loans (RMB'000)	**72,362**	32,931
Gross outstanding loans and advances to customers (excluding accrued interest, RMB'000)	**2,396,383**	2,144,943
Allowance coverage ratio(2)	**184%**	275%
Allowances for impairment losses(3) (RMB'000)	**133,169**	90,553
Balance of impaired loans (RMB'000)	**72,362**	32,931
Provision for impairment losses ratio(4)	**5.6%**	4.2%
Balance of overdue loans (RMB'000)	**76,138**	34,533
Gross outstanding loans and advances to customers (excluding accrued interest, RMB'000)	**2,396,383**	2,144,943
Overdue loan ratio(5)	**3.18%**	1.61%

Notes:

(1) Represents the balance of impaired loans divided by the gross outstanding loans and advances to customers (excluding accrued interest). Impaired loan ratio indicates the quality of our loan portfolio.

(2) Represents the allowances for impairment losses on all loans divided by the balance of impaired loans. Allowance coverage ratio indicates the level of provisions we set aside to cover probable loss in our loan portfolio.

(3) Allowances for impairment losses reflect our management's estimate of the probable losses in our loan portfolio.

(4) Represents the allowances for impairment losses divided by the gross outstanding loans and advances to customers (excluding accrued interest). Provision for impairment losses ratio measures the cumulative level of provisions.

(5) Represents the balance of overdue loans divided by the gross outstanding loans and advances to customers (excluding accrued interest).

Total impaired loans

Our balance of impaired loans increased from RMB32.9 million as of 31 December 2017 to RMB72.4 million as of 31 December 2018, which was mainly due to the increase of loan balance and the deterioration of the operating environment of some of our loan customers as at 31 December 2018.

Total overdue loans

The following table sets out a breakdown of our overdue loans by security as at the dates indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Unsecured loans	19,046	21,470
Guaranteed loans	45,292	11,379
Collateralized loans	11,800	1,684
Total overdue loans	76,138	34,533

We had overdue loans of RMB34.5 million and RMB76.1 million as at 31 December 2017 and 31 December 2018, respectively, accounting for 1.61% and 3.18% of our gross loan balance as at the same dates. As at 22 March 2019, approximately RMB3.6 million out of the overdue loans as of 31 December 2018 was recovered.

FINANCIAL OVERVIEW

Net interest income

We generate interest income from loans we provide to customers and from our cash at banks. Our net interest income is net of interest and commission expenses. We incur interest and commission expenses on bank and other borrowings, which are principally used to expand our business and meet working capital requirements, as well as bank charges.

The following table sets out the breakdown of our net interest income by source for the years indicated:

	2018 RMB'000	2017 RMB'000
Interest income from		
Loans and advances to customers	336,799	313,495
Bank deposits	737	806
Total interest income	337,536	314,301
Interest and commission expenses from		
Borrowings from banks	(9,606)	(9,474)
Borrowings from non-bank financial institutions	(33,264)	(32,514)
Bank charges	(598)	(1,476)
Total interest and commission expenses	(43,468)	(43,464)
Net interest income	294,068	270,837

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rate that we charge on loans to our customers. Our balance of loans increased during the reporting period, generally in line with the size of our capital base, which is in turn affected by the size of our net assets and financing. As at 31 December 2017 and 2018, our loan balance (excluding accrued interest) was RMB2,144.9 million and RMB2,396.4 million, respectively, and our average interest rates for loans were 15.4% and 14.8% for the year ended 31 December 2017 and 2018, respectively. Our average loan interest rate decreased slightly during the aforesaid period mainly due to our continuous focus on serving customers with stronger repayment ability in 2018, to which we charged relatively low interest rates in order to effectively control the credit risk under the influence of the external economic environment in the PRC.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions as well as bank charges, were RMB43.5 million and RMB43.5 million for the year ended 31 December 2017 and 2018, respectively. We incurred interest expenses primarily on the interest payment on bank borrowings and non-bank institutions borrowings, including debt securities issued, borrowing from third parties under a repurchase agreement and borrowings from other third parties, which were principally applied to expand our loan business.

Our balance of bank borrowings (excluding accrued interest) as at 31 December 2017 and 2018 both amounted to RMB180 million. Our balance of borrowings from non-bank financial institutions (excluding accrued interest) amounted to RMB352.5 million and RMB393.9 million as at 31 December 2017 and 2018, respectively.

Our net interest income for the year ended 31 December 2017 and 2018 were RMB270.8 million and RMB294.1 million, respectively.

Other net income

Our other net income for the year ended 31 December 2017 and 2018 were RMB5.3 million and RMB13.4 million, respectively. Our other net income increased in the aforesaid period mainly because that we received government grants of RMB13.2 million during the year ended 31 December 2018.

Impairment losses

Impairment losses include provisions we make in relation to loans and advances to our customers. We review our portfolios of loans and advances periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment losses. Our management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between estimated loss and the actual loss.

For the year ended 31 December 2017 and 2018, our impairment losses were RMB17.4 million and RMB47.4 million, respectively.

Administrative expenses

Our administrative expenses mainly include: (i) tax and surcharge; (ii) staff costs, such as salaries, bonuses and allowances paid to employees, social insurance and other benefits; (iii) office expenditures and travel expenses; (iv) operating lease charges; (v) depreciation and amortization expenses; (vi) consulting and professional service fees; and (vii) other expenses, including business development expenses, advertising expenses and other miscellaneous expenses, such as stamp duty, conference fees and labor protection fees. The table below sets out the components of our administrative expenses by nature for the periods indicated:

	2018 RMB'000	2017 RMB'000
Tax and surcharge	**1,674**	2,108
Staff costs	**24,066**	18,059
Office expenditures and travel expenses	**7,851**	4,618
Operating lease charges	**2,079**	2,262
Depreciation and amortization expenses	**6,652**	2,196
Consulting and professional service fees	**12,034**	10,730
Business development expenses	**3,867**	2,238
Advertising expenses	**4,317**	3,418
Others	**6,278**	3,814
Total administrative expenses	**68,818**	49,443

Our staff costs accounted for approximately 36.5% and 35.0% of the total administrative expenses for the year ended 31 December 2017 and 2018, respectively. Our staff costs increased from RMB18.1 million for the year ended 31 December 2017 to RMB24.1 million for the year ended 31 December 2018, which was mainly attributable to the completion of the development of our business integrated management software in 2017, pursuant to which relevant staff costs associated therewith were no longer capitalised and were expensed.

Our depreciation and amortisation expenses increased from RMB2.2 million for the year ended 31 December 2017 to RMB6.7 million for the year ended 31 December 2018, which was mainly attributable to the increase in amortization caused by the addition of decoration during the period.

Income tax

Our income taxes for the year ended 31 December 2017 and 2018 were RMB53.5 million and RMB48.3 million, respectively, and our effective tax rates were 25.6% and 25.3%, respectively.

Profit and total comprehensive income for the year

We had profit and total comprehensive income for the year of RMB155.9 million and RMB142.9 million for the year ended 31 December 2017 and 2018, respectively.

Liquidity and capital resources

Our working capital and other capital requirements are mainly financed by equity investments from the shareholders of the Company (the "**Shareholders**"), interest-bearing borrowings, debt securities issued and cash flows from operations. Our working capital and capital requirements are primarily related to extending loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity level that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than the bank borrowings we obtain from commercial banks, we may also consider conducting financing on the platform of 浙江股權交易中心 (Zhejiang Equity Exchange Centre*) and financing on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*), transferring and repurchasing certain loan financings or other investments plans or choices. Otherwise, as at the date of this report, we do not have any firm intention or formulated any specific plan on material external debt financing in the short term.

As at 31 December 2018, our balance of interest-bearing borrowings was approximately RMB580.1 million (31 December 2017: RMB532.5 million). At the end of the two years, the balance of interest-bearing borrowings were due within one year and bore fixed interest rates.

WORKING CAPITAL MANAGEMENT

Cash flows

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

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents at the beginning of year	**37,235**	29,208
Net cash used in operating activities	**(9,383)**	(14,608)
Net cash generated from investing activities	**12,139**	15,557
Net cash generated from financing activities	**1,718**	7,082
Net increase in cash and cash equivalents	**4,474**	8,031
Effect on the change of exchange rate	**(2)**	(4)
Cash and cash equivalents at the end of year	**41,707**	37,235

Net cash used in operating activities

Our cash generated from operating activities primarily consisted of interest income from loans we grant to customers. Our cash used in operating activities primarily consisted of loans and advances we extend to our customers and various taxes.

We account equity investments from the Shareholders, interest-bearing borrowings and debt securities issued as cash generated from financing activities, while we utilize such cash for granting new loans to customers and classify it as cash used in operating activities. Due to the loan granting nature of our business and the accounting treatment that deployment of cash for granting loans is accounted for as operating cash outflow, we typically experience net cash outflows from operating activities when we expand our loan portfolio, which is generally in line with the industry norm.

Net cash used in operating activities for the year ended 31 December 2018 was RMB9.4 million. Our net cash used in operating activities reflect: (i) our profit before tax of RMB191.2 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB47.4 million, depreciation and amortization of RMB6.7 million, interest expenses of RMB42.9 million, investment income of RMB0.3 million; (ii) the effect of changes in working capital, primarily including an increase in total loans and advances to customers of RMB260.4 million, an increase in interest receivables and other assets of RMB1.5 million, and an increase in accruals and other payables of RMB4.4 million; and (iii) income tax paid of RMB39.8 million.

Net cash generated from investing activities

For the year ended 31 December 2018, our net cash generated from investing activities was RMB12.1 million. Our net cash generated from investing activities mainly consisted of: (i) redemption of wealth management products after deducting net inflow upon purchase of RMB27.5 million, (ii) income of RMB0.3 million received from purchasing wealth management products; which was partially offset by payment for the purchase of equipment and improvement of RMB15.7 million.

Net cash generated from financing activities

For the year ended 31 December 2018, our net cash generated from financing activities was RMB1.7 million. Our net cash generated from financing activities mainly consisted of the receipt of RMB769.5 million from financing from interest-bearing borrowings, which was partly offset by: (i) repayment of financing from interest-bearing borrowings amounting to RMB732.3 million, and (ii) payment of interest on borrowings of RMB35.5 million.

Cash management

As our business primarily relies on our available cash, we normally set aside a sufficient amount of cash for meeting general working capital needs, such as administrative expenses and payment of interests on borrowings from banks and other non-bank institutions, and use the remainder for granting loans to our customers. As at 31 December 2017 and 2018, total cash and cash equivalents amounted to RMB37.2 million and RMB41.7 million, respectively.

Cash and cash equivalents

Cash and cash equivalents are primarily our cash at banks. The following table sets out our cash and cash equivalents as at the dates indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Cash in hand	**3**	1
Cash at banks	**41,176**	27,223
Other currencies cash	**528**	10,011
Cash and cash equivalents	**41,707**	37,235

Interest receivables

Our interest receivables as at 31 December 2017 and 2018 were RMB20.4 million and RMB4.2 million, respectively. Our outstanding interest receivables decreased mainly due to the "Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018" (Cai Kuai [2018] No. 36) released by the Ministry of Finance of the PRC, pursuant to which the interest on financial instruments accrued based on the effective interest rate method should be included in the balance of carrying amounts accordingly and reflected in the item of "loans and advances to customers", and the item of"interest receivable" only reflects the interest that has been due and receivable but not yet received on the balance sheet date.

Loans and advances to customers

Our loans and advances to customers reflect the total balance of our loan portfolio. The following table sets out our gross loans and advances to customers by customer types as at the dates indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Corporate loans	**759,910**	532,020
Retail loans	**1,561,718**	1,289,175
Micro-loans granted online	**74,755**	323,748
Sub-total	**2,396,383**	2,144,943
Accrued interest	**18,868**	—
Total gross loans and advances to customers	**2,415,251**	2,144,943
Total allowances for impairment losses	**(133,169)**	(90,553)
Net loans and advances to customers	**2,282,082**	2,054,390

As at 31 December 2018, our gross loans and advances to customers (excluding accrued interest) increased to RMB2,396.4 million, which was mainly resulting from our increased business scale.

We focus on providing short-term loans to minimise our risk exposure and, as a result, a substantial majority of our loans and advances to customers have a term of less than one year.

The following table sets out the maturity profile of the original term of our gross loans and advances to customers as of the dates indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Due within three months	14,377	137,347
Due between three months and six months	323,555	501,943
Due between six months and one year	2,029,895	1,475,071
Due more than one year	28,556	30,582
Sub-total	2,396,383	2,144,943
Accrued interest	18,868	—
Total gross outstanding loans and advances to customers	**2,415,251**	2,144,943

We had overdue loans of RMB34.5 million and RMB76.1 million as at 31 December 2017 and 2018, respectively, accounting for approximately 1.61% and 3.18% of our gross outstanding loans and advances to customers as at the same dates.

The following table sets out our loan portfolio by security as at the dates indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Unsecured loans(1)	53,584	269,879
Guaranteed loans	2,282,460	1,813,468
Collateralized loans	54,899	61,546
Pledged loans	5,440	50
Sub-total	2,396,383	2,144,943
Accrued interest	18,868	—
Total gross outstanding loans and advances to customers	**2,415,251**	2,144,943

Note:

(1) Our unsecured loans are generally of small amounts, with short terms, and granted to customers who have good credit histories upon assessing the risks involved in the loans during our credit evaluation process.

The majority of our loans were guaranteed loans, which accounted for approximately 84.5% and 95.2% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2017 and 2018, respectively.

OTHER ASSETS

The following table sets out the breakdown of other assets by nature as at the dates indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Prepayment	**1,282**	1,642
others	**556**	1,756
Total other assets	**1,838**	3,398

Accruals and other payables

The following table sets out a breakdown of our accruals and other payables by nature as at the dates indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Staff costs payable	**5,657**	3,890
Interest payable[1]	**—**	5,116
Value-added tax payable	**1,826**	1,638
Acquisition consideration payable	**506**	506
Tax and surcharges and other taxation payable	**674**	242
Dividends payable to non-controlling interests	**6,400**	—
Other payables	**35,555**	27,206
Total accruals and other payables	**50,618**	38,598

Note:

(1) In accordance with the "Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018" (Cai Kuai [2018] No. 36) released by the Ministry of Finance of the PRC, the interest on financial instruments accrued based on the effective interest rate method should be included in the balance of carrying amounts accordingly, and the item of"interest payable" only reflects the interest that has been payable but not yet paid on the balance sheet date.

Our accruals and other payables increased by RMB12.0 million during the aforesaid period, which was mainly attributable to the fact that Xingyao Micro-finance, the non-wholly owned subsidiary of the Company, has distributed dividends in accordance with the resolutions of the general meeting held on 10 December 2018, and had not paid dividends to minority shareholders of Xingyao Micro-finance as at 31 December 2018.

Current taxation

Our current taxation, which represent our income tax payable, were RMB26.3 million and RMB43.8 million as at 31 December 2017 and 2018, respectively.

Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Within one year	**2,800**	3,356
After one year but within five years	**1,400**	4,715
Total	**4,200**	8,071

The Group is the lessee in respect of certain properties held under an operating lease. The lease typically runs for an initial period of 3 years, at the end of which all terms may be renegotiated. The lease does not include contingent rentals.

Capital commitments

The following tables set out our authorized capital commitments as at the dates indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Contracted but not paid for		
— Leasehold improvement	**—**	16,407

Key Financial Indicators

The following tables set out certain key financial ratios as at the dates indicated:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Return on weighted average equity (%)	**8.6**	10.3
Average return on assets (%)[(1)]	**6.2**	7.3

Note:

(1) Represents profit for the year divided by average balance of total assets as at the beginning of the year and end of the year.

Our return on weighted average equity and average return on assets decreased slightly mainly due to the decrease in our annual profit for the year ended 31 December 2018 as compared to the same for the year ended 31 December 2017.

Gearing Ratio

	As of 31 December 2018	As of 31 December 2017
Gearing ratio (%)[(1)]	**32.2**	32.6

Note:

(1) Represents the interest-bearing borrowings (excluding accrued interest) less cash and cash equivalents, divided by total equity attributable to equity Shareholders as at the end of the year.

As of 31 December 2017 and 31 December 2018, our gearing ratio remained generally stable.

Related party transactions

For the year ended 31 December 2018, Mr. Yu Yin, an executive Director and the chairman of the Board, and other related parties had guaranteed some of our interest-bearing borrowings. As at 31 December 2018, the amount of guarantee provided by Mr. Yu Yin amounted to RMB576.8 million and the amount of guarantee provided by other related parties amounted to RMB576.8 million. Such related party transactions constituted continuing connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the captioned provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

For the year ended 31 December 2018, the Company leased a property from 佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*) ("**Zuoli Holdings**") with a rental fee of RMB2.8 million per annum. 德清普華能源有限公司 (Deqing Puhua Energy Company Limited*) ("**Puhua Energy**") is a controlling shareholder of the Company (the "**Controlling Shareholder**") and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted the continuing connected transactions under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios (as set out in Rule 14.07 of the Listing Rules) calculated with reference to the annual caps under the lease exceed 0.1% but are less than 5%, the transaction contemplated under the lease is subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company had duly announced the said transaction on 7 July 2017 and 10 July 2017.

The independent non-executive Directors have reviewed all the above continuing connected transactions and confirmed that these transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and conducted in accordance with the relevant agreements governing them on terms which are fair and reasonable and in the interests of the Shareholders as a whole.

On 27 December 2018, Xingyao Micro-finance entered into the Creditor's Rights Transfer Agreement with 杭州興耀建設集團有限公司 (Hangzhou Xing Yao Construction Group Co., Ltd.*) ("**Xing Yao Construction**"), pursuant to which Xingyao Micro-finance agreed to sell and transfer, and Xing Yao Construction agreed to accept the creditor's rights against certain borrowers (the "**Creditor's Rights**") at a consideration of RMB4,326,250 (equivalent to approximately HK$4,975,187.5). The consideration under the Creditor's Rights Transfer Agreement shall be payable by Xing Yao Construction on or before 31 December 2018. The entering into of the Creditor's Rights Transfer Agreement allows Xingyao Micro-finance the chance to recoup the corresponding loans (including the incurred interested) in full by reducing the default risks exposure to those borrowers.

Xing Yao Construction is a substantial shareholder of Xingyao Micro-finance, a 60%-owned subsidiary of the Company, and thus a connected person of the Company at the subsidiary level according to Rule 14A.07(1) under the Listing Rules. Therefore, the transaction under the Creditor's Rights Transfer Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios (as set out in Rule 14.07 of the Listing Rules) in respect of the transaction contemplated under the Creditor's Rights Transfer Agreement exceed 1% but are less than 5%, the transaction contemplated under the Creditor's Rights Transfer Agreement is subject to the reporting and announcement requirements but exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. The Company has duly announced the said transaction on 27 December 2018.

Save as disclosed above, during the year ended 31 December 2018, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

INDEBTEDNESS

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Interest-bearing borrowings	580,079	532,500

Our interest-bearing borrowings were the borrowings and interests required for our business operations.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2018, we did not have any off-balance sheet arrangements (2017: nil).

EMPLOYMENT AND EMOLUMENTS

As at 31 December 2018, the Company had approximately 141 employees (2017: 140). Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid, which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance, etc.

SIGNIFICANT INVESTMENT

Save and except for the wealth management products issued by banks in the PRC, the Group had no significant investments during the year ended 31 December 2018.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no acquisition or disposal of subsidiaries, associates or joint ventures during the year ended 31 December 2018.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2018, the Group has pledged 60% of the equity interest of the Xingyao Micro-finance held by the Company as a guarantee for the financing of the Jinhui Micro-finance (2017: nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

Other than the bank borrowings we obtain from commercial banks, we may also consider conducting financing on the platform of 浙江股權交易中心 (Zhejiang Equity Exchange Centre*) and financing on the platform of 浙江金融資產交易中心 (Zhejiang Financial Assets Exchange Centre*), transferring and repurchasing certain loan financings or other investments plans or choices. Otherwise, as at the date of this report, we do not have any firm intention or formulated any specific plan on material external debt financing in the short term.

FOREIGN CURRENCY RISK

Foreign exchange risk arises when business transaction or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates in the PRC with most of its transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at 31 December 2018 were denominated in the functional currencies of the Group' respective companies.

CONTINGENT LIABILITIES

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

PROSPECTS

With the establishment of China Micro-credit Companies Association (中國小額貸款公司協會) and promulgation of the Classification Standards of Financial Enterprises (《金融業企業劃型標準規定》), the role played by micro-finance companies in the PRC is being increasingly recognized by the relevant authorities. General Secretary Xi Jinping delivered an important speech at the symposium on private enterprises, proposing to solve the financing problem of private enterprises and broaden the financing channels for private enterprises, among which micro-finance companies and other financing channels should be brought into play. The micro-finance industry is expected to benefit from the regulatory aspect as a whole.

In terms of our major market of offline business, Deqing was placed among the nation's top one hundred counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, thus help cultivating local financial services industry. In addition, Deqing has been designated as a "technological outstanding county (科技強縣)" as well as a "financial innovation demonstration county (金融創新示範縣)" by the Zhejiang provincial government. Therefore, we expect that Deqing will continue to enjoy economic stability and provide us with a relatively conductive market environment to grow our market share as we continue to introduce innovative loan products, broaden business channels, enhance our market penetration and increase our competitive advantages by utilizing the advantage of our capital base.

In November 2016, we acquired Xingyao Micro-finance located in Hangzhou City, Zhejiang province of the PRC which expanded our offline business to Hangzhou City, and Binjiang District, Hangzhou City is one of the first batch of National High-tech Industrial Development Zone in China and Hangzhou City is the "Internet Capital" of China at the same time, so the high-tech industry and internet industry in the zone are booming and our competitive advantages has been further enhanced.

USE OF PROCEEDS

The H Shares of the Company became listed on the Main Board of the Stock Exchange on 13 January 2015 with net proceeds from the global offering of approximately HK$338.4 million (after deducting underwriting commissions and related expenses). The net proceeds have been fully utilized for expanding the capital base of our loan business, in accordance with the manner as set out in the prospectus of the Company dated 30 December 2014.

DIRECTORS

Executive Directors

Mr. Yu Yin (俞寅), aged 32, is the executive Director and the chairman of the Board. Mr. Yu is one of the Promoters of the Company. He is primarily responsible for the Company's day-to-day management, postulating business development plans and overseeing the Company's overall corporate strategies. He is also a member of the Nomination Committee and Remuneration and Appraisal Committee. Mr. Yu is the son of Mr. Yu Youqiang (俞有強) who is the controlling shareholder of Puhua Energy, one of our Controlling Shareholders.

From August 2007 to March 2011, Mr. Yu was the chairman of the board of directors at Zhejiang Deqing Longxiang Investment Company Limited* (浙江德清隆祥投資有限公司, formerly known as Zhejiang Deqing Longxiang Guaranty Company Limited* (浙江德清隆祥擔保投資有限公司, "**Deqing Longxiang**"), a company that principally engaged in the provision of guarantee for SMEs and individuals and the related advisory services, and investment holding. Mr. Yu was involved in decision making of key issues but was not involved in the day-to-day management of Deqing Longxiang. During the same period of time, Mr. Yu was also working as an assistant to the president* (行長助理), being responsible for marketing at Deqing Rural Cooperative Bank Wukang Branch* (德清農村合作銀行武康支行, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited* (浙江德清農村商業銀行股份有限公司)). From July 2015, Mr. Yu acted as the chairman of Jinhui Micro-finance, a subsidiary of the Company. Since June 2016, Mr. Yu Yin is the chairman of the board of directors at Deqing Yulong Tourism Development Company Limited* (德清御龍旅遊開發有限公司) and Deqing County Anli Tourism Development Company Limited* (德清郡安里旅遊開發有限公司). Since December 2015, Mr. Yu Yin is the vice chairman of the board of directors at Zuoli Holdings.

Mr. Yu obtained a bachelor's degree in business administration from Oxford Brookes University in May 2007. From December 2011 to September 2012, Mr. Yu attended courses in Intermediate Studies for CEOs of the Cross-Straits Frontier* (海峽兩岸企業總裁前沿課程首期高級研修班) offered by School of Management, Fudan University and National Taiwan Normal University. From October 2012, Mr. Yu has been undertaking an Executive Master of Business Administration (EMBA) course in Fudan University.

Mr. Yu, being one of our Promoters, has been one of our directors since the establishment of our Predecessor Company in August 2011.

As at the date of this report, Mr. Yu was interested in 44.89% of the Domestic Shares.

Mr. Zheng Xuegen (鄭學根), aged 54, is the executive Director, and the vice chairman, deputy general manager and secretary to the Board. Mr. Zheng is also one of the founders of the Company. He is primarily responsible for the day-to-day operations, strategic development and administrative management. He is also a member of the Loan Approval Committee.

From September 1990 to December 1994, Mr. Zheng worked as a researcher at Deqing Bulb Factory* (德清縣燈泡廠, currently known as Zhejiang Zhanzi Photoelectricity Co., Ltd* (浙江占宇光電股份有限公司)), a company primarily engaged in manufacturing of lighting products. From January 1995 to January 1997, Mr. Zheng was the office manager* (廠辦主任) of the Crystal Fibre Factory of Zhejiang OSMUN Group Company Limited* (浙江歐詩漫集團有限公司), a company primarily engaged in manufacturing of skin care products, cosmetics and thermal insulation materials. Prior to joining our Predecessor Company, Mr. Zheng had worked successively as the officer in chief, human resources manager, secretary of the board of directors and deputy general manager at Zhejiang Jolly Pharmaceutical Co., Ltd. (浙江佐力藥業股份有限公司) ("**Jolly Pharmaceutical**"). In January 2008, Mr. Zheng served as a director and the deputy general manager of Jolly Pharmaceutical where he mainly carried out day-to-day management. He has served as a non-executive director of Jolly Pharmaceutical since 10 March 2014, where he has been mainly responsible for assisting the chairman in formulating strategies. Jolly Pharmaceutical is a company established in the PRC whose shares are listed on the Shenzhen Stock Exchange (stock code: 300181) and is principally engaged in the research, development, production and sales of pharmaceutical products. From July and August 2015 and from December 2016, Mr. Zheng serves as the directors of Jinhui Micro-finance, Zuoli Micro-finance Hong Kong International Investment Company Limited* (佐力小貸香港國際投資有限公司) and Xingyao Micro-finance, the subsidiaries of the Company, respectively.

In February 2003, Mr. Zheng was accredited as the Excellent Worker for Workers' Union* (優秀工會工作者) by Huzhou City General Workers' Union* (湖州市總工會). In June 2006, Mr. Zheng obtained a Certificate for Completion of Training Course — File Management (Zhejiang)* (浙江省檔案管理崗位培訓證書) issued by Zhejiang Dang'an Cadre Education Training Centre (浙江省檔案幹部教育培訓中心). In September 2012, he also obtained a certificate for training for senior management of listed companies* (上市公司高級管理人員培訓證書) issued by Zhejiang Securities Regulatory Bureau* under CSRC (中國證券監督管理委員會浙江證監局). In December 2013, Mr. Zheng obtained a qualification certificate for secretary to board of directors* (董事會秘書資格證書) issued by the Shenzhen Stock Exchange.

Mr. Zheng has been acting as the vice chairman of our Predecessor Company since August 2011. On 10 March 2014, Mr. Zheng resigned as the deputy general manager of Jolly Pharmaceutical. As Mr. Zheng is serving as a non-executive director of Jolly Pharmaceutical, he does not participate in the day-to-day management of Jolly Pharmaceutical and he can devote sufficient time and efforts to acting as an executive Director of the Company. The Company therefore considers that Mr. Zheng has sufficient capacity to discharge his duties as directors of two listed companies.

Mr. Zheng obtained an adult higher education certificate majoring in economic management (經濟管理專業成人高等教育專業證書) from the Zhejiang Province Department Employee Colleges* (浙江省省級機關職工業餘大學) in February 2002. In January 2013, he also obtained a college diploma (專科文憑) in management through online learning majoring in administration management from China University of Geosciences (中國地質大學).

As at the date of this report, Mr. Zheng was interested in 0.34% of the Domestic Shares.

Mr. Yang Sheng (楊晟), aged 44, is the executive Director, the general manager of the Company, the vice chairman of the Board and also the chairman of the Loan Approval Committee, who is mainly responsible for the business management of the Company. Before joining the Company, Mr. Yang accumulated ample experience on credit and management in Bank of China. From February 1994 to June 2003, Mr. Yang was a staff member at Huzhou City Branch of Bank of China. Mr. Yang served as the deputy head of security department in Huzhou City Branch of Bank of China from June 2003 to July 2007. Mr. Yang served as the head of security department in Huzhou City Branch of Bank of China from July 2007 to August 2010. Mr. Yang served as the head of general management department in Huzhou City Branch of Bank of China from January 2010 to August 2010. Mr. Yang was assigned to Anji County Sub-branch of Bank of China as the president from August 2010 to January 2014. Mr. Yang was the president of Deqing County Sub-branch of Bank of China from January 2014 to August 2015. Mr. Yang served as the chief operating officer of the Company from August 2015 to September 2018. Mr. Yang has served as the general manager of 德清金匯小額貸款有限公司 (Deqing Jinhui Micro-finance Company Limited*), a non-wholly owned subsidiary of the Company, from April 2018 to August 2018. Since December 2016, Mr. Yang has served as the chairman of the board of directors of 杭州市高新區(濱江)興耀普匯小額貸款有限公司 (Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd.*), a non-wholly owned subsidiary of the Company. Since March 2018, Mr. Yang has acted as a director of 佐力(深圳)企業發展有限公司 (Zuoli (Shenzhen) Enterprise Development Co., Ltd.*). Since April 2018, Mr. Yang has served as the chairman of the board of directors of 深圳市前海佐力一方商業保理有限公司 (Shenzhen Qianhai Zuoli Yifang Commercial Factoring Co., Ltd.*). Since May 2018, he has served as the chairman of the board of directors of 德清佐力壹方商業保理有限公司 (Deqing Zuoli Yifang Commercial Factoring Co., Ltd.*) and a director of 佐力新創(上海)企業管理有限公司 (Zuoli Xinchuang (Shanghai) Enterprise Management Co., Ltd.*).

Mr. Hu Haifeng (胡海峰), aged 53, is the executive Director of the Company and Mr. Hu resigned on 18 April 2019. Prior to joining the Company, Mr. Hu had gained extensive work experience relating to credit assessment and financing with rural credit cooperatives and banks in Deqing. From May 1983 to May 1987, Mr. Hu worked at Deqing Xiashe Credit Cooperatives* (浙江省德清縣下舍信用社, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited* (浙江德清農村商業銀行股份有限公司)) as a credit officer. From May 1987 to July 1987, Mr. Hu was on secondment to the Credit Union of Agricultural Bank of China, Deqing Sub-branch* (中國農業銀行德清縣支行信用合作股) and participated in the setting up of Credit Cooperative Union of Deqing* (德清縣信用聯社, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited* (浙江德清農村商業銀行股份有限公司)). From July 1987 to September 1992, Mr. Hu worked as the operations officer at the Credit Cooperative Union of Deqing, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited* (浙江德清農村商業銀行股份有限公司). From August 1994 to December 2003, Mr. Hu worked successively as an officer in chief and a manager of credit management department at Deqing Sub-branch of Agricultural Bank of China* (中國農業銀行德清縣支行), a company whose shares are currently listed on the Shanghai Stock Exchange (Stock Code: 601288) and the Hong Kong Stock Exchange (Stock Code: 1288), where he gained considerable experience in the loan and credit industry. From January 2004 to June 2008, Mr. Hu worked as a deputy general manager of Jing Sheng Da Group Company* (金盛達集團公司), a company primarily engaged in real estate development, where he was responsible for daily operation. Prior to joining our Predecessor Company, Mr. Hu served as a general manager at Huanggang Sheng Hua Real Estate Development Company Limited* (黃岡昇華房地產開發有限公司), where he had overseen the overall business operation, from June 2008 to April 2011. From July 2015, Mr. Hu acted as the director of Jinhui Micro-finance, a subsidiary of the Company.

In June 1989, Mr. Hu received the qualification of assistant manager issued by Evaluation Committee for Professional Skills, Deqing Branch of Agricultural Bank of China* (農業銀行德清縣支行專業技術職務評審委員會). He also received a certificate for qualified credit officer issued by Zhejiang Branch of Agricultural Bank of China (中國農業銀行浙江省分行) in January 1996. In February 2012, Mr. Hu became a member of the eighth session of Deqing Committee of Chinese People's Political Consultative Conference* (中國人民政治協商會議第八屆德清縣委員會).

In August 2011, Mr. Hu, one of the Promoters established our Predecessor Company with other founders. He served as the general manager of the Company from August 2011 to August 2018.

Mr. Hu graduated from Hunan Rural University of Financial Staff* (湖南農村金融職工大學) and obtained a college diploma (專科文憑) majoring in Cooperative Finance* (合作金融) in July 1994. From January 2003 to January 2005, Mr. Hu studied at China Central Radio and TV University* (中央廣播電視大學) and obtained a bachelor's degree majoring in finance.

As at the date of this report, Mr. Hu was interested in 1.21% of the Domestic Shares.

Non-executive Director

Mr. Pan Zhongmin (潘忠敏) (formerly known as Pan Zhongming (潘忠明)), aged 45, was appointed as the non-executive Director on 8 August 2014. Mr. Pan has over 10 years of experience in marketing related matters. From October 1998 to February 2003, Mr. Pan worked as a sales and marketing representative in Deqing Wukang Zhong Sheng Refractory and Heat Insulating Material Operating Department* (德清縣武康中盛耐火保溫材料經營部), a company primarily engaged in the sales and marketing of heat insulating material and refractory materials. From March 2003 to January 2005, Mr. Pan Zhongmin worked as a deputy general manager in Hangzhou Meibao Furnace Engineering Co., Ltd.* (杭州美寶爐窰工程有限公司), a company primarily engaged in the design, production and installation of furnace. He was responsible for overseeing the daily operation in the abovementioned companies. Since March 2005 till now, Mr. Pan has been the chairman of the board of directors of Bangni Fiber. Bangni Fiber is a company mainly engaged in production and sales of refractory fiber and materials where Mr. Pan has been responsible for strategic planning and business development.

Mr. Pan graduated from Deqing Agricultural Vocational High School* (德清縣農職業高級中學) in July 1992. In July 2011, he obtained a college diploma (專科文憑) through online learning majoring in business administration management from Dalian University of Technology (大連理工大學).

As at the date of this report, Mr. Pan was interested in 1.34% of the Domestic Shares.

Independent non-executive Directors

Mr. Ho Yuk Ming, Hugo (何育明), aged 47, was appointed as the independent non-executive Director on 28 April 2014. Mr. Ho is also a chairman of the Audit Committee and a member of the Remuneration and Appraisal Committee. Mr. Ho is a qualified professional accountant with over 19 years of experience in auditing, accounting and financial management. He is an associate member of the Hong Kong Institute of Certified Public Accountants. He held senior position in a number of public and holding companies in Hong Kong. He graduated from the Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) with a honours diploma in accounting in July 1996. Mr. Ho served as the independent non-executive director of King Force Group Holdings Limited* (冠輝集團控股有限公司) (Stock code: 8315) from September 2016 to July 2018. Currently, Mr. Ho is the chief financial officer and the company secretary of National Investments Fund Limited (Stock code: 1227), and an independent non-executive director of Wuxi Sunlit Science and Technology Company Limited* (Stock code: 1289), the shares of which are listed on the Main Board of the Stock Exchange.

Mr. Jin Xuejun (金雪軍), aged 60, was appointed as the independent non-executive Director on 28 April 2014. Mr. Jin is also a member of the Audit Committee and Nomination Committee and a chairman of the Remuneration and Appraisal Committee of the Board.

Mr. Jin Xuejun has 34 years of teaching experience at Zhejiang University (浙江大學). He was successively a lecturer, a deputy professor, and is currently a professor of the Applied Economics Research Centre of Zhejiang University (浙江大學應用經濟研究中心). He was also the vice department head of the Economics Department of Zhejiang University from 1998 to 2005. In May 2010, Mr. Jin received the National Achievement Award in Commence Development and Research* (全國商務發展研究成果獎). In 2007, Mr. Jin was recognized as Young and Middle-aged Expert with Outstanding Contributions* (有突出貢獻中青年專家) by the People's Government of Zhejiang Province. In October 2010, Mr. Jin was recognized as Excellent Advisor for Doctoral Dissertations* (全國優秀博士學位論文指導教師) by the Ministry of Education of the PRC and the Academic Degree Committee under the State Council* (國務院學位委員會).

Mr. Jin Xuejun was an independent non-executive director of Harbin High Tech (Group) Co., Ltd. (哈爾濱高科技(集團)股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600095), and Zhejiang Orient Holdings Co., Ltd. (浙江東方股份集團有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600120), from August 2008 to September 2014. Mr. Jin served as the independent non-executive director of ZheJiang Wansheng Co., Ltd. (浙江萬盛股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603010), Xinhu Zhongbao Co., Ltd.* (新湖中寶股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600208) and China Zheshang Bank Co., Ltd. (浙商銀行股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 2016) from November 2013 to October 2016, September 2012 to July 2018 and March 2016 to November 2018, respectively. He has been an independent non-executive director of Zhejiang Weixing Industry Development Co., Ltd.* (浙江偉星實業發展股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002003), since September 2012. Mr. Jin has also been an independent non-executive director of Hakim Information Technology Co., Ltd.* (漢鼎信息科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300300), since February 2014. Mr. Jin has been an independent non-executive director of Huaan Securities Co. Ltd. (華安證券股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600909), since 2015.

Mr. Jin graduated from Nankai University (南開大學) and obtained a bachelor's degree in economics in July 1982. Mr. Jin obtained a master's degree in economics from Nankai University in July 1985.

Ms. Huang Lianxi (**黃廉熙**), aged 56, was appointed as the independent non-executive Director on 28 April 2014. Ms. Huang is also a member of the Audit Committee of the Board and a chairman of the Nomination Committee of the Board.

From September 1984 to September 2003, Ms. Huang worked at Zhejiang Economy Law Firm* (浙江省經濟律師事務所, currently known as Zhejiang Zhe Jing Law Firm* (浙江浙經律師事務所)) as a lawyer, deputy head officer (副主任) and partner successively. From January 1996 to January 1998, Ms. Huang was under the employment of the abovesaid law firm on secondment to Zhejiang Fuchun Company Limited* (富春有限公司) to handle legal related matters. Ms. Huang has been a partner of Zhejiang Tiance Law Firm* (浙江天冊律師事務所) since September 2003. In October 2008, Ms. Huang was recognized as Outstanding Lawyer for the years 2005 to 2007 by All China Lawyers Association. In March 2013, Ms. Huang became a member of the twelfth National Committee for Chinese Peoples' Political Consultative Conference* (中國人民政治協商會議第十二屆全國委員會). In May 2014, Ms. Huang was appointed by China International Economic and Trade Arbitration Commission as an arbitrator of the Commission. In July 2015, Ms. Huang was appointed as the vice-president of the Lawyers Association of Zhejiang* (浙江省律師協會). In January 2018, Ms. Huang became a member of the thirteenth National Committee for Chinese Peoples' Political Consultative Conference* (中國人民政治協商會議第十三屆全國委員會).

Ms. Huang served as the independent non-executive director of China Calxon Group Company Limited* (嘉凱城集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000918), and Zhejiang Kangsheng Co., Ltd. (浙江康盛股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002418), from August 2009 to March 2016 and July 2013 to December 2018, respectively. She has been an independent non-executive director of Zhejiang Youpon Integrated Ceiling Co., Ltd.* (浙江友邦集成吊頂股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002718) and Shenghua Lande Scitech Limited* (浙江升華蘭德科技股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 8106) since March 2016 and May 2017, respectively.

In August 1983, Ms. Huang Lianxi graduated from East China College of Political Science and Law (華東政法學院) (currently known as East China University of Political Science and Law (華東政法大學)) majoring in law. Ms. Huang furthered her legal study at Shanghai College of International Business and Economics (上海對外貿易學院) (currently known as Shanghai University of International Business and Economics (上海對外貿易大學)) in September 1984 and graduated in July 1986. From 1991 to 1992, Ms. Huang attended an one-year course in United Kingdom Practical Training Scheme for Lawyers of the People's Republic of China at the University of London and obtained a certificate of completion in July 1992. Ms. Huang was granted the qualification to practice in securities law jointly by Ministry of Justice of the PRC and CSRC in July 1996.

SUPERVISORS

Mr. Dai Shengqing (戴勝慶), aged 51, was appointed as the Supervisor with effect from 8 August 2014. From September 1984 to July 1986, Mr. Dai studied at Zhejiang College of Finance & Economics* (浙江財政學校) (currently known as Zhejiang University of Finance & Economics (浙江財經大學)) majoring in infrastructure finance and credit* (基建財務與信用), and obtained a diploma in vocational education from Zhejiang College of Finance & Economics in September 1986. From September 1988 to November 1992, Mr. Dai studied part-time at Zhejiang Radio & Television University (浙江廣播電視大學) majoring in finance, and obtained a college diploma (專科文憑) from Zhejiang Radio & Television University in December 1992.

From July 1986 to August 2001, Mr. Dai Shengqing worked at Deqing Sub-branch of China Construction Bank (中國建設銀行德清支行), a company whose shares are currently listed on the Shanghai Stock Exchange (Stock Code: 601939) and the Hong Kong Stock Exchange (Stock Code: 0939). From September 2001 to September 2010, Mr. Dai worked as a deputy general manager at Deqing Xing Long Real Estate Development Company Limited* (德清興隆房地產開發有限公司). From October 2010 to December 2012, Mr. Dai Shengqing worked as a deputy general manager at Zhejiang Dewei Science and Technology Company Limited* (浙江德微科技有限公司), a company primarily engaged in research and development in software and hardware. Since January 2013 till now, Mr. Dai Shengqing worked as a deputy general manager in Deqing Yulong Tourism Development Company Limited* (德清御隆旅遊開發有限公司), a company primarily engaged in tourism program development. Since March 2017, Mr. Dai Shengqing worked as a general manager in Deqing County Anli Tourism Development Company Limited* (德清郡安里旅遊開發有限公司), a company primarily engaged in tourism program development. In November 1998, Mr. Dai Shengqing obtained the qualification certificate of finance (intermediate level)* (專業資格證書金融專業(中級)) issued by the Ministry of Personnel of the PRC (中華人民共和國人事部, currently known as the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)).

Ms. Yang Zhenlan (楊振嵐), aged 27, was appointed as the Supervisor with effect from 15 May 2018. Ms. Yang Zhenlan has been serving the Company's administrative management department since October 2014.

Mr. Wang Peijun (王培軍), aged 45, was appointed as the Supervisor with effect from 8 August 2014. From September 1994 to August 1997, Mr. Wang Peijun studied marketing courses provided by Anhui University (安徽大學), and obtained a graduate certificate from Anhui University in August 1997. In January 2011, Mr. Wang graduated from the college of online education of Chongqing University (重慶大學) majoring in engineering management (engineering cost management)* (工程管理(工程造價管理方向)) with a college diploma (專科文憑).

From September 1992 to December 2003, Mr. Wang Peijun worked as a manager of the sales department at Zhejiang Jiefang Decoration Engineering Co., Ltd.* (浙江解放裝飾工程有限公司), a company primarily engaged in interior design and design and installation of glass wall, steel and aluminium alloy doors and window frames. Since January 2004, Mr. Wang Peijun has been the general manager of Deqing Hong Yuan Decoration Company Limited* (德清宏遠裝飾有限公司), a company primarily engaged in interior design and design and installation of steel and aluminium alloy doors and window frames.

On 8 November 2006, Mr. Wang Peijun was recognized as a construction engineer* (建築施工工程師) by Quzhou City Personnel Labour Social Security Bureau* (衢州市人事勞動社會保障局, currently known as Quzhou City Human Resources and Social Security Bureau* (衢州市人力資源和社會保障局)).

SENIOR MANAGEMENT

Ms. Hu Fangfang (胡芳芳), aged 38, joined the Company as the Chief Financial Controller and a member of the Loan Approval Committee on 1 July 2015. Ms. Hu is responsible for coordinating and guiding the financial management, budget management, accounting and auditing and internal control aspects of the Company. As executive Director, Ms. Hu will be responsible for formulating the Company's financial strategies, organize and implement important internal audit activities, coordinate fund raising activities for working capital of the Company's operation and prepare the Company's financial planning. She will also be responsible for monitoring the financial affairs of the Company's subsidiaries, assist senior management in implementing business strategies and operation plans to achieve the Company's operation and management targets and development goals. Prior to joining the Company, Ms. Hu has built up extensive experience on financial management. From July 2004 to November 2006, Ms. Hu worked in Zhejiang Jiangong Real Estate Development Group Company Limited (浙江建工房地產開發集團有限公司) and engaged in financial duties. From November 2006 to December 2008, she worked in Zhejiang Dongfang Accountants Company Limited (浙江東方會計師事務所有限公司) and engaged in on-site audit works. From December 2008 to June 2015, Ms. Hu served as a manager of Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)). Ms. Hu has served as a director of Jinhui Micro-finance, a subsidiary of the Company since July 2015. Ms. Hu has served as a supervisor of Xingyao Micro-finance, a non-wholly owned subsidiary of the Company since December 2016.

Ms. Hu graduated from Zhejiang Institute of Finance and Economics (浙江財經學院) (currently known as Zhejiang University of Finance and Economics (浙江財經大學)) with a bachelor of management degree (major in accounting) in 2004. Ms. Hu was admitted as a certified public accountant of the Chinese Institute of Certified Public Accountants in 2007.

The Board has approved the proposal to elect Ms. Hu as an executive Director at the forthcoming annual general meeting of the Company. The proposed term of office of Ms. Hu shall start from the date upon which the annual general meeting of the Company approves her appointment as an executive Director and ends on the expiry date of the second session of the Board.

EXPLANATION ON REPORT PREPARATION

Scope of Report Time:

This report is an annual report with a time spin between 1 January 2018 and 31 December 2018 (except when specifically indicated).

Scope of Report Organization:

It covers the Company and its subsidiaries.

Basis for Report Preparation:

This report is prepared based on the Stock Exchange of Hong Kong's "Guide for Environmental, Social and Governance Reporting" ("**Guide for ESG Reporting**").

Data Explanation:

In the report, some of the financial data is from the financial statements of the Company for 2018 (which have been audited by KPMG). Other data is mainly from the Group's internal system and the statistics from the respective subsidiaries.

Guarantee Method for the Report:

This report has been submitted to KPMG Huazhen LLP to conduct limited assurance on selected key data in accordance with the "Hong Kong Standard on Assurance Engagements 3000 — Assurance Engagements Other than Audits or Reviews of Historical Financial Information (Revised)" (HKSAE 3000).

Consideration of the Report:

It has been considered and passed by the Board.

Publication Method of the Report:

This report is published in printed form and electronic form, and the electronic form is available at the Company's website (www.zlkcxd.cn).

Contact Method:	Office of the Board of 佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited*)
Address:	No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province
Postal Code:	313200
Facsimile Number:	0572-8219779

CHAIRMAN'S STATEMENT

The year of 2018 was a year of challenging. During the year, there was a intensified trend of strong and strict supervision in financial industry, in which the market environment and industry structure have undergone new changes and reshaping. Facing to a tightened regulatory environment and fierce competition in the industry, the Company has always persisted in serving the real economy, adhered to the principle of "small and diverse", implemented the business philosophy of seeking sustainable development, further improved its resources deployment and strived for steady development.

The Company is a young and energetic new force in the financial market. As the largest licensed micro-finance company in Zhejiang Province, the Group is committed to providing financing solutions with flexible terms to AFR (三農) customers, SMEs and online retailers via rapid, effective and comprehensive loan assessment and approval procedures to meet different needs. The Group always adheres to the concept of "compliant operation" and has continuously accumulated strong capital base to establish extensive customer bases in line with its business scale.

Since the inception of the Company, the Group proactively responds to the advocate of government policies on supporting "AFR (三農)", places its business focus on helping farmers, agriculture and villages related operating activities, and seriously deals with the issue of difficult financing for local SMEs in Huzhou City. As such, the Company's key customers primarily consist of groups engaging in agriculture business, rural development activities, and residing in rural areas, SMEs and micro enterprises engaging in different kinds of business lines, as well as online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products. To respond to the advocate on national environmental protection policies, the Company has granted loans to environmental protection entities on public gardening and greening fields to support their business development while declined the provision of loans to those enterprises with high energy consumption, high pollution and high emission level. On top of the above, the Group has also implemented relevant measures on low carbon operation, and made internal protocol in the form of regulatory system and firmly achieved electricity, water and power conservation. Meanwhile, in order to actively respond to the pilot green finance reform program in Huzhou, we have insisted on green and scientific development, launched new green financial products under the existing consumption loan model, and actively extended loans to support the development of new-type ecological tourism and minshuku, new energy industry and other environmental-friendly and energy-saving industries. We have also vigorously developed green agricultural loan business including ecological breeding loans to promote the development of a green economy in the region.

In terms of the assumption of social responsibilities, "donation of warm clothes for students in Yushu primary school" has become an internal traditional campaign of the Company. In cooperation with "Yinxing Fund", the Group expresses its condolences and care to disadvantaged families in the county. Through the labour union, the Company provides the disabled with consolation funds in the county and grants loans for the startup of disadvantaged groups totalling RMB0.2 million and loans to the education system totalling RMB6.66 million. The Company strongly supported poor students and provided interest-free grants and loans to them.

The Group strives to maintain a high standard of corporate governance. Adhering to protecting the lawful interests of our clients, anti-money laundering, anti-counterfeit money, combating illegal fund-raising and anti-corruption, the Group have implemented measures to strictly comply with the relevant legislations and regulations of the stock exchange where the Group's shares are listed on. Being a listed company, the Group puts strong emphasis on safeguarding the interests of Shareholders. The Board of the Company has established the following committees: the Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Loan Approval Committee to form an accountability system to ensure decisions made by the Group's senior management are complied with the internal control system and regulatory requirements and in the interests of Shareholders.

With the integrated development of the Company, its business scale continues to expand and its product forms and offerings become more diversified. In order to standardize the business operation of the Company and its subsidiaries, the Company have developed a business operation system tailored to its own characteristics and needs, which not only provided technical support for the business operation, risk control and finance management of the Company, but also laid the foundation for a standardized credit model.

The transformation of financial markets is an irreversible trend of economic development of the PRC. During this phase, opportunities coexist with challenges, which remind us to always keep a sense of crisis. In view of this, Zuoli Micro-finance will continue to make innovations and progress, and make active efforts in business transformation and deployment to continue to move forward under regulatory adjustments and explore more flexible and diversified development models in more fields based on the micro-finance business.

1. ABOUT US

1.1. Company Profile

The Company (formerly known as "Deqing Zuoli Kechuang Micro-finance Company Limited* 德清佐力科創小額貸款有限公司") was incorporated on 18 August 2011. On 28 April 2014, the Company was converted into a joint stock limited liability company. On 13 January 2015, the shares of 佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited*) successfully listed on the Hong Kong Stock Exchange (stock code 06866HK).

The Company is currently located in Deqing County, Huzhou City, Zhejiang Province. In 2015, the Company successfully acquired Deqing Jin Hui Micro-finance Co., Ltd (德清金匯小額貸款有限公司). In 2016, the Company successfully acquired Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd (杭州市高新區(濱江)興耀普匯小額貸款有限公司). In terms of registered capital, the Group is currently the largest microfinance company in Zhejiang Province. The Company is in the course of obtaining approvals from relevant PRC authorities in relation to the surrender of its micro-finance license on its entity level and transforming itself to a general holding company.

Facing the current economic conditions, the Group adhered to our development strategies of enhancing professional development, cooperating with different platforms, diversifying assets and developing technologically:

(1) Enhancing professional development. For the purpose of facilitating marketing, management and promoting economies of scale, the Group set clear market positions, focused on our target customers and standardised assets to products. Additionally, such approaches are beneficial to acquire low cost financing and ultimately improve our management standard;

(2) Enhancing cooperation with different platforms. Through own development and cooperation with different platforms, the Group will fully utilise cluster resources on social platforms;

(3) Diversifying assets. Banking homogeneity competes with single type of product. The future development will be abandoning full credit products;

(4) Developing technologically. The Group will continue to develop innovative financial products, diversify development, and improve effectiveness and service quality through technological means.

1. ABOUT US (Continued)

1.1. Company Profile (Continued)

1.1.1. Corporate Culture

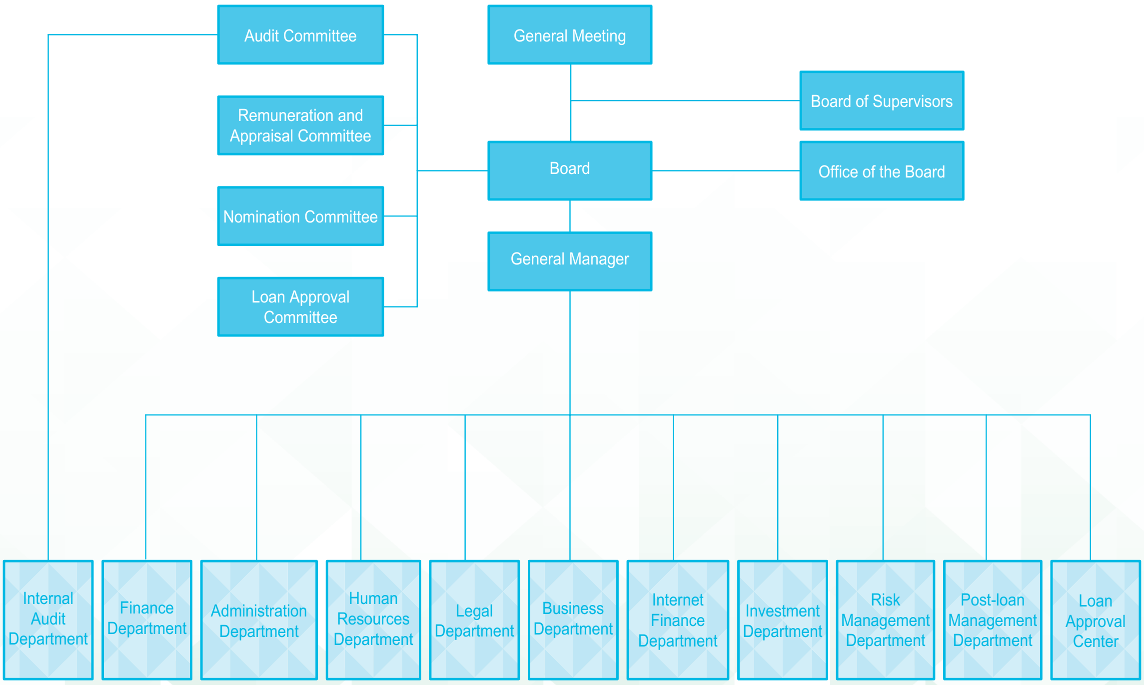
Corporate culture is the soft power of corporate development. Culture matching with the development of the Company will strengthen the staff cohesion and encourage them to provide better services for achieving the Company's strategies. The Group continues to develop its business while emphasizing on cultivating corporate culture. The Group have already established a culture system focusing on vision, mission, core values, and philosophies of operational management, talent and responsibility.

Vision	:	Creating an innovative and comprehensive financial platform
Mission	:	Assisting in customers' development, concerning staff development, performing corporate responsibilities, enhancing shareholders' value
Core Values	:	Honesty, innovation, responsibility, win-win
Philosophy of Operational Management	:	Stringent, flexible, efficient, united, sincere, amiable
Philosophy of Talents	:	Without sticking only to one specific pattern, pay equal attention to ability and integrity
Philosophy of Responsibilities	:	Developing innovative financing business, taking social responsibilities and promoting diversified development.

1.1.2. Corporate Governance

The Group is committed to maintaining a high standard of corporate governance and publicly safeguarding the interests of Shareholders. (Please refer to Corporate Governance Report for details)

Corporate Governance Structure:



1. ABOUT US (Continued)

1.2. Table of Key Performance

Key Performance Indicators[1]	Unit	2018	2017
Economic Performance			
Net interest income	RMB0'000	29,407	27,084
Total profit	RMB0'000	19,121	20,938
Net profit attributable to shareholders of the parent Company	RMB0'000	13,697	14,883
Basic earnings per share	RMB	0.12	0.13
Total assets	RMB0'000	242,747	221,726
Total liabilities	RMB0'000	67,445	59,739
Impaired loan ratio	%	3.02	1.54
Provision coverage ratio	%	184.03	274.98
Social Performance			
Total taxes paid	RMB0'000	4,559	5,692
Total donations	RMB0'000	14	4
Total employees	person	141	140
Including: Male employees	person	63	66
Female employees	person	78	74
Ethnic-minority employees	person	2	2
Turnover rate of employees (under contracts)	%	24.29	15.00
Total training input	RMB0'000	56	198
Social contribution per share	RMB/share	0.22	0.22
Environmental Performance			
Remaining balance of internet loans	RMB0'000	7,476	32,375
Per capita urban electricity consumption	kwh/person	2,598.60	1,779.30
Per capita urban water consumption	ton/person	48.17	18.83
Per capita Xerox paper consumption	kilogram/person	8.14	5.23

1 Indicators in the above table are data of "the Group"

1.3. Honours

The operational strategy of the Group is strengthening the leading role of the Group in the industry of microfinance companies in Zhejiang province, promoting the Group to become the first choice of non-bank credit for customers in its regions of operation. Additionally, the Group plays an active role in taking relevant environmental, social and economic responsibilities. The Group continues to reinforce corporate governance, strongly supports education and "AFR (三農)" business in the regions of operation and provides the poor families and disabled with consolation funds in order to contribute our efforts to create a harmonious and sustainable social environment.

1. ABOUT US (Continued)

1.3. Honours (Continued)

During the reporting period, the Group received the following social recognitions:

In July 2018, the Group was awarded the "Grade A Outstanding Micro-finance Company of Zhejiang Province* (浙江省A級優秀小額貸款公司)" by the Financial Work Office of the People's Government of Zhejiang Province* (浙江省人民政府金融辦公室).

In December 2018, the Group was awarded the "2018 National Outstanding Micro-finance Company* (二零一八年度全國優秀小貸公司)" by the China Micro-credit Companies Association (中國小額貸款公司協會).

1.4. Analysis of Stakeholders

To promote the development of the Company, the Group further improved the communication with stakeholders and responded to demands of stakeholders in a timely and sincere manner in 2018.

The stakeholders identified by the Group include:

Stakeholder	Expectations and demands	Forms of Communication	Response Measures
Government	1. Facilitating economic development 2. Adhering to Anticorruption and clean governance 3. Energy conservation and emission reduction 4. Green operation	1. Government documents 2. Interviews 3. Reporting statistics 4. National initiative 5. Green clarity activities	1. Facilitating economic development of the regions of operation 2. Supporting micro enterprises and AFR (三農) 3. Steady increase in taxes paid 4. Promoting paperless office 5. Promoting energy conservation and emission reduction in operation
Regulatory bodies	1. Compliance with regulations 2. Risk management and control 3. Order maintenance in financial sector	1. Policies and regulations 2. Year-end appraisal 3. Industry conference 4. Work reporting	1. Refined corporate governance 2. Compliance with regulatory policies and regulations 3. Stringent control of risk 4. Cooperating in assessment

1. ABOUT US (Continued)

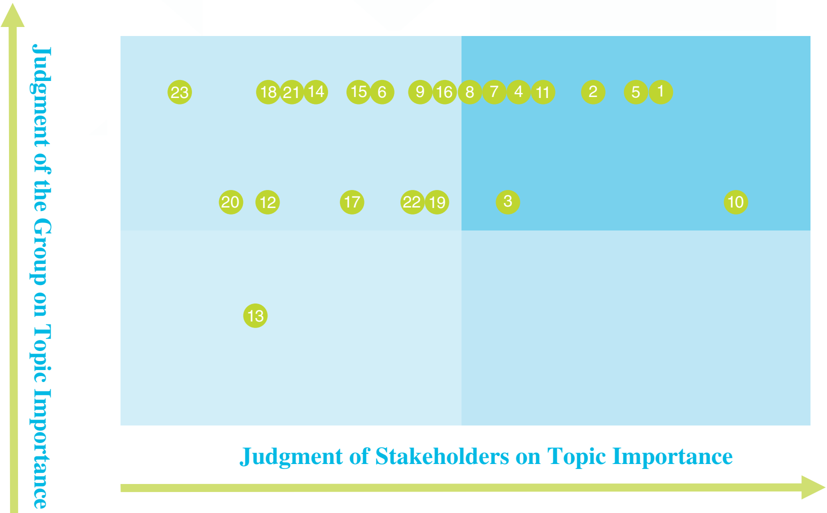
1.4. Analysis of Stakeholders (Continued)

Stakeholder	Expectations and demands	Forms of Communication	Response Measures
Shareholder	Refined corporate governance	1. General meeting 2. Periodic announcements	1. Steady operation, refined allocations of dividends 2. Improving operational performance
Customer	1. Customer information security 2. Technology finance 3. Supporting micro enterprises and AFR (三農) 4. Better customer services 5. Assisting the disadvantaged 6. Information disclosure	1. Customer feedbacks 2. Official website 3. Third party platform	1. Further developing Technology finance 2. Better protection of customer interests 3. Better service quality 4. Increasing loans to micro enterprises and AFR (三農) 5. Providing supporting loans for the disadvantaged 6. Improving the information disclosure process
Supplier	Fair procurement	1. Procurement information 2. Negotiations 3. Procurement contract	1. Refined management system of suppliers 2. Establishment of long-term partnership with suppliers
Employee	1. Staff career development 2. Safeguarding staff interests 3. Staff remuneration and benefits 4. Staff trainings	1. Employee representatives' congresses 2. Periodic internal communication	1. Safeguarding basic interests of staff 2. Organizing cultural and sports activities and trainings 3. Listening to employee viewpoints 4. Refined remuneration and incentive schemes
Community	Charity and public benefit activities	Field visits	Organizing charity and donation activities

1. ABOUT US (Continued)

1.5. Importance analysis matrix

The Group identified topics according to the requirements under Guide for ESG Reporting and survey results after considering the demand of stakeholders and the long-term development strategies of the Company.



Importance analysis matrix

1. Customer information security
2. Better customer services
3. Adhering to anti-corruption and clean governance
4. Safeguarding of staff interests
5. Compliance with operation
6. Staff incentives
7. Order maintenance in financial sector
8. Refining of corporate governance
9. Information disclosure
10. Support for the disadvantaged
11. Risk management and control
12. Charity and public benefit activities
13. Popularizing financial knowledge
14. Staff trainings
15. Green operation
16. Support for micro-enterprise and AFR
17. Technology finance
18. Staff career development
19. Facilitating economic development
20. Fair procurement
21. Outstanding investment return
22. Financial innovation
23. Energy conservation and emission reduction

2. ECONOMIC RESPONSIBILITIES

Zhejiang Province is one of the provinces with the smallest difference of economic development in the PRC. Its economic development mainly relies on the robust growth of SMEs. Along with the gradual transformation of the economic development pattern in the PRC, diversified and dynamic SMEs and micro enterprises play more and more vital roles in the market.

The rapid growth of the Group in a short period relied on the economic support of the regions of operation. Being one of the few listed companies in Huzhou City, the responsibilities of the Group lay in supporting the economic development and improving the livelihoods in the regions of operation. Along with the development of market economy, the Group is committed to providing supply chain finance services to customers, especially SMEs. This systematic financial arrangement targeting all members in a supply chain not only achieved mutual benefits and win-win situations between the Group and our customers, but also provided a more convenient financing channel for SMEs.

The Zhejiang Financial Office ([2015]) No. 75 document on Promoting the Innovative Development of Micro-finance Company* (關於促進小額貸款公司創新發展的浙金融辦[2015]75號文件) is promulgated by the Financial Work Office of Zhejiang Provincial Government* (浙江省人民政府金融辦公室). Pursuant to the document, the Group lifted the importance of support to "AFR (三農)" and micro enterprises to the level of fundamental strategies of the Company.

2. ECONOMIC RESPONSIBILITIES (Continued)

2.1. Promoting economic development

2.1.1. Supporting local economic development

According to the requirements of the Financial Work Office of Zhejiang Provincial Government* (浙江省人民政府金融工作辦公室), non-online loans of micro-finance companies can only be invested in their regions of operation(the regions of operation of the Group are Huzhou City and Binjiang District, Hanzhou City). Therefore, non- online loans of the Group can efficiently promote the economic growth of our regions of the operation.

As of 31 December 2018, the balance of non-online loans of the Group was RMB2,321.63 million (excluding accrued interests), representing an increase of RMB500.43 million as compared with RMB1,821.20 million as at 31 December 2017.

2.1.2. Supporting real economies

For the purpose of meeting the genuine demand of diversified and different customers and contributing to the development of real economies, various corporate loan balances granted by the Group for supporting real economies amounted to RMB759.91 million (excluding accrued interests) as of 31 December 2018, representing an increase of RMB227.89 million as compared to that of RMB532.02 million as of 31 December 2017.

2.1.3. Supporting the growth of micro-to-small enterprises

The Group has adhered to the idea of supporting the growth of micro-to-small enterprises in our operation. In the extent of efficient risk control, the loan balance granted by the Group to sole proprietors amounted to RMB364.67 million (excluding accrued interests) as of 31 December 2018, representing an increase of RMB281.60 million as compared with RMB83.07 million as at 31 December 2017.

2.1.4. Supporting "AFR (三農)" development

China is a large agricultural country, and the "AFR (三農)" issues faced by the PRC require prompt solutions. In 2018, under the premise of effective credit risk control, the Group actively involved in promoting development of "AFR (三農)" business in the regions of operation through various measures. As of 31 December 2018, the Group's offline loan balance for "AFR (三農)" amounted to RMB1,758.07 million (excluding accrued interests). The offline loan balance for "AFR (三農)" in 2018 increased by RMB741.43 million as compared to that of RMB1,016.64 million in 2017.

2.2. Facilitating improvement in livelihood

The Group has been placing great concerns on the development of educational business, and endeavoured to satisfy the capital needs required by developing educational business. As of 31 December 2018, the loan balance for educational business of the Group amounted to RMB5.98 million (excluding accrued interests). As of 31 December 2017, the loan balance for educational business of the Group amounted to RMB25.42 million. In 2018, the Group granted interest-free loans in an accumulated amount of RMB160 thousand to poverty-sticken university students in cooperation with charity organizations, up by RMB60 thousand as compared to that of RMB100 thousand in 2017.

2. ECONOMIC RESPONSIBILITIES (Continued)

2.3. Technology Finance

On 3 November 2015, the Central Committee of the Communist Party of China's Proposal on Formulating the Thirteenth Five-Year Plan on National Economic and Social Development (《中共中央關於制定國民經濟和社會發展第十三個五年規劃的建議》) was officially promulgated. It is the first time the Internet Finance was included in the national five-year plan and regulations on Internet Finance were introduced. The Group actively responded to the Thirteenth National Five-Year Plan and developed the loan businesses assisted by technology.

For the purpose of solving the problems of capital shortage of suppliers and distributors in procuring products, the Group launched supply chain financial products in cooperation with brand enterprises in 2018. Currently, the Group is collaborating with the brand agents and distributors such as OSMUN (歐詩漫) and TIANNENG (天能).

As of 31 December 2018, the Group's Internet loan balance amounted to RMB74.76 million (excluding accrued interests). As of 31 December 2017, the Group's internet loan balance amounted to RMB323.75 million.

3. ENVIRONMENTAL RESPONSIBILITIES

Since the early stage of incorporation, the Group has regarded the environmental and resource protection as our essential responsibility. The Group has been strictly complying with relevant legislations and regulations such as the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and the Water Law of the People's Republic of China (《中華人民共和國水法》).

3.1. Green operation

The Group applied the ideas of environmental protection in the operation. As enterprises with "three high emission indicators" (high pollution, high consumption, high emission) were the main sources of environmental pollutants, the Group did not provide any financial support to those enterprises, but tried to provide more convenient financial services to enterprises engaging in businesses which are beneficial to landscaping such as greening, nursery garden operation. Towards the end of 2015, the Group established the Internet Finance department. Part of our businesses achieved electronic and paperless operation. With the business volume of the Internet Finance department expanding gradually, the electronic operation practically achieved low carbon and environmental friendly business. In the meantime, in order to actively respond to and support the building of a national pilot area for green financial reforms and innovations in Huzhou, the Group will continue to adhere to the principle of green development.

3.2. Emission[2]

"Travelling by green method — Start from me" is the idea of environmental protection of the Group. The Group believes that the essential solution to improving air quality lays in the reduction of harmful gas emission. Accordingly, the Group formulated policies and insisted to pay great attention on the vehicle conditions in the environmental aspect when procuring vehicles for corporate use in daily operation. Also, the Group minimised its frequency of vehicle uses and encouraged its employees to travel by public transports in order to make our best effort to cultivate a good environment.

As of 31 December 2018, the Group did not emit any harmful or harmless wastes.

[2] The calculation of emissions is mainly with reference to the "Environmental Key Performance Indicators Reporting Guide" published by HKEX

3. ENVIRONMENTAL RESPONSIBILITIES (Continued)

3.2. Emission (Continued)

Waste gas emission[3]:	Unit	2018	2017
NO_x emission of vehicles	kilogram	**201.28**	181.11
NO_x emission of gaseous fuel	kilogram	**0.03**	0.08
Emission of NO_x	kilogram	**201.31**	181.19
SO_2 emission[4]	kilogram	**0.30**	0.26
Particulate emission[5]	kilogram	**19.29**	17.35

Emission of greenhouse gas[6]:	Unit	2018	2017
Direct greenhouse gas emission of fuels in stationary sources (CO_2 equivalent)	ton	**264.48**	799.03
Direct greenhouse gas emission of vehicles (CO_2 equivalent)	ton	**48.85**	42.16
Direct greenhouse gas emission and reduction (CO_2 equivalent)	ton	**313.33**	841.19
Energy indirect greenhouse gas emission (CO_2 equivalent)[7]	ton	**297.72**	202.41
Other indirect greenhouse gas emission (CO_2 equivalent)[8]	ton	**11.32**	9.68
Total greenhouse gas emission (CO_2 equivalent)	ton	**622.37**	1,053.28
Greenhouse gas emission per capita (CO_2 equivalent)	Ton/person	**4.41**	7.52

3 Figures in the above table are data of “the Group”
4 Mainly refers to SO_2 emission of vehicles
5 Mainly refers to particulate emission of vehicles
6 Figures in the above table are data of “the Group”
7 Mainly includes greenhouse gas emission of electricity consumption
8 Mainly includes greenhouse gas emission resulted from public transports

3. ENVIRONMENTAL RESPONSIBILITIES (Continued)

3.3. Use of Resources

The Group conserves water and electricity in the operation: In order to increase the environmental awareness of our staff, the Group included the concepts of conserving water, resources, and electricity and avoiding wastage in written form in the Articles of Association, specifically including the conditions and principles of using high electrical consumption appliances such as air conditioners, computers and lamps. Meanwhile, the Group required the staff to save water. The Group's water consumption per capita in 2018 was 48.17 tonnes/person. The Group obtains water from the water works company within its jurisdiction.

As of 31 December 2018, the Group did not produce any finished products, and did not use any packaging materials for finished products.

Use of resources[9]	Unit	2018	2017
Electricity consumption	kWh	**366,403.14**	249,102.21
Electricity consumption per capita	kWh/person	**2,598.60**	1,779.30
Oil consumption	litre	**20,700.54**	17,866.41
Oil consumption per capita	litre/person	**146.81**	127.62
Gas consumption	cubic meter	**6,730.29**	554.50
Gas consumption per capita	Cubic meter/person	**47.73**	3.96
Water consumption	ton	**6,791.59**	2,636.03
Water consumption per capita	ton/person	**48.17**	18.83
Copy paper consumption	kilogram	**1,148.23**	732.66
Copy paper consumption per capita	kilogram/person	**8.14**	5.23

9 Figures in the above table are data of "the Group"

4. SOCIAL RESPONSIBILITIES

4.1. Staff

Staff is not only a component of the operation of the Company, but also a base for establishing long-term relationship with customers. Meanwhile, everything they do represents the corporate image of the Group at all times. The core of human resource works of the Group is to attract and retain talents. The Group facilitated the staff career development through comprehensive performance assessments and effective communication mechanisms, and improved their working ability through staff trainings.

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

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

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

The Group paid attention to the work-life balance of staff. We also led our staff to reward the society through various channels.

Statistics of staff[10]	Unit	2018	2017
Male staff	person	63	66
Female staff	person	78	74
	person	141	140
Ethnic minorities	person	2	2
Han ethnic group	person	139	138
	person	141	140
Master's degree	person	2	1
Bachelor's degree	person	67	67
Tertiary education level	person	58	51
Below tertiary education level (exclusive)	person	14	21
	person	141	140
30 years old and below	person	76	80
31–40 years old	person	40	29
41–50 years old	person	16	17
51 years old and above	person	9	14
	person	141	140

10 Figures in the above table are data of "the Group"

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

Statistics of staff[11]	Unit	2018	2017
Within Zhejiang province	person	112	118
Outside Zhejiang province	person	29	22
	person	141	140
Contracted staff	person	141	140
Departed staff	person	34	21
Turnover rate of male staff	%	25.76	21.21
Turnover rate of female staff	%	22.97	9.46
Turnover rate of staff within Zhejiang Province	%	16.95	12.71
Turnover rate of staff outside Zhejiang Province	%	63.64	27.27
Turnover rate of staff of 30 years old and below	%	20.00	11.25
Turnover rate of staff of 31–40 years old	%	20.69	—
Turnover rate of staff of 41–50 years old	%	29.41	52.94
Turnover rate of staff of 51 years old and above	%	50.00	21.43
Staff turnover rate	%	24.29	15.00

[11] Figures in the above table are data of "the Group"

4.1.1. Communication

Effective communication mechanism helps to ease doubts in staff career development and encourages our staff to devote into their work. The Group gathers opinions on the Company's development and culture from our staff every year by various means, including quarterly conferences between departmental management and staff and "Let's talk about corporate culture* (企業文化大家談)".

The management of the Group informs staff the latest development status and future planning of the Company in a timely manner. The Group believes an efficient two-way communication between the management and staff is an indispensable element of the sustainable development of the Company.

4.1.2. Staff career development

The Group sets up comprehensive performance assessment system and promotion management to encourage our staff to improve their performance. The Group also provides clear promotion ladders for our staff.

For business departments, the Group assesses staff performance by specific performance indicators of different business lines. For non-business departments, the Group assesses staff performance and ability by KPI (key performance indicator).

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

4.1.3. Training

Staff training[12]	Unit	2018	2017
Total training expense	RMB0'000	**56**	198
Training participants	Person-time	**446**	773
Training expense per capita	RMB'000/Person	**3.97**	14.14
Total training time	Hour	**620**	417
Training time per capita	Hour/Person-time	**4.53**	4.47
Number of senior staff participating in training	Person	**9**	13
Training time of senior staff per capita	Hour/Person-time	**28.28**	9.59
Number of middle staff participating in training	Person	**22**	29
Training time of middle staff per capita	Hour/Person-time	**3.89**	4.33
Number of junior staff participating in training	Person	**62**	75
Training time of junior staff per capita	Hour/Person-time	**2.88**	3.35
Number of male staff participating in training	Person	**36**	52
Training time of male staff per capita	Hour/Person-time	**4.60**	4.60
Number of female staff participating in training	Person	**57**	65
Training time of female staff per capita	Hour/Person-time	**4.47**	4.36
Number of contracted staff participating in training	Person	**93**	117

[12] Figures in the above table are data of "the Group"

The Group devotes adequate resources to staff trainings on professional skills, operation process of the Company, knowledge, corporate culture and morality every year in order to enhance our staff's abilities and the social influence of the Group, including staff induction trainings and several professional skill trainings after induction every year.

In 2018, the Group organized its employees to attend training programs such as "innovative thinking and business model innovation", "financial customer service and techniques" and "reformulation and testing of product standards". In the meantime, the Group organized certain personnel of its senior management to attend EMBA courses of School of Management of Fudan University.

4.1.4. Remuneration and benefits

The Group provides attractive remuneration packages. Also, the Group will show its best wishes and present a gift for every staff of the Group on their birthdays.

Pursuant to the requirements of Chapter 9 of the Labor Law, the Group is obliged to make timely and full contributions to "five insurance and one fund" (pension insurance, medical insurance, unemployment insurance, injury insurance, maternity insurance and housing provident fund) for all staff in accordance with local standards. The Group arranged working and resting time of staff pursuant to the requirements of Chapter 4 of the Labor Law in the aspects of working time, working intensity and official holidays. The Group also provides paid holidays for eligible staff.

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

4.1.5. Work-life balance

A good balance between work and life is beneficial to facilitate staff's better performance. Apart from strict compliance with the relevant requirements of national official holidays, the Group organises various recreational activities for its staff every year.

In March 2018, the Group organized all staff for a "guessing lantern riddles" activity on Lantern Festival, and assembled all female staff to go for a walk in Nanxun Town. In September 2018, the Group assembled its staff to carry out a volunteer activity "Plogging". The Group organized its staff to carry out Discovery team-building activity in October 2018. In December 2018, The Group organized its staff to participate in a table tennis competition.

4.1.6. Occupational health and safety

Occupational health and safety of the staff are always concerns of the Group. In the reporting period, the Group provided body checks for all staff and encouraged them to participate in cultural and sports activities for their health. The Group formulated regulations and organised staff trainings to increase their abilities of prevention from and emergency response to fire, thus lowering the risk of occupational safety of the staff.

4.2. Supplier

All of the 15 suppliers of the Group are from Yangtze River Delta regions. Suppliers mainly provided daily office supplies, transportation facilities, recruiting and renovation services to the Group. Effective supply chain management is vital to the Group's operation.

Although supply chain management is not a main scope of the Company's operation as a service Company, establishing long-term and stable partnerships with suppliers will enhance the public image of the Company, and thus minimise the operational risk and thereby facilitate the Company's growth. For this purpose, the Group has formulated relevant guidelines of assessments, selection and supervisions of suppliers. For assessing suppliers, the Group set multi-dimensional standards and different weights in the aspects of quality, price, health, environment, safety and morality. In judging suppliers, the Group strictly complies with the standards to select qualified and high quality suppliers. The Group not only assesses their performance according to the assessment standards, but also flexibly considers their reputation and suitability to establish long–term and stable partnerships. In relation to substantial procurement or infrastructure projects, The Group has specific bidding policies to ensure fairness and equity. After confirming the suppliers, The Group will continue to supervise their performance and periodically conduct sample checking to ensure their performance meet the assessment standards of the Company.

4.3. Customers

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

4. SOCIAL RESPONSIBILITIES (Continued)

4.3. Customers (Continued)

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

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

4.3.1. Customer information security

The Group strictly complies with The Law of The People's Republic of China on Protection of Consumer Rights (《中華人民共和國消費者權益保護法》), The Company Law of the People's Republic of China (《中華人民共和國公司法》) and the Contract Law of the People's Republic of China (《中華人民共和國合同法》). In order to protect the legal interests of customers and secure business secrets of the Company, the Group has signed relevant confidential agreements with staff, and regulated the confidential obligations of staff in the Administrative Measures for Information Disclosure (《信息披露管理辦法》). Leakage or collection of customer information for private uses is strictly prohibited. An independent archival department is set up to centrally manage customer information. Access of the customer information requires the written approval of general manager or deputy manager on the receipts.

4.3.2. Information disclosure

The Group is in strict compliance with the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and Regulations on Control of Advertisement (《廣告管理條例》) of the State Council. The Group formulated the Administrative Measures for Information Disclosure (《信息披露管理辦法》) to ensure the information in external advertisements is consistent and factual. Additionally, there are regulations on obligations, content, working procedures, limit of authorities and allocation of duties of all related parties of information disclosure. Disclosure of information on websites, Wechat or other media channels requires the agreement of the Board Office and the Board Secretary.

4.3.3. Better customer services

The Group is committed to provide a comfortable and safe environment for customers. During the renovation period of the office building, The Group tried to minimize the influences of renovation to customers. Measures were taken to segregate the construction site and avoid construction works on working days.

Customer services provided by the Group:

1. Environmentally: booth, tea and coffee are provided for customers to create a good consultation environment;

2. Communication service: 400 telephone services, including business consultation, customer interviews, handling of complaints; company mailbox and investor phone service, providing investors with consultation services; and confirmation of lending information with the customers by phone and SMS reminders of repayment date and amount for the customers and etc;

3. Advertisement service: brochures, Wechat push and the road shows for products and services of the Company.

4. SOCIAL RESPONSIBILITIES (Continued)

4.4. Other social responsibilities

4.4.1. Product liabilities

The Group has devoted in providing grants and loans for poor university students since its incorporation. In 2018, the Group granted RMB160 thousand interest-free loans for poor university students accumulatively in the cooperation with the charity organization, up by RMB60 thousand as compared to that of RMB100 thousand in 2017.

4.4.2. Rewarding the society

The Group has been committed to making its contribution in creating a stable and sustainable society since its incorporation. In the reporting period, the Group actively involved in social charity activities according to the initiatives of the Financial Work Office of Zhejiang Province:

1. The Group actively participates in donation of winter clothes for students in Yushu primary school every year;

2. The Group provided the disabled and poor families in Deqing County with consolation funds in an amount of RMB10 thousand through Deqing County Charity Federation;

3. The Group donated RMB30 thousand to Huzhou Charity Federation;

4. The Group donated RMB100 thousand to the township government of Langchuan Town, Chunan County, Hangzhou City.

4.4.3. Adhering to Anti-corruption and clean governance

After launching of eight policies of the Central government, the Group actively responded to the calls for people-orientation and rectification measures of undesirable trends like idleness and luxury. A practical and efficient operation is achieved in every aspect of the Company's operation to avoid extravagance and waste. In addition, the Group carried out internal punishment and prevention of corruption in the Company and fought against bribery. As of 31 December 2018, there was neither corruption in the Company, nor any concluded legal cases regarding corrupt practices brought against the Group or its staff.

Since the date of incorporation of the Group, the Group has regarded "compliance operation" as its credo. We believe that compliance and regulated operation are the solid bases for the robust development of the Company. The Group strictly complies with the laws and regulations of anti-commercial bribery. All staff is prohibited to accept and give presents from and to customers or attend any consumption and entertainment activities provided by the customers; the Group will sign the "Declaration of anti-commercial bribery" with every customer before granting loans; the Group insists on anti-money laundering, anti-counterfeit money, anti-illegal fund-raising and anti-corruption, sticking to the principle of compliance operation.

5. PROSPECT

The year of 2019 is an important year for the "Thirteenth Five-Year Plan". As supply-side reform has gradually seen results, and economic structural adjustment of the PRC carried forward, technology and innovation will play more and more vital roles in economic growth. Along with the changes of an economic atmosphere as a whole in the PRC, the micro-finance industry will face more development opportunities and challenges from increasing competition.

Looking into 2019, the Group will adhere to serving the real economy, serving the "AFR (三農)", supporting the business development of small-to-medium and micro enterprises. Based on compliance, the Group will comprehensively control and analyse financial risks. Meanwhile, the Group will insist on green development, conservation of resources and reduction of emission, involvement in charity activities, refining customer experience and promoting innovation in order to make contributions for a better home.

5.1. Enhancing the brand value

In 2019, the Group will continue to improve the quality of customer services, promote the developments of Internet finance and differential loan products, and gradually construct a more comprehensive and efficient loans network. Meanwhile, the Group will make its contribution in local economic constructions by continuous increasing supports for "AFR (三農)", real economy, resident consumption and loans to small-to-medium and micro enterprises.

In 2019, the course of the Group in returning to society, along with providing financial support for poverty-stricken university students is in continuous development.

5.2. Promoting harmony and integrity

In 2019, the Group will further incorporate integrity into corporate governance and continue to provide customer services with self-regulation and integrity. The Group will also reinforce policies and measures of anti-corruption and commercial bribery, with an aim to enhance the risk control ability of the Group.

The Group will further strengthen and refine the relevant mechanisms for helping each other and promoting career development of the staff, enhancing their pride and cohesion of the Company.

Attachment 1: References to ESG Guide

Number	Details	Place of Disclosure
A1.1	The types of emissions and respective emissions data.	Page 44: Waste gas emission
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 44: Greenhouse gas emission
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable
A1.5	Description of measures to mitigate emissions and results achieved.	Page 43: 3.2 Emission
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Not applicable
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	Page 45: Use of resources
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Page 45: Use of resources
A2.3	Description of energy use efficiency initiatives and results achieved.	Page 45: Use of resources
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Page 45: Use of resources
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable
A3.1	Description of the significant impacts of business activities on the environment and natural resources and the actions taken to manage them.	Page 43, Green operation; Page 43, Emission; Page 45, Use of resources.
B1.1	Total workforce by gender, employment type, age group and geographical region.	Page 46, Statistics of staff
B1.2	Employee turnover rate by gender, age group and geographical region.	Page 46, Statistics of staff
B2.1	Number and rate of work-related fatalities.	Not applicable
B2.2	Lost days due to work injury.	Not applicable
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Page 49: 4.1.6. Occupational health and safety
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Page 48, Staff training
B3.2	The average training hours completed per employee by gender and employee category.	Page 48, Staff training
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Not applicable
B4.2	Description of steps taken to eliminate non-compliance practices when discovered.	Not applicable

Number	Details	Place of Disclosure
B5.1	Number of suppliers by geographical region.	Page 49, 4.2 Suppliers
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Page 49, 4.2 Suppliers
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable
B6.2	Number of products and service related complaints received and how they are dealt with.	Page 50, second paragraph of 4.3 Customers
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not applicable
B6.4	Description of quality assurance process and product recall procedures.	Not applicable
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Page 50: 4.3 Customer information security
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.	Not applicable
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Page 51: 4.4.3. Adhering to Anti-corruption and clean governance
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Page 51: 4.4.1. Product liabilities; Page 51: 4.4.2. Rewarding the society
B8.2	Resources contributed (e.g. money or time) to the focus area.	Page 51: 4.4.1. Product liabilities; Page 51: 4.4.2. Rewarding the society

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

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the PRC. The Company's principal place of business and its registered office in the PRC is situated at No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC and its principal place of business in Hong Kong at 33rd Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES

We provide financing solutions to customers engaged in AFR (三農), SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, to meet their short-term financing needs.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the sections headed "Chairman's Statement", "Financial Summary", "Management Discussion and Analysis" of this report and the paragraphs below.

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the SFO for the disclosure of information and corporate governance. Important events affecting the Group are provided under the paragraph headed "Events After The Reporting Period" in the section headed "Report of the Directors" of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

The following lists out the principal risks and uncertainties facing the Group.

Impact of Local and International Regulations

The business operation of the Group is subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in some parts of its business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees and Customers

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regularly analyzes its customers' feedbacks. The Group also conducts comprehensive tests and checks to ensure that only quality services are offered to the customers.

Our major customers primarily consist of AFR (三農), SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products. The years of business relationship with the Group ranged from one to three years and the credit terms granted to the major customers ranged from 6 months to 12 months. Details of the interest receivables of the Group as at 31 December 2018 are set out in note 11 to the financial statements.

We are strictly in compliance with the loan approval system, and conduct daily tracking management after the loans are obtained.

During the Reporting Period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any material dispute with our customers.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, interests income from our five largest customers accounted for less than 30% of our net interests income for the year.

At no time during the year have the Directors, their close associates or any Shareholder (who or which to the knowledge of the Directors owns more than 5% of the Company's issued shares) had any interest in the Group's five largest customers.

Due to the Group's business nature, the Group does not have major suppliers.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years are set out on page 6 of this report. This summary does not form part of the audited combined financial statements.

FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2018 and the state of the Group's and the Group's affairs as at that date are set out in the financial statements on pages 87 to 152 of this annual report.

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

FIXED ASSETS

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

RESERVES

Details of movements in reserves of the Group during the year ended 31 December 2018 are set out in the section headed "Combined Statement of Changes in Equity" of this report, of which details of reserves available for distribution to the Shareholders are set out in note 21 to the combined financial statements.

DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.125 per share for the year ended 31 December 2018 (2017: nil).

TAX REDUCTION AND EXEMPTION (FOR H SHAREHOLDERS)

Non-resident corporate shareholders

Pursuant to the requirements of the Enterprise Income Tax Law of the People's Republic of China and its implementation rules effective from 1 January 2008, the Company shall withhold and pay the enterprise income tax at the tax rate of 10% for the distribution of dividend to non-resident corporate shareholders named in the H Share register.

Non-resident individual shareholders

Pursuant to the requirements of the Notice on Certain Issues on the Policies of Individual Income Tax by the State Administration of Taxation and the Ministry of Finance (Cai Shui Zi [1994] No. 20) (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994] 20號)), foreign individuals are temporarily exempted from individual income tax on the dividends and bonuses received from foreign invested enterprises. The Company was approved by the Department of Commerce of Zhejiang Province to convert into a foreign invested joint stock company, and thus the Company is not required to withhold nor pay the individual income tax on the distribution of dividend to non-resident individual shareholders named in the H Share register.

At that time, the Group will conduct the withholding and payment specifically according to the prevailing laws and regulations and the relevant provisions of the state on taxation when distributing dividends.

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 Wednesday, 29 May 2019 to Friday, 28 June 2019, both days inclusive, during which period no share transfers will be registered. The holders of Shares whose names appear on the register of members of the Company on 28 June 2019 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, holders of Shares shall lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of H shares), or to or to the Company's registered office in the PRC at No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC (in respect of Domestic Shares) no later than 4:30 p.m. on Tuesday, 28 May 2019.

CHARITABLE DONATIONS

The Company donated RMB140 thousand to help the disadvantaged in the year ended 31 December 2018.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Group as at 31 December 2018 are set out in note 18 to the combined financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in the section headed “Combined Statement of Changes in Equity” of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules for the year ended 31 December 2018 and up to the date of this 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

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

EQUITY-LINKED AGREEMENTS

Save as disclosed in this report, no equity-linked agreements were entered into during the year ended 31 December 2018 or subsisted at the end of the year.

DIRECTORS AND SUPERVISORS

The following table sets forth information concerning the Directors and Supervisors for the year ended 31 December 2018.

Name	Age	Position	Appointment Date
Directors			
Mr. Yu Yin	32	Executive Director and chairman of the Board	28 April 2014
Mr. Zheng Xuegen	54	Executive Director, vice-chairman, deputy general manager and secretary to the Board	28 April 2014
Mr. Yang Sheng	44	Executive Director, vice-chairman of the Board and General Manager	7 April 2016
Mr. Hu Haifeng (resigned on 18 April 2019)	53	Executive Director	28 April 2014
Mr. Pan Zhongmin (formerly known as Pan Zhongming)	45	Non-executive Director	8 August 2014
Mr. Ho Yuk Ming, Hugo	47	Independent non-executive Director	28 April 2014
Mr. Jin Xuejun	60	Independent non-executive Director	28 April 2014
Ms. Huang Lianxi	56	Independent non-executive Director	28 April 2014
Supervisors			
Mr. Dai Shengqing	51	Supervisor	8 August 2014
Mr. Wang Peijun	45	Supervisor	8 August 2014
Ms. Yang Zhenlan	27	Supervisor	15 May 2018

In accordance with Article 10.2 of Article of Association, Directors shall be elected at the shareholders' general meeting to hold office for a term of three years. Upon the expiry of the term of office, a Director shall be eligible to be re-elected and reappointed. All the current Directors have been re-elected for a term of three years at the annual general meeting of the Company which was held on 30 June 2017.

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 on pages 27 to 33 of this report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors has entered into a service contract with the Company from the commencement of the second session of the Board and each service contract is for a specific term of 3 years.

Each Supervisor has entered into a service contract with the Company from the commencement of the second session of the Board of Supervisors and each service contract is for a specific term of 3 years.

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/Supervisors (other than contracts expiring or determinable by the employer within 1 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 indemnity provisions for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2018.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Directors and Supervisors are set out in note 7 to the combined financial statements.

MANAGEMENT CONTRACTS

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

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2018, the interests or short positions of the Directors, Supervisors and the chief executive in the shares, underlying shares and debentures of the Company or any associated corporations of the Company (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 they were 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, were as follows:

Interests of the Directors in the Shares

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[1]	Percentage in the total issued share capital[1]
Yu Yin	Domestic Shares	88,000,000 (L)	Beneficial owner[2]	10.00%	7.46%
	Domestic Shares	307,061,040 (L)	Interests held jointly with another person[2]	34.89%	26.02%
Zheng Xuegen	Domestic Shares	2,992,000 (L)	Beneficial owner	0.34%	0.25%
Hu Haifeng (resigned on 18 April 2019)	Domestic Shares	10,630,400 (L)	Beneficial owner	1.21%	0.90%
Pan Zhongmin	Domestic Shares	11,792,000 (L)	Interest of a controlled Corporation[3]	1.34%	1.00%

Notes:

(1) The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 31 December 2018, which comprised 880,000,000 Domestic Shares and 300,000,000 H Shares.

(2) On 28 April 2014, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy entered into an Acting in Concert Agreement, pursuant to which they jointly and severally undertook that they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders (and of its subsidiaries, if any in the future) based on such decisions. As such, Mr. Yu Youqiang (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu Yin, Mr. Shen Haiying (by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang Jianming and Puhua Energy together control approximately 33.48% of the total issued share capital in the Company. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming are deemed to be interested in approximately 33.48% of the total issued share capital in the Company.

(3) Mr. Pan Zhongmin holds 75.50% of the equity interest of Bangni Fiber, which in turn holds approximately 1.00% of the total issued share capital in the Company. By virtue of the SFO, Mr. Pan Zhongmin is deemed to be interested in approximately 1.00% of the total issued share capital in the Company.

(4) The letter "L" denotes the person's long position in such securities.

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the persons or corporations who had an interest or short position in the shares and underlying shares of the Company 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:

Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[1]	Percentage in the total issued share capital[1]
Mr. Yu Youqiang	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[2][3]	44.89%	33.48%
Puhua Energy	Domestic Shares	264,000,000 (L)	Beneficial owner[2]	30.00%	22.37%
	Domestic Shares	131,061,040 (L)	Interests held jointly with another person[2]	14.89%	11.11%
Zuoli Holdings	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[2][4]	44.89%	33.48%
Deqing Yintian	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[2][5]	44.89%	33.48%
Mr. Yu Yin	Domestic Shares	88,000,000 (L)	Beneficial owner[2]	10.00%	7.46%
	Domestic Shares	307,061,040 (L)	Interests held jointly with another person[2]	34.89%	26.02%
Mr. Shen Haiying	Domestic Shares	23,760,000 (L)	Beneficial owner[2]	2.70%	2.01%
	Domestic Shares	371,301,040 (L)	Interests held jointly with another person[2]	42.19%	31.47%
Dingsheng Investment	Domestic Shares	395,061,040 (L)	Interests held jointly with another person[2]	44.89%	33.48%
Mr. Zhang Jianming	Domestic Shares	19,301,040 (L)	Beneficial owner[2]	2.19%	1.64%
	Domestic Shares	375,760,000 (L)	Interests held jointly with another person[2]	42.70%	31.84%
Zhongrong International Trust Co., Ltd.	H Shares	76,920,000 (L)	Trustee	25.64%	6.52%
Mr. Xu Zhenghui	H Shares	34,600,000 (L)	Beneficial owner	11.53%	2.93%
Ms. Qiu Xiaomei	H Shares	34,600,000 (L)	Interest of spouse[6]	11.53%	2.93%
Gawun (HK) International Trading Co., Limited	H Shares	113,582,000 (L)	Beneficial owner	37.86%	9.63%
安信乾盛財富管理(深圳)有限公司	H Shares	36,662,000 (L)	Trustee	12.22%	3.11%
上海海通證券資產管理有限公司	H Shares	36,662,000 (L)	Trustee	12.22%	3.11%
Mr. Peng Tao	H Shares	67,830,000 (L)	Beneficial owner	22.61%	5.75%

Notes:

(1) The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 31 December 2018, which is comprised of 880,000,000 Domestic Shares and 300,000,000 H Shares.

(2) On 28 April 2014, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy entered into an Acting in Concert Agreement, pursuant to which they jointly and severally undertook that they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders (and of its subsidiaries, if any in the future) based on such decisions. As such, Mr. Yu Youqiang (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu Yin, Mr. Shen Haiying(by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang Jianming and Puhua Energy together control approximately 33.48% of the issued share capital in the Company. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming are deemed to be interested in approximately 33.48% of the issued share capital in the Company.

(3) As Puhua Energy is indirectly controlled by Mr. Yu Youqiang, Mr. Yu Youqiang is deemed to be interested in the Shares held by Puhua Energy.

(4) Puhua Energy is wholly owned by Zuoli Holdings. By virtue of the SFO, Zuoli Holdings is deemed to be interested in the Shares held by Puhua Energy.

(5) Deqing Yintian is wholly owned by Mr. Yu Youqiang and holds approximately 74.03% of the equity interest in Zuoli Holdings. Zuoli Holdings is controlled by Deqing Yintian and therefore Deqing Yintian is deemed to be interested in the Shares held by Zuoli Holdings.

(6) Ms. Qiu Xiaomei is the spouse of Mr. Xu Zhenghui. Under the SFO, Ms. Qiu Xiaomei is deemed to be interested in the same number of Shares in which Mr. Xu Zhenghui is interested.

(7) The letter "L" denotes the person's long position in such securities.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company 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 SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance in relation to the business of the Group to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or supervisor of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2018, there had been no contract of significance between the Company or any of its subsidiaries and a Controlling Shareholder, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries.

INTEREST OF DIRECTORS AND SUPERVISORS IN A COMPETING BUSINESS

None of the Directors, the Supervisors or the management Shareholders and their respective close associates has an interest in a business which competes or may compete with the business of the Company.

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Zuoli Holdings, Puhua Energy, Mr. Yu Yin, Mr. Yu Youqiang, Deqing Yintian, Mr. Shen Haiying, Dingsheng Investment and Mr. Zhang Jianming, being the Controlling Shareholders, has confirmed to the Company that he/it has complied with the non-compete undertakings given by them to the Company from the Listing Date to the date of this report. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertakings and confirmed that all the undertakings thereunder have been complied by each of the Controlling Shareholders.

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Supervisors or their respective spouses or minor children, or were such rights exercised by them, or was the Company or its holding company 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.

RETIREMENT SCHEME

The Company participates in pension scheme organized by the municipal government of Huzhou City and Hangzhou City, Zhejiang for the Group's employees based in the PRC. Contributions to this retirement plan are set out in note 1(m) to the combined financial statements.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

On 23 April 2018, Puhua Energy, a Controlling Shareholder, informed the Company that it had pledged 258,000,000 Domestics Shares to the Agricultural Bank of China Ltd. (Deqing County Sub-branch) which are equivalent to 21.86% of the total issued share capital of the Company as collateral for its financing from the bank.

On 5 September 2018, Mr. Shen Haiying, a Controlling Shareholder, notified the Company that he has charged 23,760,000 Domestic Shares, representing approximately 2.01% of the total issued share capital of the Company in favour of 寧波梅山保税港區國金鼎興世澤股權投資合夥企業(有限合夥) (Ningbo Meishan Bonded Area Guojindingxing Shize Equity Investment Partnership (Limited Partnership)*) as security provided for the facility of Zuoli Holdings, another Controlling Shareholder.

As of the date of this report, both Puhua Energy and Mr. Shen Haiying is deemed to be interested in 395,061,040 Domestic Shares pursuant to the Acting in Concert Agreement and by virtue of the SFO, representing approximately 33.48% of the total issued share capital of the Company.

For details of the above, please refer to the announcements of the Company dated 23 April 2018 and 5 September 2018, respectively.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2018, the Company was 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 the Company.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after 31 December 2018 and up to the date of this report.

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2018, Mr. Yu Yin, an executive Director and the chairman of the Board, and other related parties had guaranteed some of our interest-bearing borrowings. As at 31 December 2018, the amount of guarantee provided by Mr. Yu Yin amounted to RMB576.8 million and the amount of guarantee provided by other related parties amounted to RMB576.8 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the captioned provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

For the year ended 31 December 2018, the Company leased a property from Zuoli Holdings with a rental fee of RMB2.8 million per annum. Puhua Energy is a Controlling Shareholder of the Company and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted the continuing connected transactions under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios (as set out in Rule 14.07 of the Listing Rules) calculated with reference to the annual caps under the lease exceed 0.1% but are less than 5%, the transaction contemplated under the lease is subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company had duly announced the said transaction on 7 July 2017 and 10 July 2017.

The independent non-executive Directors have reviewed all the above continuing connected transactions and confirmed that these transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and in accordance with the relevant agreements governing them on terms which are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company was engaged to report on all the above Group's continuing connected transactions in accordance with the applicable accounting standards. The auditor has issued the unqualified letter containing the findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, during the year ended 31 December 2018, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

On 27 December 2018, Xing Yao Micro-finance entered into the Creditor's Rights Transfer Agreement with Xing Yao Construction pursuant to which, Xing Yao Micro-finance agreed to sell and transfer, Xing Yao Construction agreed to accept the Creditor's Rights at a consideration of RMB4,326,250 (equivalent to approximately HK$4,975,187.5). The consideration under the Creditor's Rights Transfer Agreement shall be payable by Xing Yao Construction on or before 31 December 2018. The entering into the Creditor's Rights Transfer Agreement allows Xing Yao Micro-finance the chance to recoup the Original Loans (including the incurred interested) in full by reducing the default risks exposure to the Borrowers.

Xing Yao Construction is a substantial shareholder of Xing Yao Micro-finance, a 60%-owned subsidiary of the Company, and thus a connected person of the Company at the subsidiary level according to Rule 14A.07(1) under the Listing Rules. Therefore, the transaction under the Creditor's Rights Transfer Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios (as set out in Rule 14.07 of the Listing Rules) in respect of the transaction contemplated under the Creditor's Rights Transfer Agreement exceed 1% but are less than 5%, the transaction contemplated under the Creditor's Rights Transfer Agreement is subject to the reporting and announcement requirements but exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Company confirms that it has complied with disclosure requirements in accordance with Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, risk management and internal control systems and financial report matters including the review of the Group's consolidated financial results for the year ended 31 December 2018. The annual financial statements of the Group have been audited by the independent auditors of the Company, KPMG.

AUDITOR

The combined financial statements for the year ended 31 December 2018 have been audited by KPMG, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the AGM.

By order of the Board

佐力科創小額貸款股份有限公司
(Zuoli Kechuang Micro-finance Company Limited*)
Yu Yin
Chairman

Hong Kong, 22 March 2019

REPORT OF THE BOARD OF SUPERVISORS

The current session of the Board of Supervisors was established upon the approval of the general meeting of the Company. The current session of the Board of Supervisors is comprised of three Supervisors, namely Mr. Dai Shengqing, Ms. Yang Zhenlan and Mr. Wang Peijun.

During the year ended 31 December 2018, for the Company's long term interests and the Shareholders' interests, the Board of Supervisors 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. The main area of work of the Board of Supervisors in 2018 is summarised as follows:

I. MEETING CONDUCTED BY THE BOARD OF SUPERVISORS

The Board of Supervisors convened three meetings for the year ended 31 December 2018.

II. WORK OF THE BOARD OF SUPERVISORS

The work of the Board of Supervisors mainly comprised of the followings:

1. Inspection over implementation of resolutions of the general meetings

The Board of Supervisors exercised supervision and inspection of the implementation of the resolutions in general meetings by the Board and the senior management of the Company through observation and attendance at the Board meetings and general meetings. The Board of Supervisors is of the opinion that the Directors and senior management of the Company have diligently performed their duties in compliance with resolutions of the general meetings. No violation of any laws or regulations or the Articles of Association or any act which jeopardises the interests of the Company or the Shareholders has been found in the performance of duties by the Directors and senior management of the Company.

2. Inspection over legal compliance of the Company's operations

The Board of Supervisors exercised supervision on a regular basis over the legal compliance and rationality of the Group's operation and management in its ordinary works. It has also exercised supervision over work performance of the Board and senior management of the Company. The Board of Supervisors is of the opinion that, the Group's operation is sound and rational, and is in compliance with all applicable laws, regulations and rules and the Articles of Association. The members of the Board and senior management of the Company have conscientiously and diligently performed their duties, and none of their acts would prejudice the interests of the Company or the Shareholders.

3. Inspection over the Company's daily operating activities

The Board of Supervisors exercised supervision over the Group's operating activities. The Board of Supervisors is of the opinion that the Group has sound risk management and internal control systems and has made great progress in the formulation and implementation of its internal work procedures, thus effectively controlled its exposure to various operating risks. The Group's operation is in compliance with the PRC laws and regulations and the Articles of Association.

4. Inspection over the Group's financial condition

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

Looking forward, the Board of Supervisors 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.

Zuoli Kechuang Micro-finance Company Limited*
Dai Shengqing
Chairman of the Board of Supervisors

Hong Kong, 22 March 2019

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance and protecting the interests of its Shareholders in an open manner.

The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of the CG Code as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2018, the Company has fully complied with the Code Provisions.

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 four Board committees, being the audit committee (the "**Audit Committee**"), the remuneration and appraisal committee (the "**Remuneration and Appraisal Committee**"), the nomination committee (the "**Nomination Committee**") and the loan approval committee (the "**Loan Approval Committee**") (each a "**Board Committee**" and collectively the "**Board Committees**"), to oversee different areas of the Company's affairs.

The Board currently comprises four executive Directors, namely Mr. Yu Yin (Chairman), Mr. Zheng Xuegen, Mr. Yang Sheng and Mr. Hu Haifeng (resigned on 18 April 2019), one non-executive Director, namely, Mr. Pan Zhongmin, and three independent non-executive Directors, namely, Mr. Ho Yuk Ming, Hugo, Mr. Jin Xuejun and Ms. Huang Lianxi.

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographies of Directors, Supervisors and Senior Management" on pages 27 to 33 in this report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

There is no financial, business, family or other material/relevant relationships among members of the Board.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

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

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 the Company's expense upon their request. Since January 2015, all Directors are provided with monthly updates on the Group's performance and financial position to enable the Board as a whole and each Director to discharge their duties.

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.

APPOINTMENT AND RE-ELECTION

In accordance with Article 10.2 of Article of Association, Directors shall be elected at the Shareholders' general meeting to hold office for a term of three years. Upon the expiry of the term of office, a Director shall be eligible to be re-elected and re-appointed. All the current Directors have been re-elected for a term of three years at the annual general meeting of the Company which was held on 30 June 2017.

The composition of the Board is reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' profile is set out on pages 27 to 33 of this report.

DIRECTORS' AND OFFICERS' INSURANCE

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

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 the Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

In March 2018, the Company organized specialised training sessions in relation to the news of corporate governance, implementation of Listing Rules and enforcement of CSRC. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during the Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

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

Name of Directors	Types of training Attending in-house training organized by professional organizations	Reading materials updating on new rules and regulations
Executive Directors		
Yu Yin	✓	✓
Zheng Xuegen	✓	✓
Yang Sheng	✓	✓
Hu Haifeng (resigned on 18 April 2019)	✓	✓
Non-executive Director		
Pan Zhongmin	✓	✓
Independent non-executive Directors		
Ho Yuk Ming, Hugo	✓	✓
Jin Xuejun	✓	✓
Huang Lianxi	✓	✓

CHAIRMAN AND GENERAL MANAGER

The position of the chairman of the Board of the Company is held by Mr. Yu Yin, and Mr. Yang Sheng holds the position of general manager. Mr. Yu and Mr. Yang, each performs their duties, endeavours to maintain high standards of corporate governance.

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 Group to protect the overall interests of the Shareholders and the Group. 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 more than 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/her independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

BOARD COMMITTEES

The Board is supported by a number of Board Committees, including the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Loan Approval 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, Remuneration and Appraisal Committee and Nomination Committee are respectively available on the Company's website.

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

(i) Audit Committee

The Audit Committee consists of three Directors, namely Mr. Ho Yuk Ming, Hugo (independent non-executive Director), Mr. Jin Xuejun (independent non-executive Director) and Ms. Huang Lianxi (independent non-executive Director). Mr. Ho Yuk Ming, Hugo, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, risk management and internal control systems and relationship with external auditors of the Company, oversee the audit process and perform other duties and such responsibilities as assigned by the Board. These include reviewing the Company's interim and annual reports.

The Audit Committee has reviewed the combined financial statements of the Group for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group, report prepared by the external auditors covering major findings in the course of the audit, and selection and appointment of the external auditors.

(ii) Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee comprises three Directors, namely Mr. Yu Yin (executive Director), Mr. Jin Xuejun (independent non-executive Director) and Mr. Ho Yuk Ming, Hugo (independent non-executive Director). Mr. Jin Xuejun is the chairman of the Remuneration and Appraisal Committee. The principal responsibilities of the Remuneration and Appraisal Committee are to review and make recommendations to the Board on the overall remuneration structure and policy for all Directors and senior management of the Company as well as the specific remuneration packages for the executive Directors and senior management of the Company and on the establishment of a formal and transparent process for developing such remuneration policy. No Director takes part in any discussion on his/her own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, performance, responsibility, job complexity and the Group's performance are taken into account.

The Remuneration and Appraisal Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company.

The number of senior management of the Group whose remuneration for the year ended 31 December 2018 fell within the following band is as follows:

	Number of senior management
RMB100,000 – RMB300,000	1

(iii) Nomination Committee

The Nomination Committee comprises three Directors, namely Mr. Yu Yin (executive Director), Ms. Huang Lianxi (independent non-executive Director) and Mr. Jin Xuejun (independent non-executive Director). Ms. Huang Lianxi is the chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee are to review the composition of the Board, including its structure, size and diversity, at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy and the Nomination Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy and the Nomination Policy (as defined below), so as to develop and review measurable objectives for the implementing the Board Diversity Policy and the Nomination Policy (as defined below) and to monitor the progress on achieving these objectives.

The Nomination Committee has reviewed the structure, size and composition of the Board and assessed independence of the independent non-executive Directors.

(iv) Loan Approval Committee

The Loan Approval Committee comprises two Directors and one senior management of the Company, namely Mr. Yang Sheng (executive Director), Mr. Zheng Xuegen (executive Director), and Ms. Hu Fangfang (Chief Financial Controller). Mr. Yang Sheng is the chairman of the Loan Approval Committee.

The primary functions of the Loan Approval Committee are to determine the risk profile and creditworthiness of potential customers and whether to advance the loan if the amount of loan exceeds RMB1 million.

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 has reviewed the Company's corporate governance policies and practices, training and continuous professional development of 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 disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS

The attendance record of each of the current Directors at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2018 is set out in the table below. The Directors did not authorize any alternate Director to attend the Board or Board Committee meetings.

	Attendance/Number of Meetings					
Name of Directors	Board	Nomination Committee	Remuneration and Appraisal Committee	Audit Committee	Loan Approval Committee	General Meeting
Yu Yin	8/8	2/2	1/1	N/A	N/A	2/2
Zheng Xuegen	8/8	N/A	N/A	N/A	4/4	2/2
Yang Sheng	8/8	N/A	N/A	N/A	N/A	2/2
Hu Haifeng (resigned on 18 April 2019)	8/8	N/A	N/A	N/A	4/4	2/2
Pan Zhongmin	8/8	N/A	N/A	N/A	N/A	2/2
Ho Yuk Ming, Hugo	8/8	N/A	1/1	4/4	N/A	2/2
Jin Xuejun	8/8	2/2	1/1	4/4	N/A	2/2
Huang Lianxi	8/8	2/2	N/A	4/4	N/A	2/2

BOARD PROCEEDINGS

Pursuant to the Articles of Association, the Board is required to hold at least four Board meetings each year, to be convened and hosted by the chairman of the Board. 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 agenda of a regular Board meeting and related documents of the meeting shall altogether be dispatched to all Directors in time and be dispatched at least three days prior to the proposed date of the Board meeting or meeting of the Board Committee proposed to be held (or within other agreed time).

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 of the Company is responsible for preparing and keeping the minutes of Board meetings and ensuring that such minutes are available for inspection by any Director.

During the year ended 31 December 2018, there were eleven Board meetings held and the attendance of the Directors is set out in the above section headed "Attendance Record of Directors".

GENERAL MEETINGS

During the year ended 31 December 2018, the Company convened two general meetings of the Company held on 5 January 2018 and 28 June 2018 respectively. 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**") in March 2015 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 for 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 and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall 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.

NOMINATION POLICY

The Board has adopted the nomination policy (the "**Nomination Policy**") on 21 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

BOARD OF SUPERVISORS

The Board of Supervisors consists of three members. The employee representative supervisor, namely Ms. Yang Zhenlan, was elected by employees, and the other two supervisors, namely Mr. Dai Shengqing and Mr. Wang Peijun, were elected by the Shareholders. Each of the Supervisors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date. The functions and duties of the Board of Supervisors include, but are not limited to, reviewing and verifying financial reports; and, if in doubt, appointing certified public accountants and practicing auditors to re-examine the Company's financial information; monitoring the business activities of the Company; supervising the performance of the Directors, the chairman of the Board 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 chairman of the Board and senior management members to rectify actions which are damaging to the Company's interests; and exercising other rights given to them under the Articles of Association.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors are set out below:

Mr. Hu Haifeng resigned as the general manager of the Company on 3 September 2018 and resigned as an executive Director on 18 April 2019.

Mr. Yang Sheng has served as the general manager of the Company since 3 September 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. After specific enquiry with all members of the Board, they have confirmed full compliance with the relevant standards stipulated in the Model Code throughout the year ended 31 December 2018.

Pursuant to Rule B.13 of the Model Code, the Directors has also requested any employee of the Company or director or employee of a subsidiary of the Company who, because of his office or employment in the Company or in a subsidiary, is likely to possess inside information in relation to the securities of the Company, not to deal in securities of the Company when he would be prohibited from dealing by the Model Code as if he were a Director.

COMPANY SECRETARY

The Company has engaged in a service contract with an external service provider, Ms. Ho Wing Yan ("**Ms. Ho**"), who was the company secretary of the Company. Mr. Yu Yin, the chairman of the Board and executive Director, was the primary corporate contact person of the Company with Ms. Ho.

Being the company secretary of the Company, Ms. Ho played an important role in supporting the Board by ensuring good information flow within the Board and that Board policies and procedures are followed. Ms. Ho was responsible for advising the Board on corporate governance matters and should also facilitate induction and professional development of Directors.

During the year ended 31 December 2018, Ms. Ho complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Directors acknowledge their responsibility to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and 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. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Group or cast doubts on its ability to continue as going concern.

The responsibility of KPMG, the Company's external auditor, with respect to financial reporting is set out in the section headed "Independent Auditor's Report" in this annual report.

EXTERNAL AUDITOR

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

In 2018, fee payable to KPMG for the annual audit services was RMB1.7 million (2017: RMB1.6 million); and RMB100,000 (2017: RMB400,000) for the non-audit services of limited assurance on the ESG Report of the Group and continuing connected transaction of the Company for the year ended 31 December 2018.

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 AND SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all Shareholders an equal opportunity to exercise their rights in an informed manner and allow all Shareholders to engage actively with the Company. Under the Company's Articles of Association, the shareholder communication policy and other relevant internal procedures of the Company, the Shareholders enjoy, among others, the following rights:

(i) Participation at general meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. 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. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the Shareholders no less than 45 days before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

(ii) Enquiries 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 at the principal place of business of the Company in Hong Kong situated at 33rd Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

(iii) Convening extraordinary general meetings

Pursuant to the Articles of Association, the Board shall convene an extraordinary general meeting within two months where the Shareholders with 10% or more voting right individually or jointly request to convene an extraordinary general meeting in writing. Two or more than two Shareholders in aggregate holding no less than 10% of shares carrying voting right may request the Board to convene an extraordinary general meeting or class Shareholders' meeting through a written request or several copies of such request in the same form and to illustrate the subject of the meeting. 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 Share holdings 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.

All reasonable expenses incurred by convening and holding the aforesaid meeting by Shareholders due to the failure of the Board to hold such meeting in response to the aforesaid request(s) shall be borne by the Company. Such expenses shall be deducted from the amounts due by the Company to the Director(s) who have defaulted their duties.

(iv) 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 3% 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.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "**Dividend Policy**") on 21 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

CONSTITUTIONAL DOCUMENTS

Pursuant to resolutions of the Shareholders passed on 19 May 2014, 8 August 2014, 18 October 2014, 4 November 2014, 21 November 2014 and 18 December 2014, the Articles of Association were adopted with effect from the Listing Date and were for the amended pursuant to the resolution of the Shareholders passed on 30 June 2015. In 2018, certain amendments were made to the Articles of Association to align with the change of the registered office of the Company. These amendments were duly passed by the Shareholders at the general meeting of the Company held on 28 June 2018 and the amended version of the Articles of Association has been adopted since then. Save as disclosed above, no other change was made to the Articles of Association during the year ended 31 December 2018.

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

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 Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. For the year ended 31 December 2018, the Board has reviewed the effectiveness of the Company's and its subsidiaries' risk management and internal control systems, and the systems are considered to be effective and adequate. The Board has been conducted such review on an annual basis and the Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

INDEPENDENT AUDITOR'S REPORT

KPMG

To the shareholders of Zuoli Kechuang Micro-finance Company Limited
(a joint stock Company incorporated in the People's Republic of China (the "PRC") with limited liability)

OPINION

We have audited the consolidated financial statements of Zuoli Kechuang Micro-finance Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 87 to 152, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the PRC, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

KEY AUDIT MATTERS (Continued)

Allowances for impairment of loans and advances to customers

Refer to note 11 to the consolidated financial statements and the accounting policies on page 101 to page 106.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, the Group's loans and advances to customers amounted to RMB2,415.3 million, with allowances for impairment totalling RMB133.2 million. The Group has applied HKFRS 9, Financial instruments ("HKFRS 9") since 1 January 2018 and developed a new impairment model for loans and advances to customers. The determination of allowances for impairment of loans and advances to customers using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions. In particular, the determination of the allowances for impairment of loans and advances to customers is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for loans and advances to customers are derived from estimates whereby management takes into consideration historical overdue data, the credit grading, the historical loss experience for loans and advances to customers and other adjustment factors.	Our audit procedures to assess the allowances for impairment of loans and advances to customers included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and advances to customers, the credit grading process and the measurement of allowances for impairment of loans and advances to customers; • assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other management adjustments; • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and advances to customers used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and advances to customers information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and advances to customers. For key parameters derived from external data, we assessed the accuracy of such data by comparing them with public resources;

KEY AUDIT MATTERS (Continued)

Allowances for impairment of loans and advances to customers (Continued)

Refer to note 11 to the consolidated financial statements and the accounting policies on page 101 to page 106.

The Key Audit Matter	How the matter was addressed in our audit
Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of allowances for impairment as at the end of the reporting period. We identified the allowances for impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results of the Group.	• for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and on transition to the new accounting standard and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development; • for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis; • evaluating the validity of management's assessment on whether the credit risk of the loan and advances has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting samples for credit reviews in industries more vulnerable to the current economic situation with reference to other borrowers with potential credit risk and checking the loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses; • for selected samples of loans and advances to customers that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms; and • evaluating whether the disclosures on allowances for impairment of and advances to customers meet the disclosure requirements in prevailing accounting standards.

KEY AUDIT MATTERS (Continued)

Assessing potential impairment of goodwill

Refer to note 13 to the consolidated financial statements and the accounting policies on page 108.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018 the carrying value of the Group's goodwill, which arose from the acquisition of two subsidiaries in the previous years, was RMB22.5 million. There is a risk that the carrying value of goodwill may not be recoverable in full through the future cash flows to be generated from the related cash-generating unit (the "CGU") to which the goodwill has been allocated. The recoverable amount of the CGU was determined by the management using the value-in-use model whereby a discounted cash flow forecast at the CGU level was prepared by management. We identified the potential impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because determining whether any impairment is required involves a significant degree of management judgement and estimation in forecasting future cash flows, including the annual growth rate, the perpetual growth rate, interest rates and the amount of bad debts, all of which can be inherently uncertain and could be subject to management bias.	Our audit procedures to assess the potential impairment of goodwill included the following: • evaluating the methodology used by management in the preparation of the discounted cash flow forecast with reference to the requirements of the prevailing accounting standards; • challenging the assumptions and critical judgements made by management in the preparation of the discounted cash flow forecast by comparing key inputs, including the annual growth rate, the perpetual growth rate, interest rates and the amount of bad debts with the historical performance of the relevant acquired subsidiaries, management's budgets and forecasts and industry reports; • performing a retrospective review by comparing the prior year's discounted cash flow forecast with the current year's results to assess the reliability and historical accuracy of management's forecasting process; • evaluating the discount rate used in the discounted cash flow forecast by benchmarking the discount rate against the discount rates for similar companies; • obtaining management's sensitivity analyses for the key assumptions, including the annual growth rate and the discount rate adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions to the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements in respect of impairment testing of goodwill with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

The directors are assisted by the Audit Committee in discharging their responsibility 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. This 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 Chan Siu Tung.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Renminbi ("RMB") '000, unless otherwise stated)

	Note	2018 RMB'000	2017 (Note) RMB'000
Interest income		**337,536**	314,301
Interest and commission expenses		**(43,468)**	(43,464)
Net interest income	2	**294,068**	270,837
Other net income	3	**13,356**	5,349
Impairment losses	4	**(47,394)**	(17,361)
Administrative expenses		**(68,818)**	(49,443)
Profit before taxation	5	**191,212**	209,382
Income tax	6	**(48,312)**	(53,530)
Profit and total comprehensive income for the year		**142,900**	155,852
Attributable to:			
Equity shareholders of the Company		**136,968**	148,828
Non-controlling interests		**5,932**	7,024
Profit for the year		**142,900**	155,852
Earnings per share			
Basic and diluted (RMB)	9	**0.12**	0.13

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 1(c).

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Expressed in RMB'000, unless otherwise stated)

	Note	31 December 2018 RMB'000	31 December 2017 (Note) RMB'000
Assets			
Cash and cash equivalents	10(a)	**41,707**	37,235
Interests receivables		**4,229**	20,391
Loans and advances to customers	11	**2,282,082**	2,054,390
Intangible assets	12	**3,141**	3,964
Goodwill	13	**22,502**	22,502
Fixed assets	15	**43,589**	29,580
Available-for-sale financial assets	16	**—**	27,520
Deferred tax assets	20(b)	**28,383**	18,282
Other assets	17	**1,838**	3,398
Total assets		**2,427,471**	2,217,262
Liabilities			
Interest-bearing borrowings	18	**580,079**	532,500
Accruals and other payables	19	**50,618**	38,598
Current taxation	20(a)	**43,757**	26,295
Total liabilities		**674,454**	597,393
NET ASSETS		**1,753,017**	1,619,869
CAPITAL AND RESERVES	21		
Share capital		**1,180,000**	1,180,000
Reserves		**472,881**	337,952
Total equity attributable to equity shareholders of the Company		**1,652,881**	1,517,952
Non-controlling interests	14	**100,136**	101,917
TOTAL EQUITY		**1,753,017**	1,619,869

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 1(c).

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 21(c)	Capital reserve RMB'000 Note 21(d)(i)	Surplus reserve RMB'000 Note 21(d)(ii)	General reserve RMB'000 Note 21(d)(iii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017 (note)	1,180,000	–	39,580	44,526	253,846	1,517,952	101,917	1,619,869
Impact on initial application of HKFRS 9 (Note 1(c))	–	–	–	–	(3,019)	(3,019)	(333)	(3,352)
Adjusted balance at 1 January 2018	1,180,000	–	39,580	44,526	250,827	1,514,933	101,584	1,616,517
Changes in equity for year ended 31 December 2018:								
Acquisition of interest in subsidiary (Note 14)	–	980	–	–	–	980	(980)	–
Profit and total comprehensive income for the year	–	–	–	–	136,968	136,968	5,932	142,900
Appropriation to surplus reserve	–	–	4,112	–	(4,112)	–	–	–
Appropriation to general reserve	–	–	–	14,223	(14,223)	–	–	–
Dividends approved in respect of the previous year (Note 21(b))	–	–	–	–	–	–	(6,400)	(6,400)
Balance at 31 December 2018	1,180,000	980	43,692	58,749	369,460	1,652,881	100,136	1,753,017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 Note 21(c)	Surplus reserve RMB'000 Note 21(d)(ii)	General reserve RMB'000 Note 21(d)(iii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	1,180,000	25,122	35,781	128,221	1,369,124	95,451	1,464,575
Changes in equity for 2017:							
Profit and total comprehensive income for the year	—	—	—	148,828	148,828	7,024	155,852
Appropriation to surplus reserve	—	14,458	—	(14,458)	—	—	—
Appropriation to general reserve	—	—	8,745	(8,745)	—	—	—
Dividends approved in respect of the previous year	—	—	—	—	—	(558)	(558)
Balance at 31 December 2017 (Note)	1,180,000	39,580	44,526	253,846	1,517,952	101,917	1,619,869

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 1(c).

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018
(Expressed in RMB'000, unless otherwise stated)

	Note	2018 RMB'000	2017 (Note) RMB'000
Operating activities			
Cash generated from operations	10(b)	**30,450**	25,503
PRC income tax paid	20(a)	**(39,833)**	(40,111)
Net cash used in operating activities		**(9,383)**	(14,608)
Investing activities			
Proceeds from disposal of investments		**2,677,710**	5,567,992
Proceeds from disposal of fixed assets		**—**	2
Payment for the purchase of fixed assets and intangible assets		**(15,657)**	(16,739)
Payments on acquisition of subsidiary		**—**	(9,460)
Payments on acquisition of investments		**(2,649,914)**	(5,520,321)
Others		**—**	(5,917)
Net cash generated from investing activities		**12,139**	15,557
Financing activities			
Proceeds from new bank loans	10(c)	**180,000**	260,000
Proceeds from debt securities issued	10(c)	**—**	173,184
Proceeds from borrowings from third parties	10(c)	**589,541**	380,030
Repayment of bank loans	10(c)	**(180,000)**	(180,000)
Repayment of debt securities issued	10(c)	**—**	(425,000)
Repayment of borrowings from third parties	10(c)	**(552,308)**	(165,000)
Interest paid	10(c)	**(35,515)**	(35,574)
Dividends paid		**—**	(558)
Net cash generated from financing activities		**1,718**	7,082
Net increase in cash and cash equivalents		**4,474**	8,031
Cash and cash equivalents at 1 January	10(a)	**37,235**	29,208
Effect of foreign exchange rate changes		**(2)**	(4)
Cash and cash equivalents at 31 December	10(a)	**41,707**	37,235

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 1(c).

The accompanying notes form part of the financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for the financial assets measured at fair value through other comprehensive income and at fair value through profit or loss (see Note 1(i)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 25.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following development are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Additional expected credit losses on loans and advances to customers	4,470
Related tax	(1,118)
Non-controlling interests	(333)
Net decrease in retained earnings at 1 January 2018	3,019
Retained earnings	
Recognition of additional expected credit losses on loans and advances to customers	4,025
Related tax	(1,006)
Net decrease in retained earnings at 1 January 2018	3,019
Non-controlling interests	
Recognition of additional expected credit losses on loans and advances to customers and decrease in non-controlling interests at 1 January 2018	333

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) *HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation* (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets carried at amortised cost				
Loans and advances to customers	2,054,390	–	(4,470)	2,049,920
	2,054,390	–	(4,470)	2,049,920
Financial assets carried at FVPL				
Wealth management products (Note)	–	27,520	–	27,520
Financial assets classified as available-for-sale financial assets under HKAS 39	27,520	(27,520)	–	–

Note: Under HKAS 39, wealth management products were classified as available-for-sale financial assets. They are classified as at FVPL under HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in Notes 1(i).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) *HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation* (Continued)

a. *Classification of financial assets and financial liabilities* (Continued)

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, loans and advances to customers and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see Note 1(i).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under HKAS 39	90,553
Additional credit loss recognised at 1 January 2018 on loans and advances to customers	4,470
Loss allowance at 1 January 2018 under HKFRS 9	95,023

c. *Hedge accounting*

The Group currently does not have any hedge business and therefore the adoption of HKFRS 9 has not had a significant impact on the Group's financial statements in this regard.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

d. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

— The following assessment has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  — the determination of the business model within which a financial asset is held.

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transition impact to retained earnings.

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration (Continued)

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The Group currently does not have any foreign business and therefore the adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(i)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(l)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 1(l)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses (see Note 1(l)).

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Premises	20 years
Office and other equipment	5 years
Motor vehicles	5 years
Electronic equipment	5 years
Leasehold improvement	The shorter of the unexpired term of lease and 5 years

Where parts of an item of fixed assets have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 1(l)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— computer software	5 years

The period and method of amortisation are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(i) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognised in the statement of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those instruments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 22(d). These investments are subsequently accounted for as follows, depending on their classification.

a. Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified into one of the following measurement categories:

— amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method. (See Note (q)(i))

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

a. Policy applicable from 1 January 2018 (Continued)

— fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial asset is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— fair value at profit or loss (FVPL) if the financial asset does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial asset (including interest) are recognised in profit or loss.

b. Policy applicable prior to 1 January 2018

Financial assets and financial liabilities are categorized as follows:

— *Loans and receivables*

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

(a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;

(b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

(c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

— *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognised directly in other comprehensive income.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(i) Recognition and measurement of financial assets and liabilities (Continued)

b. Policy applicable prior to 1 January 2018 (Continued)

— *Other financial liabilities*

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

(ii) Credit loss and impairment of financial assets

a. Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) to financial assets measured at amortised cost (including cash and cash equivalents, loans and advances to customers and other receivables);

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(ii) Credit loss and impairment of financial assets (Continued)

a. Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

For all financial instruments measured at amortised cost, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(ii) Credit loss and impairment of financial assets (Continued)

a. Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with Note 1(q)(i) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

b. Policy applicable prior to 1 January 2018

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(ii) Credit loss and impairment of financial assets (Continued)

b. Policy applicable prior to 1 January 2018 (Continued)

Objective evidence includes the following loss event:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it is becoming probable that the debtor will enter bankruptcy or other financial reorganization;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

If the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

— Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The impairment losses are recognised in profit or loss.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(ii) Credit loss and impairment of financial assets (Continued)

b. Policy applicable prior to 1 January 2018 (Continued)

Loans and receivables (Continued)

— Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provisions for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provisions for impairment losses upon necessary approval.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost net of any principal repayment and amortization and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income. Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(ii) Credit loss and impairment of financial assets (Continued)

b. Policy applicable prior to 1 January 2018 (Continued)

Available-for-sale financial assets (Continued)

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognised at fair value.

Financial liabilities

The Group generally derecognises a financial liability when its contractual obligations expire or are discharged or cancelled. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iii) Fair value measurement principles

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

— the contractual rights to the cash flows from the financial asset expire; or

— the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when, and only when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 1(s)).

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 1(i)(ii).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets;

— intangible assets;

— goodwill; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    — the same taxable entity; or

    — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Value-added-tax ("VAT")

Output VAT is calculated on taxable revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period. The tax rate of VAT is 6%.

(p) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Provisions and contingent liabilities (Continued)

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 1(p)(i). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 1(p)(i).

(q) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Interest income

Interest income is recognised as it accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 1(i)(ii)).

(ii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Translation of foreign currencies (Continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(s) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities 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).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 NET INTEREST INCOME

The principal activity of the Group is the provision of loans to customers in Zhejiang province, the PRC. The amount of each significant category of revenue recognised is as follows:

	2018 RMB'000	2017 RMB'000
Interest income arising from		
Loans and advances to customers	**336,799**	313,495
Cash at banks	**737**	806
	337,536	314,301
Interest and commission expenses arising from		
Borrowings from banks	**(9,606)**	(9,474)
Borrowings from non-bank institutions	**(33,264)**	(32,514)
Bank charges	**(598)**	(1,476)
	(43,468)	(43,464)
Net interest income	**294,068**	270,837

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's net interest income during the years ended 31 December 2018 and 2017. Details of concentration of credit risk are set out in Note 22(a).

For the years ended 31 December 2018 and 2017, the directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing lending services which is the basis to allocate resources and assess performance of the Group.

The principal place of the Group's operation is Zhejiang province in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded Zhejiang province as its place of domicile. All the Group's revenue and assets are principally attributable to Zhejiang province, being the main operating region.

3 OTHER NET INCOME

	2018 RMB'000	2017 RMB'000
Government grants (Note)	13,218	1,891
Investment income from wealth managements products	276	2,491
Exchange losses	(2)	(4)
Gains on disposal of loans and advances to customers	—	1,084
Others	(136)	(113)
Total	13,356	5,349

Note: Government grants mainly represents the tax refund granted by local government.

4 IMPAIRMENT LOSSES

	2018 RMB'000	2017 RMB'000
Loans and advances to customers (Note 11)	47,056	16,871
Interest receivables	338	289
Other assets	—	201
Total	47,394	17,361

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2018 RMB'000	2017 RMB'000
Salaries, bonuses and allowance	18,043	12,335
Contribution to retirement scheme	1,129	835
Social insurance and other benefits	4,894	4,889
Total	24,066	18,059

The Group is required to participate in the pension scheme organised by the municipal government of Zhejiang Province whereby the Group is required to pay annual contributions for PRC based employees at certain rate of the standard wages determined by the relevant authorities in the PRC during the year. The Group has no other material obligation for payment of retirement benefits to the PRC based employees beyond the annual contributions described above.

5 PROFIT BEFORE TAXATION (Continued)

(b) Other items

	2018 RMB'000	2017 RMB'000
Amortization of intangible assets	823	226
Depreciation expenses (Note 15)	5,829	1,970
Operating lease charges in respect of building	2,079	2,262
Auditors' remuneration		
— audit services	3,131	2,871
— other services	94	377

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2018 RMB'000	2017 RMB'000
Current tax (Note 20(a))		
Provision for PRC income tax for the year	57,295	54,831
Deferred tax (Note 20(b))		
Origination and reversal of temporary differences	(8,983)	(1,301)
Total	48,312	53,530

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Profit before taxation	191,212	209,382
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (Notes)	47,803	52,346
Under-provision in respect of prior years	—	983
Effect of non-deductible expenses	509	201
Actual income tax expense	48,312	53,530

Notes:

(i) The Company and the subsidiaries of the Group incorporated in the PRC are subject to PRC income tax at the statutory tax rate of 25% for the year ended 31 December 2018 (2017: 25%).

(ii) No provision for Hong Kong profit tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong profit tax for the year ended 31 December 2018 (2017: nil).

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018			
	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman				
Yu Yin (俞寅)	6	364	140	510
Executive directors				
Zheng Xuegen (鄭學根)	6	245	140	391
Yang Sheng (楊晟)	6	244	140	390
Hu Haifeng (胡海峰)	6	151	—	157
Non-executive director				
Pan Zhongmin (潘忠敏)	6	—	—	6
Independent non-executive directors				
Ho Yuk Ming (何育明)	100	—	—	100
Jin Xuejun (金雪軍)	100	—	—	100
Huang Lianxi (黄廉熙)	100	—	—	100
Supervisors				
Shen Yamin (沈婭敏) (resigned on 15 May 2018)	2	16	—	18
Dai Shengqing (戴勝慶)	6	—	—	6
Wang Peijun (王培軍)	6	—	—	6
Yang Zhenlan (楊振嵐) (appointed on 15 May 2018)	4	—	—	4
	348	1,020	420	1,788

7 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	2017			
	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman				
Yu Yin (俞寅)	6	361	100	467
Executive directors				
Zheng Xuegen (鄭學根)	6	241	100	347
Hu Haifeng (胡海峰)	6	301	100	407
Yang Sheng (楊晟)	6	241	100	347
Non-executive director				
Pan Zhongmin (潘忠敏)	6	—	—	6
Independent non-executive directors				
Ho Yuk Ming (何育明)	100	—	—	100
Jin Xuejun (金雪軍)	100	—	—	100
Huang Lianxi (黃廉熙)	100	—	—	100
Supervisors				
Shen Yamin (沈婭敏)	6	85	54	145
Dai Shengqing (戴勝慶)	6	—	—	6
Wang Peijun (王培軍)	6	—	—	6
	348	1,229	454	2,031

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2017: four) are directors or supervisors of the Group for the year ended 31 December 2018, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other individual are as follow:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**245**	242
Discretionary bonuses	**100**	54
	345	296

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

The emoluments of the one (2017: one) individual with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
Hong Kong dollar		
Nil–1,000,000	**1**	1
1,000,001–1,500,000	**—**	—

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2018 and 2017.

9 EARNINGS PER SHARE

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

	2018	2017
Profit attributable to the equity shareholders of the Company (RMB'000)	**136,968**	148,828
Weighted average number of ordinary shares in issue ('000)	**1,180,000**	1,180,000
Basic earnings per share (RMB)	**0.12**	0.13

(a) Weighted average number of ordinary shares

	2018 '000	2017 '000
Issued ordinary shares at 1 January	**1,180,000**	1,180,000
Weighted average number of ordinary shares at 31 December	**1,180,000**	1,180,000

There were no dilutive potential ordinary shares during the years ended 31 December 2018 and 2017, and therefore, diluted earnings per share are the same as the basic earnings per share.

10 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Cash in hand	3	1
Cash at banks	41,176	27,223
Others	528	10,011
Cash and cash equivalents in the cash flow statement	41,707	37,235

(b) Reconciliation of profit before taxation to cash used in operating activities:

	2018 RMB'000	2017 RMB'000
Profit before taxation	191,212	209,382
Adjustment for:		
Impairment losses	47,394	17,361
Depreciation and amortisation	6,652	2,196
Exchange losses	2	4
Interest expenses	42,870	41,988
Investment income	(276)	(2,491)
Net loss from disposal of fixed assets	21	16
Changes in working capital:		
Increase in loans and advances to customers	(260,350)	(264,097)
(Increase)/decrease in interest receivables and other assets	(1,484)	615
Increase in accruals and other payables	4,409	20,529
Cash generated from operations	30,450	25,503

10 CASH AND CASH EQUIVALENTS (Continued)

(c) Reconciliation of liabilities arising from financing activities:

	Bank Loans RMB'000	Borrowings from third parties — a micro-finance company RMB'000	Other borrowings from third parties RMB'000	Total RMB'000
At 1 January 2018	180,000	25,000	327,500	532,500
Changes from financing cash flow				
Proceeds from bank loans	180,000	—	—	180,000
Repayment of bank loans	(180,000)	—	—	(180,000)
Proceeds from borrowings from third parties	—	50,000	539,541	589,541
Repayment of borrowings from third parties	—	(75,000)	(477,308)	(552,308)
Interest paid	(9,588)	(1,758)	(24,169)	(35,515)
Total changes from financing cash flows	(9,588)	(26,758)	38,064	1,718
Other changes:				
Interest expense (Note 2)	9,606	1,650	31,614	42,870
Changes of interest payable (Note 19)	281	108	4,727	5,116
Commission payables related to obtaining other borrowings	—	—	(2,125)	(2,125)
Total other changes	9,887	1,758	34,216	45,861
At 31 December 2018	180,299	—	399,780	580,079

10 CASH AND CASH EQUIVALENTS (Continued)

(c) Reconciliation of liabilities arising from financing activities: (Continued)

	Bank Loans RMB'000	Borrowing from third parties under a repurchase agreement RMB'000	Borrowings from third parties — a micro-finance company RMB'000	Other borrowings from third parties RMB'000	Debt securities issued RMB'000	Total RMB'000
At 1 January 2017	100,000	150,000	—	—	278,283	528,283
Changes from financing cash flow						
Proceeds from bank loans	260,000	—	—	—	—	260,000
Repayment of bank loans	(180,000)	—	—	—	—	(180,000)
Proceeds from borrowings from third parties	—	—	55,000	325,030	—	380,030
Repayment of borrowings from third parties	—	(135,000)	(30,000)	—	—	(165,000)
Proceeds from debt securities issued	—	—	—	—	173,184	173,184
Repayment of debt securities issued	—	—	—	—	(425,000)	(425,000)
Interest paid	(9,367)	(6,628)	(852)	(5,786)	(12,941)	(35,574)
Total changes from financing cash flows	70,633	(141,628)	24,148	319,244	(264,757)	7,640
Other changes:						
Changes of restricted deposit	—	(15,000)	—	—	—	(15,000)
Interest expense (Note 2)	9,474	6,298	960	12,984	12,272	41,988
Changes of interest payable (Note 19)	(107)	330	(108)	(4,728)	—	(4,613)
Principal and interests of debts securities issued prepaid in prior year (Note 17)	—	—	—	—	(25,798)	(25,798)
Total other changes	9,367	(8,372)	852	8,256	(13,526)	(3,423)
At 31 December 2017	180,000	—	25,000	327,500	—	532,500

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2018 RMB'000	31 December 2017 RMB'000
Corporate loans	**759,910**	532,020
Retail loans	**1,561,718**	1,289,175
Micro-loans granted online	**74,755**	323,748
Sub-total	**2,396,383**	2,144,943
Accrued interest	**18,868**	—
Gross loans and advances to customers	**2,415,251**	2,144,943
Less: Allowances for impairment losses	**(133,169)**	(90,553)
Net loans and advances to customers	**2,282,082**	2,054,390

(b) Analysed by type of collateral

	31 December 2018 RMB'000	31 December 2017 RMB'000
Unsecured loans	**53,584**	269,879
Guaranteed loans	**2,282,460**	1,813,468
Collateralized loans	**54,899**	61,546
Pledged loans	**5,440**	50
Sub-total	**2,396,383**	2,144,943
Accrued interest	**18,868**	—
Gross loans and advances to customers	**2,415,251**	2,144,943
Less: Allowances for impairment losses	**(133,169)**	(90,553)
Net loans and advances to customers	**2,282,082**	2,054,390

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Analysed by industry sector

	31 December 2018 RMB'000	%	31 December 2017 RMB'000	%
Wholesale and retail	314,812	13%	115,192	5%
Manufacturing	120,790	5%	33,363	2%
Construction	107,100	5%	42,100	2%
Agriculture, forestry, animal husbandry and fishery	53,500	2%	45,900	2%
Others	163,708	7%	295,465	14%
Corporate loans	759,910	32%	532,020	25%
Retail loans	1,561,718	65%	1,289,175	60%
Micro-loans granted online	74,755	3%	323,748	15%
Sub-total	2,396,383	100%	2,144,943	100%
Accrued interest	18,868		—	
Gross loans and advances to customers	2,415,251		2,144,943	
Less: Allowances for impairment losses	(133,169)		(90,553)	
Net loans and advances to customers	2,282,082		2,054,390	

(d) Overdue loans analysed by type of collateral and overdue period

	31 December 2018				
	Overdue within 3 months (inclusive) RMB'000	Overdue more than 3 months to 6 months (inclusive) RMB'000	Overdue more than 6 months to one year (inclusive) RMB'000	Overdue more than one year RMB'000	Total RMB'000
Unsecured loans	2,063	2,958	3,427	10,598	19,046
Guaranteed loans	7,856	15,686	12,088	9,662	45,292
Collateralized loans	—	—	10,500	1,300	11,800
Total	9,919	18,644	26,015	21,560	76,138

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(d) Overdue loans analysed by type of collateral and overdue period (Continued)

	31 December 2017				
	Overdue within 3 months (inclusive) RMB'000	Overdue more than 3 months to 6 months (inclusive) RMB'000	Overdue more than 6 months to one year (inclusive) RMB'000	Overdue more than one year RMB'000	Total RMB'000
Unsecured loans	2,745	2,827	6,472	9,426	21,470
Guaranteed loans	1,619	635	4,335	4,790	11,379
Collateralized loans	—	—	1,655	29	1,684
Total	4,364	3,462	12,462	14,245	34,533

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more. All amounts are shown as gross amount of overdue loans and advances to customers before any allowances for impairment losses.

(e) Analysed by methods for assessing allowances for impairment losses

	As at 31 December 2018			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
Gross loans and advances to customers	**2,314,865**	**28,024**	**72,362**	**2,415,251**
Less: Allowances for impairment losses	**(68,298)**	**(7,817)**	**(57,054)**	**(133,169)**
Net loans and advances to customers	**2,246,567**	**20,207**	**15,308**	**2,282,082**

	As at 31 December 2017		
	Loans and advances for which allowances are collectively assessed RMB'000	Loans and advances for which allowances are individually assessed RMB'000	Total RMB'000
Gross loans and advances to customers	2,112,012	32,931	2,144,943
Less: Allowances for impairment losses	(64,935)	(25,618)	(90,553)
Net loans and advances to customers	2,047,077	7,313	2,054,390

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

	2018			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
At 1 January 2018	60,897	4,495	29,631	95,023
Transferred to				
— Lifetime ECLs non credit-impaired	(677)	677	—	—
— Lifetime ECLs credit-impaired	(2,010)	(2,438)	4,448	—
Charge for the period	10,088	5,083	31,885	47,056
Write off	—	—	(10,414)	(10,414)
Recoveries of loans and advances written off in previous years	—	—	1,504	1,504
At 31 December 2018	68,298	7,817	57,054	133,169

	2017		
	Provision for impairment losses which is collectively assessed RMB'000	Provision for impairment losses which is individually assessed RMB'000	Total RMB'000
At 1 January 2017	64,884	17,472	82,356
Charge for the year	25,657	20,394	46,051
Reversal for the year	(25,606)	(3,574)	(29,180)
Write off	—	(8,993)	(8,993)
Recoveries of loans and advances written off in previous years	—	319	319
At 31 December 2017	64,935	25,618	90,553

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality

	2018 RMB'000
Gross balance of loans and advances to customers that are assessed for 12-month ECLs	
— Neither overdue nor credit-impaired	2,314,865
Sub-total	2,314,865
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired	
— Overdue but not credit-impaired	3,776
— Neither overdue nor credit-impaired	24,248
Sub-total	28,024
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired	
— Overdue and credit-impaired	72,362
Sub-total	72,362
Less: Allowances for impairment losses	(133,169)
Net value	2,282,082

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality (Continued)

	2017 RMB'000
Gross balance of loans and advances to customers	
— Neither overdue nor impaired	2,108,043
— Overdue but not impaired	3,969
— Impaired	32,931
	2,144,943
Less: Allowances for impairment losses	
— Neither overdue nor impaired	(64,428)
— Overdue but not impaired	(507)
— Impaired	(25,618)
	(90,553)
Net balance	
— Neither overdue nor impaired	2,043,615
— Overdue but not impaired	3,462
— Impaired	7,313
	2,054,390

12 INTANGIBLE ASSETS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Computer software	**3,141**	3,964

13 GOODWILL

	RMB'000
Cost:	
At 1 January and 31 December 2018	22,502
Accumulated impairment losses:	
At 31 December 2018 and 2017	–
Carrying amount:	
At 31 December 2018	22,502
At 31 December 2017	22,502

Goodwill is allocated to the Group's cash-generating units identified according to the micro-finance operations acquired as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance")	**18,005**	18,005
Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)興耀普匯小額貸款有限公司) ("Xingyao Micro-finance")	**4,497**	4,497
	22,502	22,502

The Group acquired 96.9298% equity interest in Jinhui Micro-finance for a total consideration of RMB238.5 million on 1 July 2015. The excess of the acquisition costs over the share of net fair value of Jinhui Micro-finance's identifiable net assets of RMB18.0 million was recorded as goodwill and allocated to the micro-finance operation of Jinhui Micro-finance.

The Group acquired 60% equity interest in Xingyao Micro-finance for a total consideration of RMB130.0 million on 18 November 2016. The excess of the acquisition costs over the share of net fair value of Xingyao Micro-finance's identifiable net assets of RMB4.5 million was recorded as goodwill and allocated to the micro-finance operation of Xingyao Micro-finance.

(Expressed in RMB'000, unless otherwise stated)

13 GOODWILL (Continued)

Impairment test

The recoverable amount of the acquired subsidiaries are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for micro-finance operations. The cash flows are discounted using discount rates of 11.54% and 11.34% by Jinhui Micro-finance and Xingyao Micro-finance respectively at 31 December 2018 (2017: Jinhui Micro-finance: 11.48%; Xingyao Micro-finance: 11.74%). The discounted rates are pre-tax and reflect specific risks relating to the acquired subsidiaries.

14 INVESTMENTS IN SUBSIDIARIES

The following list contains all the subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest at 31 December 2018		
Name of Companies	**Place of incorporation and business**	**Paid up capital**	**Group's effective interest**	**Held by the Company**	**Principal activities**
Jinhui Micro-finance (Note (i))	**Deqing, Zhejiang**	**1,228,000,000**	**99.4300%**	**99.4300%**	**Micro-finance**
Zuoli Micro-finance Hong Kong International Investment Company Limited (佐力小額香港國際投資有限公司) ("Zuoli HK") (Note (ii))	**Hong Kong**	**—**	**100%**	**100%**	**Investment, trading**
Xingyao Micro-finance	**Hangzhou, Zhejiang**	**200,000,000**	**60%**	**60%**	**Micro-finance**

			Proportion of ownership interest at 31 December 2017		
Name of Companies	Place of incorporation and business	Paid up capital	Group's effective interest	Held by the Company	Principal activities
Jinhui Micro-finance (Note (i))	Deqing, Zhejiang	228,000,000	96.9298%	96.9298%	Micro-finance
Zuoli HK (Note (ii))	Hong Kong	—	100%	100%	Investment, trading
Xingyao Micro-finance	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

14 INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

(i) Pursuant to the assets restructuring agreement and the capital injection agreement entered into by the Company and Jinhui Micro-finance dated 14 November 2017, the Company has injected capital of RMB1,000,000,000 in the form of transferring assets and liabilities into Jinhui Micro-finance on 25 February 2018 after obtaining approvals from relevant authorities in the PRC. Upon the completion of the aforementioned capital injection, the Company held equity interest in Jinhui Micro-finance increased from approximately 96.93% to 99.43%. The difference between the capital injection and the carrying amount of the 2.5% equity interest in Jinhui Micro-finance amounted to RMB980 thousand was recorded as Reserves-Capital reserve on the consolidated statement of financial position.

(ii) On 18 August 2015 (date of incorporation), Zuoli HK's 1,000,000 shares with par value of HK$1 was allotted and issued to its sole shareholder, the Company. As at 31 December 2018, the issued shares had not been paid by the Company.

The following tables lists out the information relating to Xingyao Micro-finance which has a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2018 RMB'000	2017 RMB'000
NCI Percentage	40%	40%
Total assets	259,501	298,489
Total liabilities	(28,505)	(63,737)
Net assets	230,996	234,752
Carrying amount of NCI	92,398	93,901
Net interest income	37,530	30,618
Profit and total comprehensive income for the year	12,902	16,610
Profit allocated to NCI	5,161	6,644
Net cash generated from/(used in) operating activities	43,546	(26,181)
Net cash generated from/(used in) investing activities	26,696	(24,753)
Net cash (used in)/generated from financing activities	(53,915)	51,263

15 FIXED ASSETS

	Construction in progress RMB'000	Premise RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost:							
At 1 January 2017	—	13,366	1,183	3,059	1,495	6,188	25,291
Additions	10,075	1,741	85	410	274	—	12,585
Disposal	—	—	(94)	—	(39)	—	(133)
At 31 December 2017 and 1 January 2018	10,075	15,107	1,174	3,469	1,730	6,188	37,743
Additions	3,007	—	2,588	1,408	120	12,736	19,859
Transfers in/(out) of construction in progress	(13,082)	—	—	—	—	13,082	—
Disposal	—	—	—	(415)	—	—	(415)
At 31 December 2018	—	15,107	3,762	4,462	1,850	32,006	57,187
Accumulated depreciation:							
At 1 January 2017	—	—	(874)	(1,458)	(629)	(3,347)	(6,308)
Charge for the year	—	(232)	(121)	(445)	(276)	(896)	(1,970)
Disposal	—	—	76	—	39	—	115
At 31 December 2017 and 1 January 2018	—	(232)	(919)	(1,903)	(866)	(4,243)	(8,163)
Charge for the year	—	(398)	(329)	(707)	(299)	(4,096)	(5,829)
Disposal	—	—	—	394	—	—	394
At 31 December 2018	—	(630)	(1,248)	(2,216)	(1,165)	(8,339)	(13,598)
Net book value:							
At 31 December 2018	—	14,477	2,514	2,246	685	23,667	43,589
At 31 December 2017	10,075	14,875	255	1,566	864	1,945	29,580

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Wealth management products (Note)	–	27,520

Note: Wealth management products were issued by banks in the PRC, which were unlisted securities.

17 OTHER ASSETS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Prepayment	1,282	1,642
Others	556	1,756
	1,838	3,398

All other assets were expected to be recovered or recognised as expenses within one year.

18 INTEREST-BEARING BORROWINGS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Bank loans (Notes (i))		
— Amortised cost	180,000	180,000
— Accrued interest	299	—
	180,299	180,000
Borrowings from third parties (Notes (ii))		
— Amortised cost	393,910	352,500
— Accrued interest	5,870	—
	399,780	352,500
Total	580,079	532,500

Notes:

(i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2018 and 31 December 2017, none of the covenants relating to the bank loans had been breached.

(ii) In 2018, the Group obtained financings with nominal amount totaling RMB594.1 million at an interest rate ranging from 5.2% to 8.5% per annum by issuing financing products on trading platforms located in the PRC which are due from 2018 to 2019. As at 31 December 2018, the remaining nominal amount of these financial products was RMB396.8 million. The above transactions were guaranteed by certain shareholders and related parties.

19 ACCRUALS AND OTHER PAYABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Dividend payable to non-controlling interests	**6,400**	—
Accrued staff costs	**5,657**	3,890
Value-added tax payable	**1,826**	1,638
Interest payable	**—**	5,116
Tax and surcharges and other taxation payable	**674**	242
Acquisition consideration payable	**506**	506
Other payables	**35,555**	27,206
	50,618	38,598

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements in current taxation in the consolidated statement of financial position are as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Balance of income tax payable at the beginning of the year	**26,295**	11,575
Provision for PRC income tax for the year (Note 6(a))	**57,295**	54,831
Income tax paid during the year	**(39,833)**	(40,111)
Balance of income tax payable at the end of the year	**43,757**	26,295

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years ended 31 December 2017 and 2018 are as follows:

Deferred tax assets arising from:	**Provision for impairment losses** (Note) RMB'000	**Accrued expenses** RMB'000	**Total** RMB'000
At 1 January 2017	16,473	508	16,981
Charged to profit or loss	803	498	1,301
At 31 December 2017	17,276	1,006	18,282
Impact on initial application of HKFRS 9	1,118	—	1,118
At 1 January 2018	18,394	1,006	19,400
Charged to profit or loss (Note 6(a))	8,908	75	8,983
At 31 December 2018	27,302	1,081	28,383

Note: Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional allowances for impairment losses of loans and advances to customers (see Note 1(c)(i)).

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 Note 21(c)	Surplus reserve RMB'000 Note 22(d)(ii)	General reserve RMB'000 Note 22(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 31 December 2017	**1,180,000**	**39,580**	**30,402**	**222,711**	**1,472,693**
Impact on initial application of HKFRS 9 (Note 1(c))	**—**	**—**	**—**	**(400)**	**(400)**
Adjusted balance at 1 January 2018	**1,180,000**	**39,580**	**30,402**	**222,311**	**1,472,293**
Changes in equity for 2018:					
Total comprehensive income for the year	**—**	**—**	**—**	**41,115**	**41,115**
Appropriation to surplus reserve	**—**	**4,112**	**—**	**(4,112)**	**—**
Reversal of general reserve	**—**	**—**	**(6,335)**	**6,335**	**—**
Balance at 31 December 2018	**1,180,000**	**43,692**	**24,067**	**265,649**	**1,513,408**

	Share capital RMB'000 Note 21(c)	Surplus reserve RMB'000 Note 21(d)(ii)	General reserve RMB'000 Note 21(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2017	1,180,000	25,122	29,595	93,392	1,328,109
Changes in equity for 2017:					
Total comprehensive income for the year	—	—	—	144,584	144,584
Appropriation to surplus reserve	—	14,458	—	(14,458)	—
Appropriation to general reserve	—	—	807	(807)	—
Balance at 31 December 2017	1,180,000	39,580	30,402	222,711	1,472,693

21 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

In accordance with the resolution of the Company's board of directors meeting held on March 22, 2019, the proposed profit appropriations for the year ended December 31, 2018 is RMB147.5 million (2017: nil).

At the Xingyao Micro-finance's general meeting held on 10 December 2018, the cash dividend of RMB16.0 million was approved to declare to all equity shareholders. The dividend was attributable to the year of 2017 (2017: nil).

(c) Share capital

As at 31 December 2018, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1 each.

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve represents the increase of equity interest in Jinhui Micro-finance arising from the capital injection. For details, please see Note 14.

(ii) Surplus reserve

The surplus reserve represents statutory surplus reserve fund. The Group is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC ("MOF"), to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

Subject to the approval of equity holders of the entities established in the PRC, statutory surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of 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 Group may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders. Subject to the approval of shareholders, discretionary surplus reserves may be used to offset previous years' losses, if any, and may be converted into capital.

(iii) General risk reserve

Pursuant to relevant regulations, the Company and its subsidiaries in the PRC engaged in micro-finance business are required to set aside a general reserve through appropriations of profit after tax according to 1.5% of the ending balance of gross risk-bearing assets to cover potential losses against these assets.

21 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Appropriation of profits

(i) In accordance with the resolution of the Company's board of directors meeting on 22 March 2019, the proposed profit appropriations for the year ended 31 December 2018 are as follows:

— Appropriate RMB4.1 million (10% of the net profit of the Company) to surplus reserve;

— Reverse RMB6.3 million from general reserve to retained profits.

The profit appropriation resolution mentioned above has yet to be approved by the Company's shareholders.

(ii) At the Annual General Meeting of shareholders held on 28 June 2018, the shareholders approved the following profit appropriations for the year ended 31 December 2017:

— Appropriate RMB14.5 million (10% of the net profit of the Company) to surplus reserve;

— Appropriate RMB0.8 million to general reserve.

(f) Distributable reserves

At 31 December 2017 and 31 December 2018, the aggregate amounts of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Company Law of the PRC, were RMB222.7 million and RMB265.6 million respectively.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and stability resulted from a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Group's approach to capital management during the years ended 31 December 2017 and 2018.

Particularly for credit loan business, the Group monitors regularly the residual balance of outstanding credit loans for single customers and multiples of the total outstanding credit loans in relation to share capital of the Group, so as to keep the capital risk within an acceptable limit. The decision to manage the share capital of the Group to meet the needs of developing credit loans business rests with the directors.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practice used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations or commitment to the Group provided. It arises primarily from the Group's micro-finance business and treasury business such as investment in wealth management products.

Credit risk arising from micro-finance business

The Group's credit risk mainly arises from micro-finance business. The Group has established relevant mechanism to cover credit risk in key operational phases of micro-finance business, including pre-lending evaluations, credit approval, and post-lending monitoring. The Group conducts customer acceptance and due diligence by business and marketing department and risk management department in pre-lending evaluations. In the credit approval phase, all loan applications are subject to the assessment and approval of the Group's deputy general manager, general manager or loan assessment committee, depending on the amount of the loans. During the post-lending monitoring, the Group conducts on-site inspections and off-site inquiries to detect potential risks by evaluating various aspects, including but not limited to the customers' operational and financial conditions, status of collaterals and other sources of repayment.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss of the loan portfolio is assessed collectively or individually as appropriate.

After adopting HKFR 9 at 1 January 2018, loans and advances to customers are also categorised into the following stages by the Group:

Stage 1

Loans and advances to customers have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses (12-month ECLs).

Stage 2

Loans and advances to customers have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses (Lifetime ECLs non credit-impaired).

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Credit risk arising from micro-finance business (Continued)

Stage 3

Loans and advances to customers that are in default and considered credit impaired (Lifetime ECLs credit-impaired).

The Group applies the new ECL model to measure the impairment loss of the loans and advances to customers.

When a certain number of customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions. At 31 December 2018, 2.09% (31 December 2017: 1.40%) and 7.80% (31 December 2017: 5.83%) of the total loans and advances to customers was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk of loans and advances to customers for each stage is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods. For details, please see Note 11.

Other credit risk

The Group adopts a credit rating approach in managing the credit risk of the treasury business, counterparties' rating are evaluated before transactions with reference to major rating agencies generally recognised by the People's Bank of China.

In respect of interest receivables and other assets, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Management regularly monitors the Group's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following tables provide an analysis of the remaining contractual maturities, which are based on contractual undiscounted cash flows (including interest payments, computed using contractual rates) of the financial assets and liabilities of the Group at the end of the reporting periods:

	At 31 December 2018					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	41,707	–	–	–	41,707	41,707
Interest receivables	4,229	–	–	–	4,229	4,229
Loans and advances to customers	76,138	881,294	1,610,976	505	2,568,913	2,282,082
Other assets	556	–	–	–	556	556
Total	122,630	881,294	1,610,976	505	2,615,405	2,328,574
Liabilities						
Interest-bearing borrowings	–	(109,135)	(489,826)	–	(598,961)	(580,079)
Accruals and other payables	(30,259)	(12,202)	–	–	(42,461)	(42,461)
Total	(30,259)	(121,337)	(489,826)	–	(641,422)	(622,540)
	92,371	759,957	1,121,150	505	1,973,983	1,706,034

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

	31 December 2017					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	37,235	–	–	–	37,235	37,235
Interest receivables	396	14,147	5,848	–	20,391	20,391
Loans and advances to customers	34,533	774,842	1,637,785	18,163	2,465,323	2,054,390
Available-for-sale financial assets	27,520	–	–	–	27,520	27,520
Other assets	270	1,486	–	–	1,756	1,756
Total	99,954	790,475	1,643,633	18,163	2,552,225	2,141,292
Liabilities						
Interest-bearing borrowings	–	(27,662)	(523,290)	–	(550,952)	(532,500)
Accruals and other payables	(6,330)	(24,203)	(2,295)	–	(32,828)	(32,828)
Total	(6,330)	(51,865)	(525,585)	–	(583,780)	(565,328)
	93,624	738,610	1,118,048	18,163	1,968,445	1,575,964

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest risk

The Group is principally engaged in the provision of micro-finance services. Its interest rate risk arises primarily from deposits with banks, loans and advances to customers and interest-bearing borrowings.

(i) Interest rate profile

The following tables details the interest rate profile of the Group's assets and liabilities as at the end of the reporting periods:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Fixed interest rate		
Financial assets		
— Loans and advances to customers	**2,282,082**	2,054,390
Financial liabilities		
— Interest-bearing borrowings	**(580,079)**	(532,500)
Net	**1,702,003**	1,521,890
Variable interest rate		
Financial assets		
— Cash and cash equivalent	**41,176**	27,223
— Available-for-sale financial assets	**—**	27,520
Net	**41,176**	54,743
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

(ii) Sensitivity analysis

At 31 December 2018 and 31 December 2017, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's net profit during the next 12 months by approximately RMB154,000 and RMB205,000 respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations:	Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
Level 2 valuations:	Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
Level 3 valuations:	Fair value measured using significant unobservable inputs.

Fair value hierarchy:

	At 31 December 2017			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale financial assets				
Wealth management products	—	27,520	—	27,520

At 31 December 2018, no financial instruments were measured at fair value.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of wealth management products is determined with reference to the yield published by the issuing bank as at the end of the reporting period and period that the Group has held such wealth management products.

(iii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2017 and 31 December 2018.

23 COMMITMENTS

(a) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 1 year	**2,800**	3,356
After 1 year but within 5 years	**1,400**	4,715
Total	**4,200**	8,071

Note: The Group is the lessee in respect of a certain properties held under operating leases. The leases typically run for an initial period of 1-3 years, at the end of which period all terms are renegotiated. None of the leases include contingent rentals.

(b) Capital commitments

As at the end of each of the reporting period, the Group's authorized capital commitments are as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Contracted but not paid for		
— Leasehold improvement	**—**	16,407

24 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	2018 RMB'000	2017 RMB'000
Key management personnel remuneration (Note (i))	**2,357**	2,932
Operating lease charges	**—**	515
Receiving guarantees for loans and advances to customers	**1,000**	—
Receiving guarantees for bank loans (Note (ii))	**180,000**	—
Receiving guarantees for borrowing from third parties (Note (iii))	**594,132**	385,000
Receiving guarantees for debt securities issued	**—**	175,000
Releasing guarantees for loans and advances to customers	**(1,000)**	—
Releasing guarantees for debt securities issued	**—**	(450,000)
Releasing guarantees for borrowing from third parties (Note (iii))	**(552,308)**	(180,000)

Notes:

(i) Remuneration of key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 7 and certain of the highest payment employs as disclosed in Note 8. Total remuneration is included in "Staff cost" (see Note 5(a)).

(ii) The guarantees for bank loans during the year ended 31 December 2018 were provided by the Chairman of the Board without charges. For the details of bank loans, please refer to Note 18(i).

(iii) The guarantees for borrowings from third parties during the year ended 31 December 2018 were provided by the Chairman of the Board without charges. For the details of other borrowings from third parties, please refer to Note 18(ii).

(b) Balances with key management personnel

	31 December 2018 RMB'000	31 December 2017 RMB'000
Guarantees received for borrowing from third parties	**396,824**	355,000
Guarantees received for bank loans	**180,000**	—

24 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions

	2018 RMB'000	2017 RMB'000
Operating lease charges	**2,023**	1,254
Receiving guarantees for bank loans (Note (i))	**180,000**	260,000
Receiving guarantees for borrowing from third parties (Note (ii))	**594,132**	385,000
Receiving guarantees for debt securities issued	**–**	175,000
Releasing guarantees for bank loans (Notes (i))	**(180,000)**	(180,000)
Releasing guarantees for debt securities issued	**–**	(450,000)
Releasing guarantees for borrowing from third parties (Note (ii))	**(552,308)**	(180,000)

Notes:

(i) The guarantees for bank loans during the year ended 31 December 2018 were provided by other related parties of the Group without charges. For the details of bank loans, please refer to Note 18(i).

(ii) The guarantees for borrowings from third parties during the year ended 31 December 2018 were provided by other related parties of the Group without charges. For the details of other borrowings from third parties, please refer to Note 18(ii).

(d) Balances with other related parties

	31 December 2018 RMB'000	31 December 2017 RMB'000
Operating lease payable (Note (i))	**633**	1,144
Guarantees received for bank loans (Note (ii))	**180,000**	180,000
Guarantees received for borrowing from third parties	**396,824**	355,000

Notes:

(i) On 6 July 2017, the Company and Zuoli Holdings Group Company Limited entered into a lease agreement, pursuant to which Zuoli Holdings Group Company Limited agreed to lease a property to the Group for a term of 3 years commencing from 7 July 2017 and ending on 6 July 2020.

(ii) The guarantees for bank loans during the year ended 31 December 2018 were provided by other related parties of the Group without charges, which will be due during the period from 19 June 2019 to 3 July 2019.

25 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, the key sources of estimation uncertainty are as follows:

(a) Impairment of financial assets measured at amortised cost

The Group reviews portfolios of financial assets measured at amortised cost to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for financial assets measured at amortised cost. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for financial assets measured at amortised cost using the expected credit loss model is subjected to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. The expected credit losses for financial assets measured at amortised cost are derived from estimates whereby management takes into consideration historical data, the historical loss experience and other adjustment factors. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgment based on management's historical experience. Management reviews the selection of those parameters and the application of the assumptions regularly to reduce any difference between loss estimates and actual loss.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 1(l). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

25 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(c) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account estimated residual value. The useful lives and residual value are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation, the rate of depreciation is revised.

(d) Tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000
Assets			
Cash and cash equivalents		**2,548**	19,711
Available-for-sale financial assets		**—**	4,720
Interests receivables		**1,201**	15,929
Loans and advances to customers		**8,967**	1,129,806
Intangible assets		**2,214**	3,964
Fixed assets		**27,814**	28,345
Investments in subsidiary	14	**1,371,100**	371,100
Deferred tax assets		**3,371**	11,014
Other assets		**218,427**	438,187
Total assets		**1,635,642**	2,022,776
Liabilities			
Interest-bearing borrowings		**100,038**	492,344
Accruals and other payables		**14,872**	34,799
Current taxation		**7,324**	22,940
Total liabilities		**122,234**	550,083
NET ASSETS		**1,513,408**	1,472,693
CAPITAL AND RESERVES	21		
Share capital		**1,180,000**	1,180,000
Reserves		**333,408**	292,693
TOTAL EQUITY		**1,513,408**	1,472,693

27 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 1(c).

(Expressed in RMB'000, unless otherwise stated)

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to HKAS28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 16, Leases

As discussed in Note 1(h), currently the Group classifies the certain lease into operating lease and enters into as the lessee. Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of the lease for the certain office premise which is currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

HKFRS 16, Leases (Continued)

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise right-of-use assets based on lease liabilities. Therefore, there is no adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As discussed in Note 23(a), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB4.2 million for the certain office premise. Upon the initial adoption of HKFRS 16, both of the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB3.6 million, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

佐力科創小額貸款股份有限公司
Zuoli Kechuang Micro-finance Company Limited