# 中國金融發展(控股)有限公司
# CHINA SUCCESS FINANCE GROUP HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

*Stock Code：3623*

# ANNUAL REPORT 2019

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# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**

Mr. Zhang Tiewei *(Chairman)*
Mr. Li Bin *(Chief Executive Officer)*
Ms. Dai Jing
Mr. Xu Kaiying
Mr. Pang Haoquan

**Non-executive Director**

Mr. He Darong

**Independent non-executive Directors**

Mr. Tsang Hung Kei
Mr. Au Tien Chee Arthur
Mr. Xu Yan
Mr. Zhou Xiaojiang

## BOARD COMMITTEES

**Audit Committee**

Mr. Tsang Hung Kei (Chairman)
Mr. Au Tien Chee Arthur
Mr. Xu Yan

**Remuneration Committee**

Mr. Xu Yan (Chairman)
Mr. Zhang Tiewei
Mr. Tsang Hung Kei

**Nomination Committee**

Mr. Zhang Tiewei (Chairman)
Mr. Tsang Hung Kei
Mr. Xu Yan

## COMPANY SECRETARY

Mr. Pang Chung Fai Benny

## AUTHORISED REPRESENTATIVES

Mr. Li Bin
Mr. Pang Chung Fai Benny

## REGISTERED OFFICE

Fourth Floor, One Capital Place
P.O. Box 847, Grand Cayman
KY1-1103
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

604
6th Floor
Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

## STOCK CODE

3623

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

## HONG KONG SHARE REGISTRAR

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

## AUDITORS

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

## LEGAL ADVISERS

**As to Hong Kong law:**

Benny Pang & Co. in association with F. Zimmern & Co.

## PRINCIPAL BANKERS

Foshan Rural Commercial Bank Co. Ltd.

## COMPANY WEBSITE ADDRESS

http://www.chinasuccessfinance.com

# Financial Highlights

| | **FOR THE YEAR ENDED 31 DECEMBER 2019 (RMB'000)** | FOR THE YEAR ENDED 31 DECEMBER 2018 (RMB'000) | **CHANGE IN** |
|---|---|---|---|
| Revenue | **69,043** | 56,078 | 23.1% |
| Other revenue | **17,306** | 4,964 | >100% |
| (Loss)/Profit before taxation | **(463,393)** | 23,181 | <-100% |
| (Loss)/Profit for the year | **(431,249)** | 5,281 | <-100% |
| Total comprehensive (loss)/income for the year | **(433,177)** | 8,003 | <-100% |
| Basic (loss)/earnings per share *(RMB per share)* | **(0.82)** | 0.01 | <-100% |

| | **AS AT 31 DECEMBER 2019 (RMB'000)** | AS AT 31 DECEMBER 2018 (RMB'000) | **CHANGE IN** |
|---|---|---|---|
| Total assets | **2,151,341** | 1,938,278 | 11.0% |
| Total equity | **546,949** | 978,237 | -44.1% |

# Five-year Financial Summary

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| **Profitability data (RMB'000)** | | | | | |
| Revenue | **69,043** | 56,078 | 89,822 | 90,331 | 72,599 |
| (Loss)/Profit from operation | **(440,668)** | 5,674 | 32,542 | 32,416 | 30,009 |
| (Loss)/Profit before taxation | **(463,393)** | 23,181 | 32,343 | 32,023 | 35,216 |
| (Loss)/Profit for the year | **(431,249)** | 5,281 | 15,651 | 19,045 | 24,333 |
| Basic (loss)/earnings per share *(RMB per share)* | **(0.82)** | 0.01 | 0.03 | 0.04 | 0.06 |
| **Profitability ratios (%)** | | | | | |
| Operating profit margin *(Note 1)* | **(671.2)** | 41.3 | 36.0 | 35.5 | 48.5 |
| Net profit margin *(Note 2)* | **(624.6)** | 9.4 | 17.4 | 21.1 | 33.5 |
| Effective tax rate *(Note 3)* | **6.9** | 77.2 | 51.6 | 40.5 | 30.9 |
| Return on total assets *(Note 4)* | **(20.0)** | 0.3 | 1.5 | 1.9 | 2.8 |
| Return on shareholders' equity *(Note 5)* | **(78.8)** | 0.5 | 1.6 | 2.0 | 2.9 |
| Cost to income ratio *(Note 6)* | **78.4%** | 93.6% | 58.5% | 62.1% | 60.9% |
| **Operating ratios (as percentage of turnover) (%)** | | | | | |
| Staff costs | **32.2** | 43.0 | 30.7 | 28.0 | 25.6 |
| **Assets and liabilities data (RMB'000)** | | | | | |
| Total assets | **2,151,341** | 1,938,278 | 1,037,051 | 991,100 | 878,939 |
| Total liabilities | **1,604,392** | 960,041 | 77,136 | 34,784 | 36,112 |
| Net assets | **546,949** | 978,237 | 959,915 | 956,316 | 842,827 |
| **Assets and Working Capital data (%)** | | | | | |
| Return on assets *(Note 7)* | **(20.0)** | 0.3 | 1.6 | 2.0 | 2.8 |
| Return on equity *(Note 8)* | **(56.4)** | 0.6 | 1.7 | 2.2 | 3.2 |

*Notes:*

1. Operating profit margin is calculated based on dividing (loss)/profit before taxation by revenue and multiplied by 100%.
2. Net profit margin is calculated based on dividing the (loss)/profit for the year by revenue and multiplied by 100%.
3. Effective income tax rate is calculated based on dividing the income tax by the (loss)/profit before taxation and multiplied by 100%.
4. Return on total assets is calculated based on dividing (loss)/profit for the year by the total assets and multiplied by 100%.
5. Return on shareholders' equity is calculated based on dividing (loss)/profit for the year by the total equity and multiplied by 100%.
6. Cost to income ratio is calculated based on dividing operating expenses after deducting tax and surcharges by revenue and multiplied by 100%.
7. Return on assets is calculated based on dividing (loss)/profit attributable to equity shareholders of our Company by total asset and multiplied by 100%.
8. Return on equity is calculated based on dividing (loss)/profit attributable to equity shareholder of our Company by the weighted average balance of total equity as at the beginning and end of the relevant year and multiplied by 100%.

# Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of China Success Finance Group Holdings Limited (the "**Company**" or "**China Success Finance**"), I am pleased to present the audited annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019.

In 2019, against the backdrop of sluggish global economic growth, major and emerging economies faced increasing downward pressure. Despite the stable and encouraging job markets in major economies and steadily decreasing price levels, uncertain factors such as persistent trade disputes and geopolitical tensions undermined international trade and investment growth, as well as suppressed global demand.

The Chinese Government continued to push forward its supply-side structural reform, with the aim to improve the quality and efficiency of the supply system, reinforce economic growth momentum, whilst moving towards the goal of economic transformation and upgrades. In order to optimise financing environment, the People's Bank of China whipped up financial support to the real economy through counter-cyclical adjustments. Unfortunately, measures including tax and fee deductions and supervision over hidden debts suppressed income of local governments. Private and small and medium enterprises continued to encounter strenuous financing difficulties, while the society remained in a whirlwind of problems including slowdown of manufacturing activities and rising price levels. Overall, China's economy was generally stable as its gross domestic product grew by 6.1% year-on-year, with major targets meeting expectations.

Amidst unpredictability in domestic and global markets, the Group seized market opportunities to actively foster business exploration and innovation and steadily advance business operations, resulting in improved quality and efficiency in business and management. During the year, the Group was devoted to developing its traditional businesses with multi-pronged approach, whilst ardently propelling the growth of its innovative businesses and making great strides in integrated services for the Greater Bay Area. Through constantly refining its operational management, the Group strived to provide customers with comprehensive, professional and efficient financial services as usual.

As for guarantee business, Guangdong Success Finance Guarantee Company Limited ("**Success Guarantee**") captured the market opportunities and devoted more resources to explore financial technology. It provided customers with professional, personalised and efficient products and services through adopting an innovation-oriented approach, successfully realising a remarkable growth in number of customers. Income of guarantee business grew by approximately 161.3% year-on-year, reaching its new record high. Meanwhile, Success Guarantee readied itself for larger-scale business collaboration and new business development by earnestly expanding market share and enhancing its core competitiveness. During the year, the Chinese Government employed multi-front strategies to further regulate the financing guarantee industry. Furthermore, the establishment of the Foshan Financing Guarantee Fund is set to facilitate a stable operation of the industry, meanwhile effectively supporting the buildout of inclusive finance.

Regarding to financial leasing and factoring business, in response to market changes, Shenzhen Success Financial Leasing Company Limited ("**Success Financial Leasing**") leveraged its distinct edges in terms of competitive traditional business and resources from both Mainland China and Hong Kong, to continuously optimise product structure and improve service quality and efficiency. Thanks to the "Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area" issued by the State Council in February 2019, and the "Implementation Suggestions on Developing Guangdong-Hong Kong-Macao Greater Bay Area" and "A 3-year Action Plan" issued by Guangdong Government in July 2019, there have been ample opportunities in financial leasing industry. Success Financial Leasing thus devised plans, continuously providing customers with professional and specialised leasing and factoring services, in order to meet the huge demand in the construction of the Greater Bay Area.

In addition, the Group made full use of the window of opportunity to make an equity investment in the Success Science and Technology Innovation Park Project, which is one of the benchmarking projects of the Shunde Village-level Industrial Park,enabling the Group to enjoy the economic value-added and social benefits brought about by the "Three Old Redevelopment". Coupled with its traditional advantages, the Group managed to further enhance its comprehensive strength.

Since the general market and economic environment witnessed tremendous changes, the probability of recovering certain assets was expected to decrease. As a prudent measure, a substantial provision for impairment loss was recognised in 2019. Additionally, the Group's investment in associated enterprises recorded losses. With the growth of major operations not able to offset the impact from abovementioned two items, a net loss was reported for the year under review. The Group will continuously strive for more income to maximise returns for the shareholders.

Looking forward to 2020, the outlook for the global economy remains uncertain. The market will continue to be crippled by unfavourable factors such as trade tensions, the wider employment of negative interest rates, unpredictable geopolitical risks and the outbreak of Coronavirus. While investors worldwide generally remain doubtful about economic growth prospects, and monetary easing policies become ineffectual to stimulate economic recovery, the major economies will continue to face downward pressure, curbing the growth of other economies.

Fortunately, in order to ensure that the economy grows at a reasonable level and ease the downward pressure of economy, the Chinese Government continues to focus on supply-side structural reform, coordinating and advancing stable growth, encouraging reform, adjusting structure, improving livelihood, preventing risks and maintaining stability. The recent outbreak of the Coronavirus has posed certain negative impacts on domestic consumption and investments. However, as the market gradually rehabilitates, together with the Chinese Government's supportive fiscal and financial policies, the long-term positive trend of China's economy will be sustained.

# Chairman's Statement

Through capitalising on its competitiveness and synergies, the Group will forge its business development through utilising various channels, and make every endeavour to improve its ability to provide comprehensive financial services to small, medium and micro enterprises. In 2019, the regulators re-conducted qualification assessment and validation for financing guarantee companies. Success Finance was verified to meet all financing guarantee companies related requirements issued by the regulatory authority, and obtained financing guarantee business license approved and renewed under new standards issued by Guangdong Financial Supervisory Authority in February 2020. The issuance of license enables Success Finance to carry out relevant business legally, thus creating more opportunities for the Group's major business.

Moreover, the Group will unceasingly strengthen its traditional businesses, while actively innovating business products to enhance its flexibility and resilience. In the future, the Group will continue to ride on the national policies and take root in the Greater Bay Area, in order to tap into the ample opportunities created thereafter. The Group will proactively identify and seize suitable investment opportunities by means of share purchases or acquisitions, bolster the integration of traditional industry construction and financial services, and develop highly value-added businesses through investing in high-tech agricultural projects, with a view to lifting the Group's integrated competitiveness.

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to all shareholders, clients, business partners and staff for their full support. Leveraging our extraordinary development strategy and elite team, I am confident that the Group can continue to seize market opportunities and overcome difficulties ahead, thereby realising its best potential and consolidating its core competitiveness. Meanwhile, the Group will also explore new business growth impetuses, as well as creating long-term value for the investors and shareholders.

## BUSINESS REVIEW

### Overview

In 2019, global economy continued to witness sluggish growth. Hindered by trade tensions and feeble investment growth, there was persistent slowdown in major economies, whilst emerging markets faced mounting downward pressure. The global economic growth was constrained by aggressive unilateralism and protectionism trade policy of the U.S. government, ineffectual monetary and fiscal policies in developed economies, as well as lack of global demand. Meanwhile, job markets in major economies remained steady and promising, price levels slightly declined at a steady rate, whilst the international monetary system becomes increasingly diversified. Nevertheless, global economic growth was clouded with uncertainties. Intensifying trade protectionism, escalating geopolitical tensions and structural hindrances in developed economies have put the global economy under unrelenting pressure.

Amidst complexity and unpredictability in domestic and global markets, China's economy was generally stable with increasingly refined development. The gross domestic product ("GDP") in China grew by 6.1% year-on-year to nearly RMB100 trillion while its GDP per capita reached USD10,000 in 2019, with major targets meeting expectations. China also continued to push forward its supply-side structural reform and made remarkable progress in transformation and economic upgrades. Investments in fixed assets and infrastructure were mostly stable; however, tax and fee deductions and local governments' intensified supervision over hidden debts suppressed income growth of local governments, and hence the growth of infrastructure investment was lagging behind market expectations. Since 2019, The People's Bank of China made counter-cyclical adjustments through monetary policies such as lowering the required reserve ratio and the loan prime rate to whip up financial support to the real economy and improve the financing condition. Unfortunately, the financing market in private sector and SMEs remained challenging. Although positive signs were seen in economic development, thorny issues including slowdown in growth of manufacturing activities amidst its stable development, rising price levels, rising imbalances among regional growth and uncertainties in China-U.S. trade deadlock were still non negligible, posing downward pressure to the economies.

During the year, the Group closely monitored the changes in national and overseas economic conditions to capture market opportunities and facilitate its transformation to cater market demand. The Group also continued to focus on actively developing traditional businesses, propelling integrated services for the Greater Bay Area, strengthening cooperation mechanism, and enhancing its competitiveness through mergers and acquisitions. Meanwhile, the Group constantly refined its operational management to provide comprehensive, professional and efficient financial services to customers.

# Management Discussion and Analysis

## INDUSTRY AND BUSINESS REVIEW

### Guarantee Business

In order to fully enact the "Regulation on the Supervision and Administration of Financing Guarantee Companies" and supervise institutions conducting financing guarantee business and the related industry, nine government departments including China Banking and Insurance Regulatory Commission ("CBIRC") jointly issued the "Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies" in October 2019. According to which, institutions providing financing guarantee services without applicable business licenses, such as real estate guarantee companies and credit enhancement companies, were included into the supervision scheme. The government strictly implements license administration in financing guarantee industry for tighter regulation of the operation of financing guarantee market, towards a sound operation of the industry that will eventually better support the development of inclusive finance.

In 2019, conforming to the dynamic trend in the market, Success Guarantee actively explored financial technology by devoting more resources, which turned into promising results. The number of customers and business scale grew more quickly compared with that of 2018. In the field of financial technology, Success Guarantee doubled its effort on expanding the business through measures including building a stronger technical team, optimising the business operation procedures and continuously upgrading the operating system. It also doubled its effort on broadening and deepening financial technology business through applying science and technology, with a view to providing customers with personalised products and services based on their diversified needs. Furthermore, in capturing the opportunities brought by national policies and the establishment of the Foshan Financing Guarantee Fund, Success Guarantee continued to develop traditional guarantee business and sustain volume, whilst proactively seeking technological solutions to explore new business models and improve its efficiency, thus gaining widespread market recognition and multi-party cooperation opportunities, and further expanding market share and improving core competitiveness.

### Financial Leasing and Factoring Business

To strictly regulate the operation of financial leasing companies, integrate related operating and regulatory rules, and promote a stable and orderly development of the industry, CBIRC issued the "Interim Rules on Financial Leasing Companies (Draft for Comments)" in early January 2020, which includes four aspects namely improving operating regulations, implementing benchmark restrictions, launching case classification and reinforcing supervision and management. Followed by the policy promulgation, financial leasing companies should refocus on their main businesses and enhance their professional operating capabilities, in order to better achieve the capacity of the financial leasing service in assisting the development of manufacturing industry fostering industrial upgrading, and serving the real economy.

In 2019, Success Financial Leasing gave full play to its integrated development advantages, along with the needs of constructing the Greater Bay Area, to further optimise the product structure, and provide customers with professional and specialise leasing and factoring services to clients, thereby satisfying the demand for financial leasing services in building the Greater Bay Area.

### Financial Consultancy and Housing Financing Business

In response to market changes, the Group scaled down its financial consultancy business and gradually retreated from the housing financing business, while promptly reallocating resources into developing other new businesses.

### Developing Asset Management Business

A number of comprehensive policies relating to the new asset management regulations were launched in 2019. Leveraging its experience in asset management sector, the Group constantly enhanced its professional and specialised services and grasping the development opportunities arising from the industry reform pushed forward by the implementation of the new regulations. The Group capitalised on the distinct edge in terms of resources from Mainland China and Hong Kong, to propel its development of its asset management business and lift its competitiveness in the market.

### Developing Integrated Services for the Greater Bay Area

The State Council issued “Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area” in February 2019, introducing a comprehensive plan for the strategic positioning, development goals, and spatial layout of the Greater Bay Area. Guangdong government issued “Implementation Suggestions on Developing Guangdong-Hong Kong-Macao Greater Bay Area” and “A 3-year Action Plan” in July 2019, entailing the official announcement of "Blueprint" and "Mission letters" for the construction of the Guangdong-Hong Kong-Macao Greater Bay Area. Seizing the opportunities to realise business advancement, the Group devised plans for the provision of integrated financial services in the Greater Bay Area beforehand, made use of the resources from both Mainland China and Hong Kong to actively provide professional and high-quality resource allocation services, and contributed to the construction of the Greater Bay Area.

### Reinforcing Cooperation Mechanism

In 2019, the Group actively devised plans in the field of financial technology, fully explored diversified cooperation models, enriched product chains and established solid partnerships with an increased number of financial institutions and fintech companies. Through turning technology into one of its competitive edges, the Group managed to provide customers with comprehensive, efficient integrated financial services. Meanwhile, by utilising technological tools including the internet, big data and cloud computing, the Group successfully made constant improvements to its risk management system, boost efficiency in risk control, which will foster its business development and seek opportunities to pursue diversified cooperation.

### Strengthening through Investments, Mergers and Acquisitions

In recent years, remarkable achievements have been made in the “Three Olds Redevelopment” in Guangdong Province. The provincial and local governments have successively introduced multi-pronged measures to optimise relevant policies, accelerated the utilisation of various urban construction lands with low efficiency, and increased the land output rate, thus facilitating a high-quality economic development. In 2019, the Group made full use of the window of opportunity to make an equity investment in Success Science and Technology Innovation Park Project, which is one of the benchmarking projects of the Shunde Village-level Industrial Park, to enjoy the increasing economic value-added and social benefits brought about by the project upgrade of “Three Olds Redevelopment”. Coupled with its traditional advantages, the Group managed to further enhance its comprehensive strength.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2019, the Group's revenue was approximately RMB69.0 million (year ended 31 December 2018: approximately RMB56.1 million), representing an increase of approximately 23.1%. Detailed analysis of the Group's revenue is as follows:

***Financial guarantee services***

Revenue from the Group's financial guarantee services was mainly generated from the service fees charged for our financial guarantee services. For the year ended 31 December 2019, the Group's net revenue generated from financial guarantee services was approximately RMB79.5 million (year ended 31 December 2018: approximately RMB27.0 million), representing an increase of approximately 194.4%. Revenue from financial guarantee business significantly increased in 2019, mainly attributable to the fact that Success Guarantee actively explored financial technology by devoting more resources, improved service efficiency and developed new business mode by harnessing the power of technology, hence expanding market share and increase the revenue of the Company.

In 2019, the Group received interest income of approximately RMB0.3 million from receivables (year ended 31 December 2018: approximately RMB 0.4 million). Interest income from receivables remains basically unchanged compared with the corresponding period of last year.

***Non-financial guarantee services***

Revenue from the Group's non-financial guarantee services was mainly generated from the service fees charged for providing customers with performance guarantees in relation to the performance of payment obligations and litigation guarantees. For the year ended 31 December 2019, the Group's revenue generated from non-financial guarantee services decreased by approximately 69.8% to approximately RMB1.3 million (year ended 31 December 2018: approximately RMB4.3 million). Compared with the same period of last year, the decrease in non-financial guarantee services was due to the fact that Success Guarantee made adjustments to its product structure based on market evolution trend and focused on the new business, resulting in changes in the performance and revenue of performance guarantee business and the litigation guarantee business.

***Financial consultancy business***

Revenue from the Group's financial consultancy services was mainly generated from the service fees charged for providing customers with financial consultancy services by the Group. For the year ended 31 December 2019, the Group's revenue generated from financial consultancy services was approximately RMB1.3 million (year ended 31 December 2018: approximately RMB5.6 million). Revenue from the Group's financial consultancy services experienced a decrease in 2019 because most of the original business of the Group's financial consultancy services had expired and the new business decreased as compared with the same period of last year due to changes in the market environment, resulting in a decrease in revenue.

***Financial leasing and factoring business***

Revenue from the Group's financial leasing services was mainly generated from the rental fees charged by the Group in its provision of financial leasing services to customers. For the year ended 31 December 2019, revenue from the Group's financial leasing and factoring business decreased by approximately RMB15.0 million to approximately RMB9.4 million (year ended 31 December 2018: approximately RMB24.4 million).

Meantime, revenue from factoring business was approximately RMB4.1 million in 2019.

The decrease in the revenue from the financial leasing and factoring services of the Group in 2019 as compared to 2018 was mainly due to the fact that most of the original business of financial leasing and factoring services had expired and the new business decreased as compared to the same period of last year due to changes in the market environment, resulting in a decrease in revenue.

***Interest income from down payments for investment***

The Group's Interest income from down payments for investment was mainly generated from interest of prepayments for potential acquisition of projects under negotiation. For the year ended 31 December 2019, the Group did not receive any interest income from down payments for investment.

**Other Revenue**

The Group's other revenue comprised fair value gain on modification of the terms of convertible bonds, interest income from bank deposits, interest income from related parties, government grants and others. For the years ended 31 December 2018 and 2019, the Group's other revenue were approximately RMB5.0 million and RMB17.3 million, respectively, representing an increase of approximately 246.0%. The increase in other revenue was mainly attributable to other gains arising from completing by the Group of the amendments to the terms and conditions of the convertible bonds on 11 January 2019 and the increase in interest income from bank deposits due to the increase in cash and bank deposits of the Group in 2019.

### Impairment and Provision (Charged)/Written Back

Impairment and provision mainly represents the provision charged/(written back) for guarantees issued and the impairment provision for receivables from guarantee payments, factoring receivable and finance lease receivable, trade and other receivables where it is likely that the customers or other parties are in financial difficulties and recovery was considered to be remote. In the event that any impairment and provision was made in the previous years but subsequently recovered, impairment and provision previously made will be written back in the year in which the relevant amount is recovered. The Group's provision for impairment losses in FY2019 amounted to RMB471.9 million, representing an increase of approximately RMB469.6 million from approximately RMB2.3 million in FY2018. Provision for impairment losses of approximately RMB471.9 million in FY 2019 was analyzed as follows:

***Provision charged/(written back) for guarantees issued***

The Group's provision for guarantee liability based on existing guarantee balance during the year was approximately RMB2.9 million (2018: RMB1.6 million was written back).

***Receivables from guarantee payments***

Receivables from guarantee payments mainly represent the default loan amount repaid by the Group on behalf of our customers. Upon default by a customer in respect of repayment of a bank loan, according to the relevant guarantee agreement, the outstanding balance shall be firstly paid by the Group on behalf of our customers. The Group will then subsequently request repayment from our customers or take possession of the counter-guarantee assets provided by such customers to recover the outstanding balance. Receivables from guarantee payments were interest bearing and the Group holds certain collaterals over certain customers. The net book value of receivables from guarantee payments decreased from approximately RMB232.7 million as at 31 December 2018 to approximately RMB63.6 million as at 31 December 2019. The Group's provision for impairment losses for receivables from guarantee payments was approximately RMB167.2 million in 2019 (2018: approximately RMB1.6 million).

***Factoring receivable***

The Group's provision for impairment losses for factoring receivable based on factoring balance receivable at the end of 2019 was approximately RMB26.4 million (2018: approximately RMB0.8 million).

***Finance lease receivable***

The Group's provision for impairment losses for finance lease receivable based on balance of finance lease receivable at the end of 2019 was approximately RMB140.5 million (2018: approximately RMB1.8 million).

***Trade and other receivable***

The Group's provision for impairment losses for trade and other receivable was approximately RMB129.1 million in 2019, mainly include provision for impairment for trade receivable of approximately 62.0 million and provision for impairment for other receivable of approximately RMB67.1 million. Among the provision for impairment of trade receivables, approximately RMB50.0 million was the deposit from the potential acquisition under negotiation. For details of such potential acquisition under negotiation, please refer to the announcements dated 28 December 2015 and subsequent related announcements of the Company in relation to the proposed joint venture.

***Impairment of goodwill***

During the year, as the business performance of subsidiaries of the Group did not meet the requirement and no substantive progress has been made, the provision of impairment for goodwill of approximately RMB5.8 million formed at the merger date was made in full.

**Operating Expenses**

For the year ended 31 December 2019, the operating expenses of the Group was approximately RMB55.0 million (for the year ended 31 December 2018: approximately RMB53.1 million). The Group upheld the cost-efficient principle, the operating expenses was analyzed as follows:

The salaries of the Group was approximately RMB22.2 million for the year ended 31 December 2019, representing a decrease of 7.9% as compared to that of approximately RMB24.1 million in the same period of the last year.

For the year ended 31 December 2019, other operating expenses of the Group was approximately RMB32.8 million (for the year ended 31 December 2018: approximately RMB 29.0 million). Among which, rentals and exchange gains and losses was approximately RMB1.9 million and RMB0.3 million respectively, representing a decrease of 54.3% and 92.9% respectively; intermediary consulting expense and entertainment expense was approximately RMB16.5 million and RMB2.7 million respectively, representing an increase of 129.8% and 71.3% respectively. In 2019, the increase of intermediary consulting expense as compared to that of the same period of the last year was mainly due to the significant increase of data service expense related to the data storage with the business growth of Success Guarantee.

**Share of Losses of Associates**

The share of losses of associate amounted to a loss of approximately RMB27.1 for the year ended 31 December 2019, representing a decrease of approximately RMB28.7 million from a profit of approximately RMB1.6 million for the year ended 31 December 2018. The increase in share of losses of associates was mainly from the Group's associate - Success Credit.

**(Loss)/Profit Before Taxation**

The Group's (loss)/profit before taxation decreased by approximately RMB486.6 million, or approximately 2,097.4%, from approximately RMB23.2 million for the year ended 31 December 2018 to a loss of approximately RMB463.4 million for the year ended 31 December 2019. The loss was mainly attributable to (i) the Group's provision for impairment losses in 2019 increased significantly as compared to the same period of last year, among which the Group's provision for impairment losses in 2019 amounted to RMB471.9 million, representing an increase of approximately RMB469.6 million from approximately RMB2.3 million in 2018, and (ii) the Group's investment in associates recorded a net loss in 2019.

### Income Tax

For the year ended 31 December 2019, the Group's income tax expense amounted to approximately RMB-32.1 million, representing a decrease of approximately 279.3% from approximately RMB17.9 million of income tax expense in the corresponding period of 2018. The decrease in income tax is mainly attributable to the significant deferred income tax assets arising from the provision of impairment losses made by certain subsidiaries of the Group in 2019, making the deferred income tax expense has significant impact on the overall income tax.

## LIQUIDITY AND CAPITAL RESOURCES

### Treasury Management and Investment Policy

In order to more effectively utilise the Group's financial resources for obtaining a better return for the shareholders, it has been the Group's general approach that our management will seek for some alternative investment opportunities which could provide a better return but at minimum risk exposure.

### Pledged Bank Deposits and Cash and Bank Deposits

As at 31 December 2019, the current pledged bank deposits amounted to approximately RMB95.3 million (31 December 2018: approximately RMB86.2 million), representing an increase of approximately RMB9.1 million as compared to the end of last year. Cash and bank deposits amounted to approximately RMB1,067.3 million (31 December 2018: approximately RMB719.1 million), representing an increase of approximately RMB348.2 million, as compared to the end of last year. The increase in cash and bank deposits was mainly due to the new business entered into between Success Guarantee and its customers, and the new customers placed pledged deposits for collaboration in the Group for new projects.

### Interest Rate Risk and Foreign Exchange Risk

As at 31 December 2019, the Group's interest rate primarily related to interest-bearing bank deposits and pledged bank deposits.

The Group's businesses for the year ended 31 December 2019 were principally conducted in RMB, while most of the Group's monetary assets and liabilities were denominated in HKD and RMB. As the RMB is not a freely convertible currency, any fluctuation in the exchange rate of HKD against RMB may have impact on the Group's result. Although foreign currency exposure does not pose a significant risk on the Group and currently, the Group does not have hedging measures against such exchange risks, the Group will continue to take proactive measures and monitor closely the risk arising from such currency movement.

### Gearing Ratio

The Group's gearing ratio (total liabilities divided by total equity) increased from approximately 98.1% as at 31 December 2018 to approximately 293.3% as at 31 December 2019, which was mainly due to the increase in total liabilities and the decrease in total equity. The increase in total liabilities was mainly attributable to the increase in liabilities from guarantee (deferred income) and pledged deposits payable to cooperative companies. The decrease in total equity was mainly caused by the increase in impairment charges on trade and other receivables.

## HUMAN RESOURCES AND REMUNERATION POLICIES

The Group recruits personnel from the open market and enters into employment contracts with them. The Group offers competitive remuneration packages to employees, including salaries and bonuses to qualified employees. The Group also provides training to the staff on a regular basis to enhance their knowledge of the financial products in the market and the applicable laws and regulations in relation to the industry in which the Group operates.

The Group maintained stable relationship with its employees. As at 31 December 2019, the Group had 48 full-time employees. Compensation of the employees primarily includes salaries, discretionary bonuses, contributions to social insurance and retirement benefit scheme. The Group incurred staff costs (including Directors' remuneration) of approximately RMB 22.2 million for the year ended 31 December 2019.

The Company has adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme as an incentive to the Directors and eligible employees.

## SOCIAL ENTERPRISE

While serving the local economic development and supporting micro, small and medium sized enterprises, the Group was also actively participated in charitable activities to fulfil social responsibilities, thereby establishing a good social image. Every year, Success Charity Foundation (集成愛心基金), which was voluntarily initiated by shareholders and employees of the Group, gives help and support to employees in need. It provides timely support and assistance to families of employees who suffer from serious illnesses or accidental injuries, and goes through difficult times with the employees and their families. In respect of poverty alleviation efforts, the Group sent representatives to visit Butuo County, Liangshan Prefecture, Sichuan Province to assist in poverty alleviation work, donated funds supporting industry development in villages under the pair-up support scheme, and supported the underprivileged students to help Liangshan Yi Autonomous Prefecture of Sichuan Province out of poverty. In addition, Mr. Zhang Tiewei, Chairman and Executive Director of the Group, has been teaching as an off-campus tutor of the master's degree of finance of Guangdong University of Finance and Economics to nurture brilliant students in joint efforts with higher institutions, assist students in developing the habit and thinking which integrate both theories and practices in learning, encourage students to tap into professional knowledge, train up their leadership skills and foster innovation and high moral standards. Furthermore, Mr. Zhang Tiewei also served as a supervising member of the Narcotics Association of Chancheng District in Foshan, contributed to drug prohibition efforts of Foshan by participating in anti-drug promotional events that enhanced the level of public knowledge on drugs.

## PROSPECTS AND OUTLOOK

### Macro Outlook

Looking forward to 2020, major economies will continue to face downward pressure, while monetary easing policies become ineffectual to stimulate economic recovery. Affected by the slowdown of major economies, other economies will find it challenging to achieve strong pick-up. Factors including emergence and spread of negative interest rates, persistent trade tensions, turbulence in international financial markets, uncertain geopolitical risks and political conflicts in certain countries will negatively impact global economic development in 2020.

# Management Discussion and Analysis

In 2020, China will build a moderately prosperous society in all respects and conclude the "Thirteenth Five-Year Plan", while three tough battles will enter the final stage. Building on its existing foundation and the impetus brought by reform and opening-up, China will strive to adhere to its new development strategy and push forward its supply-side structural reform. The government will also implement proactive fiscal policy and prudent monetary, employment, industry and regional policies, as well as doubling its efforts in "Six Stabilities", which include promoting steady growth, encouraging reform, adjusting structure, improving livelihood, preventing risks and maintaining stability. Such initiatives are to ensure that China's economy will grow at a reasonable level, in hopes of building a moderately prosperous society in all respects and bringing a successful closing to "Thirteenth Five-Year Plan".

Dragged by the coronavirus disease outbreak at the beginning of 2020, domestic consumption and investment will be dampened in short term, as unpredictable impact will be felt across certain industries. The Chinese government promptly launched a series of fiscal and tax measures to lend policy and financial support to overcome the epidemic and realise economic recovery. The long-term positive trend of China's economy will sustain. In 2020, the downward pressure on the economy will remain but gradually alleviate, thanks to the positive impacts brought by cyclical factors and the counter-cyclical adjustment policy.

In 2020, facing uncertainties in the domestic and international economic and financial industries, the Group will continue to forge steady development of traditional businesses, grow its asset management business, devise plan for the build-up of the Greater Bay Area and bolster the Group by means of investments, mergers and acquisitions, in order to enhance competitiveness and achieve high-quality development.

**Steadily Developing Traditional Businesses, while Actively Innovating Products**

The Group will seize opportunities to steadily develop traditional businesses, and actively respond to government's policy in supporting micro, small and medium sized enterprises, through utilising operational channels such as guarantee, financial leasing and factoring, improving resource allocation and actively crafting new products, thereby enriching the Group's capability to offer integrated financial services to micro, small and medium sized enterprises.

For guarantee business, Success Guarantee will continue to explore and invest more in financial technology, closely follow the latest market trend, actively develop new products and build a diversified client base, while applying technology to optimise systems, refine risk management system and increase risk control efficiency. Meanwhile, riding on the favourable national policy and the establishment of Foshan Financing Guarantee Fund, Success Guarantee will continue to develop its traditional guarantee business. With micro, small and medium sized enterprises as target clients, the Group will strive to explore clients' demand and launch a wider variety of new products, thus offering more comprehensive financial services to them.

In terms of financial leasing and factoring business, the Group will continue to play to its strengths in resource allocation and provide customers with professional and specialised financial services on the construction demand of the Greater Bay Area.

**Developing Asset Management Business**

The year of 2020 is critical for China to accelerate opening-up of the financial market and implement new regulations on asset management, therefore an expedited reform is expected in the sector. In response, the Group will seize the development opportunities from industry restructuring under the implementation of new regulations, and adopt financial technology for the continuous improvement in product innovation and differentiation, thus meeting the requirements under fierce market competition in the new era.

**Propelling Integrated Services for the Greater Bay Area**

The Group will continue to grasp market opportunities and benefit from the policy change for the Greater Bay Area. It will also conduct strategic planning for providing integrated financial services in the Great Bay Area, whilst expanding comprehensive and diverse financial services to support enterprises in the area, as well as contributing in the construction of the Greater Bay Area,

**Strengthening through Investments, Mergers and Acquisitions**

In 2020, the Group will take market opportunities and adhere to its long-term development strategy to explore new investment opportunities by strategically setting up funds and through share purchases or acquisitions. The Group sets its sights on bolstering the integration of traditional industry construction and financial services, to explore new businesses and income in booming industries, thus elevating the Group's overall strengths.

# Management Discussion and Analysis

## USE OF PROCEEDS

### USE OF PROCEEDS FROM THE ISSUANCE OF CONVERTIBLE BONDS ON 1 FEBRUARY 2018

On 1 February 2018, the Company issued convertible bonds in an aggregate principal amount of HKD154 million under general mandate. The net proceeds, after deducting the administration fee of HKD1,540,010, were HKD152,459,990, and had been fully used as at 31 August 2019.An analysis of the planned amount utilized up to 31 December 2019 is set out below:

| Intended use of the placing proceeds | Planned allocation (HK$ in million) | Actual utilization (HK$ in million) | Actual utilization up to 31 December 2018 (HK$ in million) | Unutilized placing proceeds as at 31 December 2018 (HK$ in million) | Actual utilization up to 30 June 2019 (HK$ in million) | Unutilized placing proceeds as at 30 June 2019 (HK$ in million) | Actual utilization up to 31 August 2019 (HK$ in million) | Unutilized placing proceeds as at 31 December 2019 (HK$ in million) | Expected timeline for the unutilized placing proceeds |
|---|---|---|---|---|---|---|---|---|---|
| Pursuing suitable acquisition and partnership opportunities | 7.6 | 5.5 | 5.5 (note 1) | — | — | — | — | — | N/A |
| Utilized as additional net assets value, register capital and/or paid-in capital | 68.6 | 73.2 | 73.2 (note 2) | — | — | — | — | — | N/A |
| Repayment of principal and interest of convertible bonds and handling charges | 15.1 | 25.1 (note 6) | 15.0 (note 3) | 10.1 | 5.8 (note 4) | 4.3 | 4.3 (note 5) | — | N/A |
| Utilized as general working capital of the Group | 61.2 | 48.7 | 31.6 | 17.1 | 14.0 | 3.1 | 3.1 | — | N/A |
| Total | 152.5 | 152.5 | 125.3 | 27.2 | 19.8 | 7.4 | 7.4 | — | |

Notes:

1. the HK$5.5 million utilized for the acquisition of T. M. Management Limited (the "**TM Management**"), a licensed financial institution having relevant license for the Type 9 regulated activities under the Securities & Futures Commission of Hong Kong. The Group acquired all ordinary shares of the TM Management to further extend the existing business scope of the Group.

2. the HK$73.2 million utilized for increasing the registered capital of Success Guarantee, a wholly owned subsidiary of the Group. The purpose of this use of proceeds is to enrich the Company's capital strength base to facilitate the active exploration of new business in the market with the use of new financial technologies in the favourable environment of increased financial compliance requirements. Success Guarantee will be able to undertake a larger scale of guarantee business through this capital increase.

3. the HK$15.0 million utilized comprised HK$5.0 million for repayment of interest payment of convertible bonds and HK$ 10.0 million for repayment of principal of convertible bonds.

4. the HK$5.8 million utilized for repayment of interest payment of convertible bonds and handling charges.

5. the HK$4.3 million utilized for repayment of interest payment of convertible bonds.

6. the 66.2 percent increase of the actual utilization in comparison with the initial planned allocation is from the decision of the management of the Company to repay the principal of the convertible bonds. The management of the Company has confidence that repayment of principal in advance would improve the fund use efficiency of the Group.

# Report of the Directors

## FAIR REVIEW OF BUSINESS

A fair review of the business of our Group as well as discussion and analysis of our Group's performance during the year ended 31 December 2019 and the material factors underlying its financial performance are set out in the "Chairman Statement" and the "Management Discussion and Analysis" sections of this annual report.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of our Group are the provision of financial and non-financial guarantees services, financial leasing and financial consultancy services in China.

## FINANCIAL RESULTS

The results of our Group for the year ended 31 December 2019 and the state of our Group's affairs as at that date are set out in the consolidated financial statements on pages 69 to 176 of this annual report.

## CASH FLOW POSITION

The cash flow position of our Group for the year ended 31 December 2019 is set out and analysed in the consolidated cash flow statements set out on pages 74 of this annual report.

## DIVIDENDS

The Board has resolved not to declare a final dividend by the Company for the year ended 31 December 2019.

## PROFESSIONAL TAX ADVICE RECOMMENDED

For any taxation implications of purchasing, holding, disposing of, dealing in the shares of our Company, shareholders should consult an expert.

## SUBSIDIARIES

Details of our Company's principal subsidiaries as at 31 December 2019 are set out in note 15 to the financial statements.

## CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from 15 May 2020 to 21 May 2020 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's 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, for registration no later than 4:30 p.m. on 14 May 2020.

## DISTRIBUTABLE RESERVES

As at 31 December 2019, the aggregate amount of the distributable reserves of our Company was approximately RMB376.5 million. Movements in the distributable reserves of our Group during the year are set out in note 28(i) and note 32 to the financial statements.

## RESERVES

Movements in the reserves of our Group during the year are set out in the consolidated statement of changes in equity on page 73 of this annual report.

## EQUIPMENT

Details of the movements of equipment of our Group for the year ended 31 December 2019 are set out in note 17 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in Company's share capital for the year ended 31 December 2019 are set out in note 28(c) to the financial statements.

## SHARE OPTION SCHEME

Our Company maintains two share option schemes, namely the Pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") and the Post-IPO share option scheme (the "**Post-IPO Share Option Scheme**", together with the Pre-IPO Share Option Scheme, the "**Share Option Schemes**") for the purpose of recognising the contribution of the employees of our Group and retaining them for the continual operation and development of our Group. Both schemes were adopted pursuant to a written resolution of all the then shareholders of our Company passed on 18 October 2013 (the "**Adoption Date**").

Under the Share Option Schemes, our Board may, at its discretion, offer any employee (including any executive Directors) of our Group, options to subscribe for shares in our Company subject to the terms and conditions stipulated in the Share Option Schemes.

### The Pre-IPO Share Option Scheme

The major terms of the Pre-IPO Share Option Scheme are as follows:

***a) Purpose of the scheme***

The purpose of the Pre-IPO Share Option Scheme is to enable our Company to grant options to the participants as incentive or rewards for their contributions to our Group.

***b) Total number of shares available for issue and vesting period***

The total number of shares subject to the options under the Pre-IPO Share Option Scheme is 10,000,000 Shares, representing approximately 1.91% of the issued Shares, as at the date of this annual report, which shall vest to the relevant option holder in tranches in the following manner:

(i) 50% of the options shall vest and become exercisable on 30 June 2014;

(ii) 30% of the options shall vest and become exercisable on 30 June 2016; and

(iii) 20% of the options shall vest and become exercisable on 30 June 2018.

***c) Amount payable upon acceptance of options***

A non-refundable sum of HK$1.00 by way of consideration for the grant of an option is required to be paid by each of the grantees upon acceptance of the granted option.

***d) Remaining life of the Pre-IPO Share Option Scheme***

On 6 November 2013, our Company granted 10,000,000 options under the Pre-IPO Share Option Scheme. The provisions of the Pre-IPO Share Option Scheme shall in all other respects remain in force and effect and options which are granted during the life on the Pre-IPO Share Option Scheme may continue to exercise in accordance with the respective terms of issue. No options granted under the Pre-IPO Share Option Scheme had been exercised by the grantees in the year ended 31 December 2019.

During the twelve-month period ended 31 December 2019, the movements of the options which have been granted under the Pre-IPO Share Option Scheme are set out below:

| Category and name of participants | Vesting Period | Exercise period | Outstanding as at 1 January 2019 | Exercised during the period | Lapsed during the period | Cancelled during the period | Balance as at 31 December 2019 |
|---|---|---|---|---|---|---|---|
| **Category 1 — Director** | | | | | | | |
| Li Bin | 6 November 2013 - 30 June 2014 | 30 June 2014 - 5 November 2023 | 500,000 | — | — | — | 500,000 |
| | 6 November 2013 - 30 June 2016 | 30 June 2016 - 5 November 2023 | 300,000 | — | — | — | 300,000 |
| | 6 November 2013 - 30 June 2018 | 30 June 2018 - 5 November 2023 | 200,000 | — | — | — | 200,000 |
| Dai Jing | 6 November 2013- 30 June 2014 | 30 June 2014 - 5 November 2023 | 450,000 | — | — | — | 450,000 |
| | 6 November 2013- 30 June 2016 | 30 June 2016 - 5 November 2023 | 270,000 | — | — | — | 270,000 |
| | 6 November 2013- 30 June 2018 | 30 June 2018 - 5 November 2023 | 180,000 | — | — | — | 180,000 |
| ***Sub-Total*** | | | 1,900,000 | — | — | — | 1,900,000 |
| **Category 2 — Employees under continuous employment contract** | | | | | | | |
| | 6 November 2013 - 30 June 2014 | 30 June 2014 - 5 November 2023 | 2,183,000 | — | — | — | 2,183,000 |
| | 6 November 2013 - 30 June 2016 | 30 June 2016 - 5 November 2023 | 1,449,000 | — | (3,000) | — | 1,446,000 |
| | 6 November 2013 - 30 June 2018 | 30 June 2018 - 5 November 2023 | 966,000 | — | — | (2,000) | 964,000 |
| ***Sub-Total*** | | | 4,598,000 | — | (3,000) | (2,000) | 4,593,000 |
| **Total** | | | 6,498,000 | — | (3,000) | (2,000) | 6,493,000 |

*Notes:*

1. The date of grant of the options is 6 November 2013.
2. The options have an exercise price of HK$1.90.

## The Post-IPO Share Option Scheme

The purpose of the Post-IPO Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of our Company must not exceed 30% of the shares in issue from time to time.

The maximum number of shares issuable upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Post-IPO Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all the shares in issue upon the Listing Date (i.e. 414,044,000 shares after over-allotment option has been exercised). The limit of 10% may be refreshed at any time by approval of the shareholders of our Company in general meeting provided that the total number of the shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company must not exceed 10% of the shares in issue as at the date of approval of the refreshed limit.

Unless approved by shareholders of our Company in general meeting, the total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the Post-IPO Share Option Scheme or any other share option schemes of our Company in any 12-month period up to date of grant must not exceed 1% of the shares in issue.

A consideration of HK$1.00 is payable on acceptance of the grant of an option.

Pursuant to the Post-IPO Share Option Scheme, the participants may subscribe for the shares of our Company on the exercise of an option at the price determined by our Board provided that it shall be at least the higher of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an option is offered to a participant, which must be a business date (the "**Offer Date**"); (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Offer Date; and (c) the nominal value of a Share on the Offer Date.

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period as our Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

As at the date of this annual report, no options had been granted or agreed to be granted under the Post-IPO Share Option Scheme.

## DIRECTORS

The directors who held office during the year ended 31 December 2019 and up to the date of this annual report are:

**Executive Directors**

Mr. ZHANG Tiewei (re-elected on 19 May 2017)
Mr. LI Bin (re-elected on 18 May 2018)
Ms. DAI Jing (re-elected on 23 May 2019)
Mr. XU Kaiying (re-elected on 19 May 2017)
Mr. PANG Haoquan (re-elected on 23 May 2019)

**Non-executive Director**

Mr. HE Darong (re-elected on 18 May 2018)

**Independent Non-executive Directors**

Mr. TSANG Hung Kei (re-elected on 18 May 2018)
Mr. AU Tien Chee Arthur (re-elected on 23 May 2019)
Mr. XU Yan (re-elected on 23 May 2019)
Mr. ZHOU Xiaojiang (re-elected on 19 May 2017)

Pursuant to Article 108 of the articles of association of our Company (the "**Articles of Association**") and code provision A.4.2 of the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), one-third of our directors will retire by rotation at the annual general meeting of our Company and will be eligible for re-election at that meeting.

Accordingly, Mr. Zhang Tiewei, Mr. Xu Kaiying and Mr. Zhou Xiaojiang will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

Biographical details of the directors and senior management of our Company are set out at pages 52 to 56 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Except for (i) Ms. Dai Jing, whose service agreement commenced on 18 May 2018; (ii) Mr. Xu Kaiying, whose service agreement commenced on 4 July 2019; and (iii) Mr. Pang Haoquan, whose service agreement commenced on 6 January 2020, each of the executive directors has entered into a service agreement with our Company for a term of three years commencing on 13 November 2019, and such service agreements may be terminated in accordance with the terms of the service agreements.

Except for Mr. Zhou Xiaojiang, whose service agreement commenced on 4 July 2019, each of the non-executive director and the independent non-executive directors was appointed to our Board pursuant to their respective letters of appointment, for an initial term of three years commencing on 13 November 2019, and such appointment may be terminated in accordance with the terms of the letters of appointment.

As at 31 December 2019, none of our directors proposed for re-election at the forthcoming AGM of our Company has a service contract with members of our Group that is not determinable by our Group within one year without payment of compensation, other than statutory compensation.

## EMOLUMENT POLICY

The emoluments of our directors are recommended by the remuneration committee, and decided by our Board, having regard to our Company's operating results, individual performance, experience, responsibility, workload and the prevailing market practices. No director is involved in deciding their own remuneration.

Our Company has adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme as an incentive to our directors and eligible employees. Details of the schemes are set out under the section headed "Share Option Schemes" of this annual report.

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of our directors and the five highest paid individuals of our Group during the year under review are set out in notes 7 and 8 to the financial statements.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force throughout the financial year. Our Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, so far as is known to the Directors or chief executives of the Company, the following persons other than a Director or chief executive of the Company had an interest or a short position in the Shares and underlying Shares which were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "**SFO**") and as recorded in the register required to be kept by our Company under section 336 of the SFO:

**Long Position in shares**

| Name of Shareholder | Capacity | Notes | Number of Shares | Approximate Percentage of Shareholding (Note 7) |
|---|---|---|---|---|
| Expert Depot Limited | Beneficial interest | 1, 6 | 251,592,000 | 47.96% |
| Bliss Success Investments Limited | Beneficial interest | 2, 6 | 251,592,000 | 47.96% |
| Novel Heritage Limited | Beneficial interest | 3, 6 | 251,592,000 | 47.96% |
| Mr. Chen Guoxian | Interest in a controlled corporation | 4, 6 | 251,592,000 | 47.96% |
| Insider Solution Limited | Beneficial interest | 4, 6 | 251,592,000 | 47.96% |
| New Maestro Investments Limited | Beneficial interest | 5 | 45,000,000 | 8.58% |

1. Expert Depot Limited is a company incorporated in the BVI whose entire issued share capital is held by Mr. Zhang Tiewei, our Chairman and an executive Director. Out of the 251,592,000 Shares held by Expert Depot Limited, 1,638,000 Shares are held by Mr. Zhang Tiewei for his own beneficial interest.

2. Bliss Success Investments Limited is a company incorporated in the BVI whose entire issued share capital is held by Mr. Xu Kaiying, an executive Director.

3. Novel Heritage Limited is a company incorporated in the BVI whose entire issued share capital is held by Mr. Pang Haoquan, an executive Director.

4. Insider Solution Limited is a company incorporated in the BVI whose entire issued share capital is held by Mr. Chen Guoxian.

5. New Maestro Investments Limited is a company incorporated in the BVI whose entire issued share capital is held by Mr. He Darong, the non-executive Director.

6. Pursuant to an acting in concert confirmation dated 31 May 2015, Mr. Zhang Tiewei, Mr. Xu Kaiying, Mr. Pang Haoquan and Mr. Chen Guoxian confirmed they have been acting in concert, in exercising and implementing the management and operation of the Group with each other and reached consensus before making any commercial decisions (including financial decisions and business operation decisions) on an unanimous basis. Hence, Mr. Zhang Tiewei, Mr. Xu Kaiying, Mr. Pang Haoquan and Mr. Chen Guoxian are deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

7. Calculated with reference to the number of issued Shares (524,635,000) as at 31 December 2019.

Save as disclosed herein, as at 31 December 2019, there was no other person so far as was known to the directors or chief executive of our Company, other than the directors or chief executive of our Company as having an interest or a short position in the shares or underlying shares of our Company as recorded in the register required to be kept by our Company under section 336 of the SFO.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests and short positions of each director and chief executive of our Company and their respective associates in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") to be notified to our Company and the Stock Exchange, are set out below:

**Long Position in shares**

| Name of Director | Capacity | Notes | Number of Shares | Approximate Percentage of Shareholding (Note 6) |
|---|---|---|---|---|
| Mr. Zhang Tiewei | (1) Beneficial Interest | 1, 7 | 1,638,000 | 47.96% |
| | (2) Interest in a controlled corporation | | 249,954,000 | |
| Mr. Xu Kaiying | Interest in a controlled corporation | 2, 7 | 251,592,000 | 47.96% |
| Mr. Pang Haoquan | Interest in a controlled corporation | 3, 7 | 251,592,000 | 47.96% |
| Mr. He Darong | Interest in a controlled corporation | 4 | 45,000,000 | 8.58% |
| Mr. Li Bin | Beneficial Interest | 5 | 1,000,000 | 0.19% |
| Ms. Dai Jing | Beneficial Interest | 5 | 900,000 | 0.17% |

1. Expert Depot Limited is a company incorporated in the BVI whose entire issued share capital is held by Mr. Zhang Tiewei, our chairman and executive Director.

2. Bliss Success Investments Limited is a company incorporated in the BVI whose entire issued share capital is held by Mr. Xu Kaiying, our executive Director.

3. Novel Heritage Limited is a company incorporated in the BVI whose entire issued share capital is held by Mr. Pang Haoquan, our executive Director.

4. New Maestro Investments Limited is a company incorporated in the BVI whose entire issued share capital is held by Mr. He Darong, our non-executive Director.

5. Our Company granted 1,000,000 and 900,000 options under the Pre-IPO Share Option Scheme to Mr. Li Bin and Ms. Dai Jing on 6 November 2013. None of the options granted to Mr. Li Bin had been exercised from 13 November 2013 (the "**Listing Date**") to 31 December 2019.

6. Calculated with reference to the number of issued Shares (524,635,000) as at 31 December 2019.

7. Pursuant to an acting in concert confirmation dated 31 May 2015, Mr. Zhang Tiewei, Mr. Xu Kaiying, Mr. Pang Haoquan and Mr. Chen Guoxian confirmed they have been acting in concert, in exercising and implementing the management and operation of the Group with each other and reached consensus before making any commercial decisions (including financial decisions and business operation decisions) on an unanimous basis. Hence, Mr. Zhang Tiewei, Mr. Xu Kaiying, Mr. Pang Haoquan and Mr. Chen Guoxian are deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executives of the Company or their respective associates had any interests and short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (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 and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

| Name of director | Date of grant | Exercise Period (subject to vesting period) | Exercise price per share RMB | Exercised during the period | Number of shares subject to outstanding options as at 31 December 2019 | Approximate percentage of our Company's issued capital |
|---|---|---|---|---|---|---|
| Li Bin | 6 November 2013 | 30 June 2014 - 5 November 2023 | 1.9 | Nil | 1,000,000 | 0.19% |
| Dai Jing | 6 November 2013 | 30 June 2014 - 5 November 2023 | 1.9 | Nil | 900,000 | 0.17% |

Further details of the Pre-IPO Share Option Scheme are set out in the section headed "Share Option Schemes" in this annual report.

Save as disclosed above, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares or debentures of the Company or any other body corporate; and none of the Directors, or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such right during the reporting period.

## MANAGEMENT CONTRACTS

No contracts, other than a contract of service with any director or any person engaged in the full-time employment of our Company, concerning the management and administration of the whole or any substantial part of the business of our Company were entered into or existed during the year.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to our Group's business to which our Company or any of its subsidiaries or associated company was a party and in which any director of our Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, nor had there been any contract of significance entered into between our Group and a controlling shareholder of our Company in the year ended 31 December 2019.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2019, no directors had interest in any business which directly or indirectly competes, or is likely to compete, with the business of our Group.

## PURCHASE, SALE OR REDEMPTION OF OUR COMPANY'S LISTED SECURITIES

### Exercise of share options

Prior to the listing of shares in the share capital of our Company ("**Shares**") on the Stock Exchange, our Company granted options to subscribe for an aggregate of 10,000,000 Shares (the "**Pre-IPO Share Options**") pursuant to a share option scheme adopted on 18 October 2013. None of the PreIPO Share Options granted have been exercised during the year ended 31 December 2019. As at 31 December 2019, the Pre-IPO Share Options to subscribe for 6,493,000 Shares remained unexercised and the Pre-IPO Share Options to subscribe for 815,000 Shares were cancelled as well as 731,000 Shares were lapsed. Save for the Pre-IPO Share Options, our Company has not granted any options to subscribe for Shares.

Save as disclosed above, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of our Company's listed securities.

## ISSUANCE OF CONVERTIBLE BONDS ON 1 FEBRUARY 2018

On 11 January 2019, our Company redeemed from the Purchaser a partial principal amount of the convertible bonds issued on 1 February 2018 (i.e. HK$10,000,000) and the related interest, and the Purchaser waived its right of conversion on the convertible bonds in the principal amount of HK$60,000,000, which was adjusted to the interest-bearing notes with a face value of HK$60,000,000. Meanwhile, the convertible bonds were then adjusted to an aggregate outstanding principal amount of HK$84,000,000 with 77,064,200 conversion shares which may be allotted and issued upon the exercise of the conversion rights in full at the adjusted conversion price of HK$1.09 per share.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under our Company's Articles of Association or the laws of Cayman Islands which oblige our Company to offer new shares on a pro-rata basis to existing shareholders.

## MAJOR CUSTOMERS AND SUPPLIERS

Our Group's customer base is diversified. The relationship between our Group and our customers has been stable. For the year ended 31 December 2019, our Group's top five largest customers accounted for 17.33% (2018: 42.87%) of our Group's revenue and our single largest customer accounted for 10.45%(2018: 12.70%) of our Group's revenue. Our Group did not have regular or significant suppliers in view of its business nature.

None of the Directors or any of their close associates or any Shareholders which, to the best knowledge of the Directors, own more than 5% of the Company's issued shares, had any interest in our Group's five largest suppliers and customers.

## PUBLIC FLOAT

Based on the information that is publicly available to our Company and within the knowledge of the directors, as at the date of this annual report, our Company maintains the prescribed percentage of public float under the Listing Rules.

## NON-COMPETITION UNDERTAKING

Mr. Zhang Tiewei, Mr. Xu Kaiying, Mr. Pang Haoquan, Expert Depot Limited, Bliss Success Investments Limited and Novel Heritage Limited, each a controlling shareholder (as defined under the Listing Rules), entered into a deed of non-competition (the "**Deed of Non-competition**") in favour of our Company on 18 October 2013 pursuant to which they have undertaken to our Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (other than any member of our Group) would not, directly or indirectly, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, principal, agent, director, employee or otherwise) any business which is or may be in competition with the current businesses of our Group during the restricted period.

An annual confirmation has been received from each of the above-mentioned controlling shareholders on compliance with each of their respective undertaking under the Deed of Non-competition.

The independent non-executive directors have reviewed the compliance with the Deed of Non-competition by the above-mentioned controlling shareholders and confirmed that the Deed of Non-competition is fully complied with and duly enforced in the year ended 31 December 2019.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibilities, promoting the development of employees and deepening care for employees, protecting the environment and giving back to society, and practicing the concept of sustainable development.

Given the services-oriented business nature of our Group, we do not involve the generation of a plenty of wastes in our Group's ordinary course of business and the direct impact on the environment is minimal. The hazardous wastes of the Group mainly refer to a small quantity of waste medicines, lamp tubes, batteries and obsolete office equipments such as ink boxes. The non-hazardous wastes are mainly waste paper products. As for the hazardous wastes, the Group passes them to relevant qualified professional agencies for disposal. And we recycle the non-hazardous wastes to ensure that they will not cause pollution to the environment.

The Group will not discharge a large amount of harmful substances into water, land and air. Business commutes of employees, electricity consumption, which is mainly attributed to the utilization of the lighting, air conditioning and office equipments in our Group's office premises, and the usage of papers represented most of our Group's carbon footprint. Water consumption is also immaterial as our Group's business model does not rely heavily on water usage.

Our Group implemented various energy saving measures and environment friendly initiatives in workplaces including the following:

- maintaining optimal room temperature on the air-conditioning at 26 degrees Celsius in the office;
- encourage complete power-off for computer equipment and other office equipment when not utilized; and
- employees are encouraged to read and edit documents on the computer and duplex printing is preferred if printing of which is necessary.

There was no non-compliance case noted in relation to environmental laws and regulations for the year ended 31 December 2019.

The Directors and the senior management of our Group regularly assess the environmental risks of our business and adopt preventive measures as necessary to reduce the risks and ensure compliance of the relevant laws and regulations.

For further details of environmental, social and governance policies and performance of the Group, please refer to the Environmental, Social and Governance Report for the year ended 31 December 2019, which will be published on the websites of the Stock Exchange and the Company on or before 20 April 2020.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2019, the Company had complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company. For example, the Notice on Printing and Distributing Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies, the Notice of the General Office of the China Banking and Insurance Regulatory Commission on Strengthening the Supervision and Administration of Commercial Factoring Enterprises, the Measures for Registering the Pledge of Receivables and the Opinions on Several Issues in Handling Criminal Cases of Illegal Lending, issued in 2019.

The Group and its activities are subject to requirements under an array of laws, including the Company Law of the People's Republic of China, the Partnership Enterprise Law of the People's Republic of China, the Wholly Foreign-owned Enterprise Law of the People's Republic of China, the Sino-foreign Equity Joint Venture Law of the People's Republic of China, the Guarantee Law of the People's Republic of China, the Regulations on the Supervision and Administration of Financing Guarantee Companies, the Measures for Supervision and Administration of Finance Leasing Enterprises, the Interim Measures for Supervision and Administration of Private Investment Funds, the Administration Measures for Micro-credit Companies of Guangdong Province, the Contract Law of the People's Republic of China, the Labour Law of the People's Republic of China as well as other applicable regulations, guidelines and policies issued or promulgated pursuant to or in respect of these laws and regulations. In addition, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Securities and Futures Ordinance, the Companies Ordinance and the Employment Ordinance are also applicable to the Group. The Group ensures compliance with such requirements by taking various measures such as establishing internal control and approval procedures at all levels, improving the training mechanism and conducting post-event random inspections. The Group attaches great importance to the compliance of its businesses and operations, despite the fact that such measures will incur additional operating costs.

## RELATIONSHIP WITH KEY STAKEHOLDERS

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

## EVENTS AFTER THE REPORTING PERIOD

**Extension of the convertible bond and the note**

As of 30 March 2020, the Company has redeemed from the Purchaser a partial principal amount of the notes (i.e. HK$30,000,000) and the related interest. On 1 February 2020, pursuant to the terms and conditions of the convertible bonds and notes, the Purchaser confirmed, agreed and acknowledged that the maturity date of the convertible bonds have been extended to 1 February 2021.The remaining notes will be redeemed in tranches during the year based on the new schedule agreed with the Purchaser.

## CONNECTED TRANSACTIONS

On 3 July 2019, the Company's wholly-owned subsidiary Success Financial Leasing and Guangdong Yinhe Motorcycle Group Co., Ltd（廣東銀河摩托車集團有限公司）(“Yinhe Motorcycle”) entered into a capital injection agreement, pursuant to which, Success Financial Leasing and Yinhe Motorcycle conditionally agreed to the capital injection of RMB11,850,000 (equivalent to approximately HK$13,500,705) by Success Financial Leasing into the Guangdong MuPai Technology Limited Company（廣東睦湃科技有限公司）. Further details of the capital injection agreement are set out in the announcement of the Company dated 3 July 2019.

## CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by our Company are set out in the Corporate Governance Report on pages 38 to 51 on this annual report.

## SOCIAL ENTERPRISE

While serving the local economic development and supporting micro, small and medium sized enterprises, the Group was also actively participated in charitable activities to fulfil social responsibilities, thereby establishing a good social image. Every year, Success Charity Foundation（集成愛心基金）, which was voluntarily initiated by shareholders and employees of the Group, gives help and support to employees in need. It provides timely support and assistance to families of employees who suffer from serious illnesses or accidental injuries, and goes through difficult times with the employees and their families. In respect of poverty alleviation efforts, the Group sent representatives to visit Butuo County, Liangshan Prefecture, Sichuan Province to assist in poverty alleviation work, and donated funds supporting industry development in villages under the pair-up support scheme, and supported the underprivileged students to help Liangshan Yi Autonomous Prefecture of Sichuan Province out of poverty. In addition, Mr. Zhang Tiewei, the Chairman and Executive Director of the Group, has been teaching as an off-campus tutor of the master's degree of finance of Guangdong University of Finance and Economics to nurture brilliant students in joint effort with higher institutions, assist students in developing the habit and thinking which integrate both theories and practices in learning, encourage students to tap into professional knowledge, train up their leadership skills and foster innovation and high moral standards. Furthermore, Mr. Zhang Tiewei also served as a supervising member of the Narcotics Association of Chancheng District in Foshan, contributed to drug prohibition efforts of Foshan by participating in anti-drug promotional events that enhanced the level of public knowledge on drugs.

## AUDITORS

KPMG, the auditors of our Company, will retire at the conclusion of the forthcoming annual general meeting of our Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 21 May 2020 to seek shareholders' approval on the appointment of KPMG as our Company's auditors until the conclusion of the next annual general meeting and to authorise our Board to fix their remuneration.

By order of our Board

**Zhang Tiewei**
Chairman and Executive Director

Foshan City, Guangdong Province, the PRC
30 March 2020

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

Our Company is committed to achieving and maintaining high standards of corporate governance consistent with the needs and requirements of its business and the shareholders. Save as disclosed below, our Company has adopted and complied with the code provisions (the "**Code Provisions**") as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules for the year ended 31 December 2019. In respect of Code Provision A.6.7 of the CG Code, an executive director appointed a proxy to attend the annual general meeting of the Company held on 23 May 2019.The corporate governance principles of our Company emphasise a quality board, sound internal controls, and transparency and accountability to all shareholders.

Our Directors will review our Company's corporate governance policies and compliance with the Code Provisions from time to time.

## DIRECTORS

### The Board

Our Board, led by the Chairman of our Company, is responsible for leadership and control of our Company and overseeing our Group's businesses, strategic decisions and performance. Our Board has delegated to the senior management of our Company the authority and responsibility for the day-to-day management and operation of our Group. In addition, our Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

Our Board reserves its decision for all major matters of our Company, including: approving and monitoring all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

Daily management and administration functions are delegated to the management. Our Board delegates various responsibilities to the senior management of our Company. These responsibilities include implementing decisions of our Board, directing and coordinating day-to-day operation and management of our Company in accordance with the management strategies and plans approved by our Board, formulating and monitoring the operation and production plans and budgets, and supervising and monitoring the control systems.

In the year ended 31 December 2019, our Board held 5 formal meetings. Attendance of individual directors at our Board meetings and our general meeting for the year ended 31 December 2019 is as follows:

| Name of Director | Attendance/ Number of Board meeting held | Attendance/ Number of general meeting held |
|---|---|---|
| ***Executive Directors:*** | | |
| Mr. ZHANG Tiewei *(Chairman)* | 5/5 | 1/1 |
| Mr. LI Bin *(Chief Executive Officer)* | 5/5 | 1/1 |
| Ms. DAI Jing *(Chief Operating Officer)* | 5/5 | 1/1 |
| Mr. XU Kaiying | 5/5 | 0/1 |
| Mr. PANG Haoquan | 5/5 | 1/1 |
| ***Non-Executive Director:*** | | |
| Mr. HE Darong | 5/5 | 1/1 |
| ***Independent Non-Executive Directors:*** | | |
| Mr. TSANG Hung Kei | 5/5 | 1/1 |
| Mr. AU Tien Chee Arthur | 3/5 | 1/1 |
| Mr. XU Yan | 5/5 | 1/1 |
| Mr. ZHOU Xiaojiang | 5/5 | 1/1 |

In the year ended 31 December 2019, apart from the meetings of our Board, consent/approval from our Board was also obtained by written resolutions on a number of matters.

**Chairman and executive directors**

The Chairman and executive director, Mr. Zhang Tiewei, provides leadership for our Board and ensures that our Board works effectively and all important issues are discussed in a timely manner. Mr. Li Bin, the Chief Executive Officer ("**CEO**"), takes the lead in our Group's operations and business development. The positions of the Chairman and the CEO are held by separate individuals to maintain an effective segregation of duties.

### Board composition

Currently, our Board comprises ten directors, including five executive directors, one non-executive director and four independent non-executive directors. The current composition of our Board is as follows:

| Name of Director | Membership of board committee(s) |
|---|---|
| ***Executive Directors:*** | |
| Mr. ZHANG Tiewei *(Chairman)* | Chairman of nomination committee<br>Member of remuneration committee |
| Mr. LI Bin *(Chief Executive Officer)* | |
| Ms. DAI Jing *(Chief Operating Officer)* | |
| Mr. XU Kaiying | |
| Mr. PANG Haoquan | |
| ***Non-Executive Directors:*** | |
| Mr. HE Darong | |
| ***Independent Non-Executive Directors:*** | |
| Mr. TSANG Hung Kei | Chairman of audit committee<br>Member of nomination committee<br>Member of remuneration committee |
| Mr. AU Tien Chee Arthur | Member of audit committee |
| Mr. XU Yan | Chairman of remuneration committee<br>Member of nomination committee<br>Member of audit committee |
| Mr. ZHOU Xiaojiang | |

Pursuant to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. In addition, pursuant to Rules 3.10A and 3.10(2) of the Listing Rules, every listed issuer is required to have such number of independent non-executive directors representing at least one-third of the board and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. Tsang Hung Kei is admitted as a Fellow of the Association of Chartered Certified Accountants, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Institute of Chartered Accountants in England and Wales.

Our Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. To the best of the knowledge of our Company, having made all reasonable enquiries, none of the independent non-executive directors failed to meet any of the independence guidelines set out in Rule 3.13 of the Listing Rules. Our Board has assessed the independence of all the independent non-executive directors and considered that all the independent non-executive directors are independent.

The biographies of our directors are set out on pages 52 to 56 of this annual report. Save as disclosed in the biographies of the directors, our Board members do not have any family, financial or business relationship with each other. The list of directors has been published on the website of our Company and the website of the Stock Exchange, and is disclosed in all corporate communications issued by our Company pursuant to the Listing Rules from time to time.

**Appointment, re-election and removal of directors**

Each of the executive directors has entered into a service contract with our Company, and each of the non-executive directors and independent non-executive directors has signed a letter of appointment with our Company. Except for (i) Ms. Dai Jing, whose service agreement commenced on 18 May 2018; (ii) Mr. Xu Kaiying and Mr. Zhou Xiaojiang, whose service agreement commenced on 4 July 2019; and (iii) Mr. Pang Haoquan, whose service agreement commenced on 6 January 2020, the terms of the directors' service contracts are for an initial term of three years commencing on 13 November 2019 and is subject to the re-appointment of each of our directors by our Company at an annual general meeting upon retirement by rotation.

The Articles of Association provide that any director appointed by our Board (i) to fill a casual vacancy in our Board shall hold office only until the next following general meeting of our Company and shall be subject to re-election at such meeting; and (ii) as an addition to our Board shall hold office until the next annual general meeting of our Company and shall then be eligible for re-election.

In addition, every director should be subject to retirement by rotation at least once every three years. At every annual general meeting, one-third of our directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to Article 108(a) of the Articles of Association.

**Non-executive directors**

Pursuant to Code Provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. Pursuant to the letters of appointment of our non-executive directors (including our independent non-executive directors), the term of appointment of each of such directors is three years commencing on 13 November 2019, or 4 July 2019 in the case of Mr. Zhou Xiaojiang, which may be terminated by either party by giving one month's written notice.

## BOARD DIVERSITY

Our Company adopted a board diversity policy (the "**Board Diversity Policy**") on 15 March 2019. A summary of this Board Diversity Policy, together with the measurable objectives set for implementing this Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below:

**Vision of our Board Diversity Policy**

The Company acknowledge its Board of Directors should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Company is committed to equality of opportunity in all aspects of its business and does not discriminate on the grounds of race, gender, disability, nationality, religious or philosophical belief, age, sexual orientation, family status or any other factor. The Company believes that board diversity enhances decision-making capability and a diverse board is more effective in dealing with organizational changes and less likely to suffer from group thinking. Board diversity is recognised as an essential element contributing to the sustainable development of the Company by enabling it to attract, retain and motivate employees from the widest possible pool of available talent.

**Measurable objectives**

Selection of candidates will 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 will be based on merit and contribution that the selected candidates will bring to our Board.

**Implementing and monitoring**

The nomination committee is responsible for (i) identifying suitably qualified candidates to become members of our Board, (ii) reviewing the Board Diversity Policy on a regular basis to ensure its effectiveness, and (iii) discussing any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

## CONTINUING PROFESSIONAL DEVELOPMENT

Our Company is responsible for arranging and funding suitable training for our directors relating to the roles, functions and duties of a listed company director. Our Company Secretary from time to time updates and provides training to our directors, and organises seminars on the latest development of the Listing Rules, applicable laws, rules and regulations relating to directors' duties and responsibilities. Our directors participated in courses relating to the roles, functions and duties of a listed company directors by training. Our directors may request our Company, pursuant to the policy for directors to seek independent professional advice, to provide independent professional advice at the expense of our Company to discharge their duties to our Company.

### Directors' securities transactions

Our Company has adopted the standard set out in the Model Code, in relation to the dealings in securities of our Company by our directors. Having made specific enquiry of all directors, each director has confirmed that he/she has complied with the standard set out in the Model Code since 1 January 2019 (or on the date of his/her appointment) and up to the date of this annual report.

### Board Committees

#### *Nomination Committee*

The nomination committee of our Company was established on 18 October 2013 and adopted written terms of reference on 18 October 2013 and amended on 15 March 2019 in compliance with the Listing Rules. The duties of our nomination committee include (but without limitation) (a) to review the structure, size, composition and diversity (including the skills, knowledge, gender, age, cultural and educational background or professional experience of the Directors and the time devoted by the Directors in fulfilling their responsibilities) of the Board at least annually; (b) to identify individuals suitably qualified to become members of the Board and may select individuals nominated for directorship; (c) to assess the independence of our independent non-executive directors; and (d) to make recommendations to our Board on matters such as Board structure, the roles, responsibilities, capabilities, skills, knowledge and experience required from members of the Board, selection and the re-selection of the Directors etc., and (e) to review the Board Diversity Policy adopted by the Board on a regular basis.

Current members of the nomination committee are Mr. Tsang Hung Kei and Mr. Xu Yan, both of whom are independent non-executive directors, and Mr. Zhang Tiewei, an executive director. Mr. Zhang Tiewei is the chairman of the nomination committee.

The Company continuously seeks to enhance the effectiveness of the Board and to maintain a high standard of corporate governance and recognises and embraces the benefits of diversity in the composition of the Board.

After considering the characteristics of the Group's business model and other relevant factors, such as skills, knowledge, gender or age, the nomination committee considered that the current composition of the Board reflects the balance of skills, educational background, experience and diversity of perspectives desirable for effective management of the Company. The nomination committee will continue to review the diversity policy of the Board from time to time to ensure its continued effectiveness and to identify qualified candidates on a merit basis and candidates will be considered against objective criteria, with due regard to the benefits of diversity on the Board.

For the year ended 31 December 2019, the nomination committee held 1 meeting. Attendance of individual members of the nomination committee for the year ended 31 December 2019 is as follows:

| Name of Director | Attendance / Number of meetings held |
|---|---|
| Mr. Zhang Tiewei | 1/1 |
| Mr. Tsang Hung Kei | 1/1 |
| Mr. Xu Yan | 1/1 |

Note: The meetings were attended by the Directors themselves, not an alternate.

The terms of reference of the nomination committee are available on the website of our Company and the website of the Stock Exchange.

The work performed by the nomination committee during the year ended 31 December 2019 is summarised as follows:

1. reviewed structure, size and diversity of the Board;

2. reviewed the independence of the independent non-executive directors; and

3. made recommendations to the Board on the appointment and redesignation of directors and the nomination of directors for re-election at the annual general meeting.

***Remuneration Committee***

The remuneration committee of our Company was established on 18 October 2013 with written terms of reference in compliance with the Listing Rules. The duties of our remuneration committee include (but without limitation) (a) making recommendations to our Board on our policy and structure for all remuneration of our directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (b) determining the specific remuneration packages of all our executive directors and senior management, including benefits in kind, pension rights and compensation payments; (c) making recommendations to our Board of the remuneration of our directors; and (d) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Board from time to time. The existing members of the remuneration committee include Mr. Zhang Tiewei, Mr. Xu Yan and Mr. Tsang Hung Kei. Both Mr. Xu Yan and Mr. Tsang Hung Kei are independent non-executive directors and Mr. Zhang is an executive director. Mr. Xu Yan is the chairman of the remuneration committee.

For the year ended 31 December 2019, the remuneration committee held 2 meetings. Attendance of individual members of the remuneration committee for the year ended 31 December 2019 is as follows:

| Name of Director | Attendance / Number of meetings held |
|---|---|
| Mr. Xu Yan | 2/2 |
| Mr. Zhang Tiewei | 2/2 |
| Mr. Tsang Hung Kei | 2/2 |

Note: The meetings were attended by the Directors themselves, not an alternate.

The terms of reference of the remuneration committee are available on the website of our Company and the website of the Stock Exchange.

The work performed by the remuneration committee during the year ended 31 December 2019 is summarised as follows:

1. made recommendations to the Board on the remuneration packages and policy of directors, senior management and employees; and

2. evaluated the performance of all directors and senior management.

### *Audit committee*

The audit committee of our Company was established on 18 October 2013 and adopted written terms of reference on 18 October 2013 and amended on 31 December 2015 and 15 March 2019 in compliance with the Listing Rules. The duties of our audit committee include (but without limitation) (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor; (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services; (d) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them; and (e) to review the Company's financial controls, the Company's internal control and risk management systems.

The existing members of the audit committee include Mr. Tsang Hung Kei, Mr. Au Tien Chee Arthur and Mr. Xu Yan, all of whom are independent non-executive directors. Mr. Tsang Hung Kei is the chairman of the audit committee.

The Audit Committee has reviewed this annual report and the consolidated financial statements of our Company for the year ended 31 December 2019. The Audit Committee is of the view that the consolidated financial statements of our Company for the year ended 31 December 2019 have been prepared in accordance with the applicable accounting standards, the Listing Rules and statutory provisions, and sufficient disclosures have already been made.

For the year ended 31 December 2019, the audit committee held 2 meetings. Attendance of individual members of the audit committee for the year ended 31 December 2019 is as follows:

| Name of Director | Attendance / Number of meetings held |
|---|---|
| Mr. Tsang Hung Kei | 2/2 |
| Mr. Au Tien Chee Arthur | 2/2 |
| Mr. Xu Yan | 2/2 |

Note: The meetings were attended by the Directors themselves, not an alternate.

The terms of reference of the audit committee are available on the website of our Company and the website of the Stock Exchange.

The work performed by the audit committee during the year ended 31 December 2019 is summarised below:

1. reviewed the Group's annual and interim results statements and the related result announcements, documents and other matters or issues raised by external auditors;

2. reviewed the findings from external auditors;

3. reviewed the independence of the external auditors and engagement of external auditors for annual audit;

4. reviewed the audit plans, internal control plan, the development in accounting standards and its effects on the Group, financial reporting matters and risk management;

5. reviewed the adequacy of resources, qualifications, experience of staff of the Group's accounting and financial reporting function;

6. approved the current year external audit plan, reviewed and monitored internal control performance as well as the effectiveness of the internal control system; and

7. reviewed the corporate governance compliance.

**Corporate governance function**

Our Board is responsible for, amongst other things, the development and review of the policies and practices on corporate governance of our Group and monitoring the compliance with legal and regulatory requirements, reviewing and monitoring the training and continuous professional development of directors and senior management, and reviewing the corporate governance compliance with the Code Provisions and disclosure in the annual report.

This corporate governance report has been reviewed by our Board in discharge of its corporate governance function.

**Accountability and audit financial reporting**

Financial results of our Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rule 13.49(1) and (6) of the Listing Rules.

All directors acknowledge their responsibility for preparing the financial statements of our Group for the year ended 31 December 2019. Currently, our Company's external auditors are KPMG (the "**Auditors**").

During the year ended 31 December 2019, the fees paid or payable to KPMG comprise service charges for the following:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Statutory audit | 1,850 | 1,710 |
| Review of interim results | 680 | 520 |
| Others | 470 | — |

The statement of the Auditors about their reporting responsibilities on the financial statements of our Group is set out in the Independent Auditor's Report on pages 57 to 68 of this annual report.

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

**Risk management and internal controls**

Our Board recognises that sound and effective risk management and internal control systems are important to safeguard our shareholders' investment and our Company's assets, and recognises that its responsibility to ensure that our Company maintains a sound and effective risk management and internal control system. Our Group's internal control system is designed to safeguard assets against misappropriation and unauthorised disposition and to manage operational risks.

For the year ended 31 December 2019, review of our Group's internal controls covered major financial, operational and compliance controls, as well as risk management functions. The controls that were built into the risk management system are intended to manage significant risks in our Group's business environment.

Our Group's risk management framework includes the following elements:

- identify significant risks in our Group's operation environment and evaluate the impacts of those risks on our Group's business;
- develop necessary measures to manage those risks; and
- monitor and review the effectiveness of such measures.

The implementation of risk management framework of our Group was assisted by our Group's risk management department, so that our Group could ensure new and emerging risks relevant to our Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and our Audit Committee reviews periodically our Group's risk management systems. Our Audit committee reported to our Board the implementation of our Group's risk management and internal control policy which, among other things, included the determination of risk factors, evaluation of risk level our Group could take and effectiveness of risk management measures.

Based on the reports from our Group's risk management department and our Audit Committee, our Board considers that our Group's risk management and internal control system is adequate and effective and our Group has complied with the provisions on risk management and internal controls as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

**Delegation by our Board**

In general, our Board oversees our Company's strategic development and determines the objectives, strategies and policies of our Group. Our Board also monitors and controls operation and financial performance and sets appropriate policies for risk management in pursuit of our Group's strategic objectives. Our Board delegates the implementation of strategies and day-to-day operation of our Group to the management.

**Company secretary**

The company secretary is Mr. Pang Chung Fai Benny ("**Company Secretary**"). Please refer to his biographical details set out on page 56 of this annual report. All Directors have access to our Company Secretary to ensure that board procedures and all applicable law, rules and regulations, are followed. During the year, our Company Secretary has taken no less than 15 hours relevant professional training as required under rule 3.29 of the Listing Rules.

**Effective communication with shareholders**

Our Board recognises the importance of maintaining a clear, timely and effective communication with our shareholders. Our Board also recognises that effective communication with our Company's investors is critical in establishing investor confidence and to attract new investors. Therefore, our Group is committed to maintaining a high degree of transparency to ensure our shareholders and the investors of our Company will receive accurate, clear, comprehensive and timely information of our Group through the publication of annual reports, interim reports, announcements and circulars.

Moreover, the Company's AGM encourages face-to-face communication with shareholders. Members of the Board and chairmen of various board committees will attend the forthcoming AGM of the Company to be held on 21 May 2020. The directors will answer questions on the performance of the Group raised by shareholders.

## Shareholders' rights

### 1. Procedures for Shareholders to convene an Extraordinary General Meeting

Pursuant to Article 64 of the Articles of Association, extraordinary general meetings shall be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of our Company having the right of voting at general meetings. Such requisition shall be made in writing to our Board or our Company Secretary for the purpose of requiring an extraordinary general meeting to be called by our Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If, within 21 days of such deposit, our Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of our Board shall be reimbursed to the requisitionist(s) by our Company.

### 2. Procedures for raising enquiries

Shareholders may direct their queries about their shareholdings, share transfer, registration and payment of dividend to our Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited:

| | |
|---|---|
| Address: | 17M Floor Hopewell Centre<br>183 Queen's Road East<br>Wanchai<br>Hong Kong |
| Email: | hkinfo@computershare.com.hk |
| Tel: | (852) 2862 8555 |
| Fax: | (852) 2865 0990/2529 6087 |

Shareholders may raise enquiries in respect of our Company at the following designated contact, correspondence address, email address and enquiry hotlines of our Company:

| | |
|---|---|
| Attention: | Mr. Li Bin |
| Address: | 604, 6th Floor<br>Tesbury Centre<br>28 Queen's Road East<br>Wanchai, Hong Kong |
| Email: | hkinfo@chinasuccessfinance.com |
| Tel: | (852) 2180 7189 |
| Fax: | (852) 3152 2010 |

### 3. Procedures for putting forward proposals at Shareholders' Meetings

***a) Proposal for election of a person other than a director as a director:***

Pursuant to Article 113 of the Articles of Association, a shareholder who wishes to propose a person other than a retiring director for election to the office of director at any general meeting should lodge (i) notice in writing of the intention to propose that person for election as a director; and (ii) notice in writing by that person of his willingness to be elected, at either (a) our Company's Hong Kong office 604, 6/Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, or (b) the registration office of our Company in Hong Kong at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The period for lodgment of the notices mentioned above will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to our Company may be given will be at least seven days.

***b) Other proposals:***

If a Shareholder wishes to make other proposals (the "**Proposal(s)**") at a general meeting, he may lodge a written request, duly signed, at our Company's Hong Kong office 604, 6/Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

The identity of the Shareholder and his/her request will be verified with our Company's Hong Kong share registrar and upon confirmation by the share registrar that the request is proper and in order, and is made by a Shareholder, our Board will in its sole discretion decide whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

i. Notice of not less than 21 days in writing if the Proposal requires approval in an annual general meeting of our Company.

ii. Notice of not less than 21 days in writing if the Proposal requires approval by way of a special resolution in an extraordinary general meeting of our Company.

iii. Notice of not less than 14 days in writing if the Proposal requires approval by way of an ordinary resolution in an extraordinary general meeting of our Company.

### Constitutional documents

Pursuant to a special resolution of the shareholders passed on 18 October 2013, the Amended and Restated Memorandum and Articles of Association were adopted with effect from the Listing Date. The Amended and Restated Memorandum and Articles of Association of our Company are available on the website of the Stock Exchange. For the year ended 31 December 2019, there is no change in the Amended and Restated Memorandum and Articles of Association of our Company.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. ZHANG Tiewei**, aged 57, is one of the founders of our Group. He was appointed as our director on 16 January 2012 and redesignated as the Chairman of our Board and executive director on 18 October 2013. Mr. Zhang is responsible for our Group's strategic planning and overall business management.

Mr. Zhang has more than 22 years of experience in the financial industry in the PRC during which Mr. Zhang has been acting as (i) the director of Great Wall Futures Co., Ltd. since 1997 which engages in commodity futures brokerages and financial futures brokerages; (ii) the chairman of Foshan Chancheng Success Micro Credit Co., Ltd. ("**Success Credit**") since its establishment in 2009 which engages in the provision of small loans lending; (iii) the director of Success Insurance Brokers Company Limited since 2003 which engages in the provision of insurance brokerages; (iv) the director of Guangdong Success Venture Capital Company Limited since 2008 which engages in venture capital; (v) the Chairman of Success Investment Holdings Group Company Limited ("**Success Investment Holdings**") since its establishment in 2005 which engages in the investment in real estate, public utilities, medical and industrial project; (vi) the director of Foshan Success Finance Group Company Limited which engages in the investment in the modern financial industry, investment in the financial services industry, capital management, asset management, business in the sales of insurance products, etc; and (vii) the chairman of Guangdong Jiayou Network Technology Co., Ltd. ("**Jiayou Network**"). Mr. Zhang accumulated business and financial experiences which are relevant to the business of our Group when acting as the director or chairman of the above named companies. Mr. Zhang has also been acting as the legal representative of Success Guarantee, our operating subsidiary, since its establishment in 1996. Mr. Zhang is also a director of each of Double Chance Developments Limited, China Success Finance Holdings Limited, Guangdong Success Asset Management Company Limited ("**Success Asset**"), Shenzhen Qianhai Success Housing Wealth Management Company Limited, all being subsidiaries of our Company.

Mr. Zhang is currently a member of the 12th Foshan Committee of the Chinese People's Political Consultative Conference, the vice president of the 14th executive committee of Foshan General Chamber of Commerce and the chairman of Chancheng District Branch of Foshan General Chamber of Commerce. Mr. Zhang was the standing committee member of the 11th executive committee of Guangdong Federation of Industry & Commerce and the chairman of the 1st council of Foshan Investment Chamber of Private Entrepreneurs. Mr. Zhang has been awarded as an Outstanding Corporate Manager in Guangdong Province in 2011 by the Guangdong Enterprises Confederation and the Guangdong Entrepreneurs Association. He was also granted the title of "Top 10 Influential Men in Economy of Guangdong" in 2013 and was granted the honorable title of "The Fifth Excellent Constructers of the Socialism Undertaking with Chinese Characteristics of the Players of Non-public Sectors of the Economy in Guangdong Province" in 2019. Mr. Zhang was also awarded a master degree of executive master of business administration after completing an EMBA Programme in Cheung Kong Graduate School of Business in 2012.

**Mr. LI Bin**, aged 47, was the executive director and the chief executive officer of our Group. Mr. Li joined our Group in 2006 as an assistant to the general manager of Success Guarantee and manager of the post-guarantee management department. He was promoted to general manager of Success Guarantee in 2009 and was appointed as the executive director and the chief executive officer of the Group on 18 October 2013. Mr. Li resigned as the chief executive officer of our Company with effect from 15 September 2014 in order to focus his time and effort on the development of the guarantee business of the Company and continue to serve as an executive director of our Company. Mr. Li was appointed as the chief operating officer of our Group on 31 August 2015 and is responsible for overseeing our Group's operations and internal management system. He was appointed as the vice chairman of Success Guarantee in 2016. He resigned from the chief operating officer of the Group and was appointed as the chief executive officer of the Group on 18 May 2018, and he will continue to serve as an executive director.

Prior to joining our Group, Mr. Li had worked at the Foshan branch of Bank of China from 1993 to 2005 and was responsible for sales and marketing activities in the bank and specialising in the provision of loans and credits which are relevant to the business of our Group. His last position in the bank was assistant manager of the sales department. Mr. Li obtained a master of business administration degree from Jinan University in Guangdong, the PRC in June 2007.

**Ms. Dai Jing**, aged 49, was the executive director and the chief operating officer of our Company, effective from 18 May 2018. Ms. Dai joined Success Investment Holdings in August 2006 as manager of the legal affairs department and was subsequently promoted to vice general manager of Success Guarantee in January 2007. She was promoted to senior vice general manager and general manager of Success Guarantee in January 2010 and April 2016, respectively. Prior to joining our Group, Ms. Dai worked at the Bank of China from 1993 to 2005 for handling credit approval, credit management and asset protection. Her last position with the Bank of China was deputy manager of the asset protection department. Ms. Dai also worked with the China Merchants Bank from 2005 to 2006 as a manager for handling bank management matters. Ms. Dai was admitted as a lawyer in the PRC in September 1995. Ms. Dai obtained a bachelor's degree in law from Wuhan University in Hubei, the PRC in July 1993.

**Mr. XU Kaiying**, aged 56, was appointed as our non-executive director on 18 October 2013 and re-designated as our executive director on 4 July 2016. Mr. Xu invested in our Group as a shareholder of Success Guarantee in February 2001. Mr. Xu is the general manager of Foshan Success Industry Investment Company Limited, the director of China Success Capital (HK) Limited ("**Success Capital (HK)**"), the director of Success Investment Holdings and the director of Jiayou Network. Mr. Xu is also the director, the vice chairman of Success Asset and Success Guarantee respectively, all being our Group companies.

Mr. Xu is a member of the 12th Foshan Committee of the Chinese People's Political Consultative Conference, the chairman of Foshan Air-Conditioner Retail Industry Association, the standing committee member of the 14th executive committee of Foshan General Chamber of Commerce, and the executive chairman of Foshan Investment Chamber of Private Entrepreneurs. Mr. Xu obtained a bachelor's degree in finance management from Beijing Economic and Technological College in July 2008. Mr. Xu has completed a post-EMBA degree at the Peking University.

**Mr. PANG Haoquan**, aged 55, was appointed as our non-executive director of the Group on 18 October 2013 and re-designated as our executive director on 6 January 2017. Mr. Pang invested in our Group as a shareholder of Success Guarantee in February 2001. Mr. Pang is also a director of each of Success Investment Holdings and Jiayou Network.

Mr. Pang is also the chairman of Guangdong Yinhe Motor Group Company Limited (廣東銀河摩托車集團有限公司). Mr. Pang obtained a diploma in automation from Guangzhou Open University in July 1982.

# Biographical Details of Directors and Senior Management

## NON-EXECUTIVE DIRECTOR

**Mr. HE Darong**, aged 60, was appointed as our non-executive director on 18 October 2013. Mr. He invested in our Group as a shareholder of Success Guarantee in July 2010. Mr. He also owns 9.09% equity interests in Success Credit.

Mr. He is the vice chairman of Success Asset and Foshan Lecong Real Estate Square Company Limited. Mr. He is currently the general manager of Foshan Tiefeng Industrial Investment Company Limited, and Foshan Shunde Shihai Industrial Investment Company Limited. Mr. He obtained a master degree in business administration from the Tsinghua University in 1998.

Mr. He was an NPC deputy of Lecong Town, Shunde District, Foshan City in 2015. He was a member of the 10th Shunde Committee of the Chinese People's Political Consultative Conference and is the vice president of The Steel and Iron Trade Association of Lecong Shunde
District Foshan City.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. TSANG Hung Kei**, aged 49, was appointed as our independent non-executive director on 18 October 2013. Mr. Tsang has more than 24 years of experience in financial management and reporting and corporate governance. He is a Fellow of the Association of Chartered Certified Accountants, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Institute of Chartered Accountants in England and Wales. He had years of working experience in an international accounting firm and is currently the chief financial officer of Pak Fah Yeow International Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Main Board"), and an executive director of its major subsidiaries. He is also an independent non-executive director of China Wah Yan Healthcare Limited and Ground International Development Limited, the issued shares of both of which are listed on the Main Board. Mr. Tsang holds a bachelor degree in computer science and accounting at the University of Manchester, United Kingdom.

**Mr. AU Tien Chee Arthur**, age 47, was appointed as our independent non-executive director on 18 October 2013. Mr. Au is a lawyer with over 21 years of legal and industry operations experience in corporate and private practice settings. He is the Global Legal Director for Strategic Projects and Operations at Byton, a global electric car manufacturer headquartered in Nanjing with international footprints in the U.S. and Germany. Previously Mr. Au worked with multinational companies such as The Hong Kong Exchange, Sands Group, Peninsula Hotel, Accenture, Hasbro etc. and biotech startup in Hong Kong as well as technology companies such as Google, Apple both in in-house or external counsel capacities. Before returning to Hong Kong. Mr. Au worked in Silicon Valley for well over a decade. He was the Director of Intellectual Property at Thoratec Corporation, and practiced law in the firms of Blakely, Sokoloff, Taylor & Zafman LLP and Morgan Lewis as well as being a seasoned engineer with industry experience. Mr. Au has a Bachelor of Science Degree in Biomedical and Electrical Engineering from Duke University, a Master of Science Degree in Biomedical Engineering from Case Western Reserve University, and a Juris Doctor Law Degree from Santa Clara University School of Law. He was admitted as a member of the State Bar of California and registered to practise with the US Patent and Trademark Office.

**Mr. XU Yan**, aged 47, was appointed as our independent nonexecutive director on 18 October 2013. Mr. Xu has over 20 years in the area of trade economy and banking. Mr. Xu began his career with the Foreign Affairs Department of the State Economic & Trade Commission (the predecessor of the State-owned Assets Supervision and Administration Commission of the State Council) as a deputy director from July 1994 to August 2000. He then worked for Cazenove Asia Limited as a manager, vice president and representative in chief of Beijing representative office from May 2002 to February 2009. In February 2009, Cazenove Asia Limited was taken over by the Standard Chartered Bank and renamed as Standard Chartered Securities (Hong Kong) Limited where Mr. Xu worked until he left in June 2012. Mr. Xu has also been the Chief Strategy Officer in China Minshen Future Holdings Group Limited (中民未來控股集團有限公司) from October 2015 to 31 December 2018. Mr. Xu obtained a bachelor's degree in English from Beijing Foreign Studies University in July 1994 and a master degree in business administration from the University of Manchester in June 2002.

**Mr. ZHOU Xiaojiang**, aged 57, was appointed as the independent non-executive Director on 4 July 2016. Mr. Zhou has been a director in Grandtopeak Land Consolidation Group Co., Ltd. (國泰土地整理集團有限公司), the chairman and legal representative of Beijing Zhong Di Land Consolidation Co., Ltd. (北京中地土地整理有限公司), the chairman and legal representative of Beijing Guotai Balance Land Layout and Design Co., Ltd. (北京國泰天平行土地規劃設計有限公司), the chairman and legal representative of Beijing Hongtai Entrepreneurial Land Consolidation Co., Ltd. (北京宏泰創業土地整理有限公司), the chairman and legal representative of Beijing Guoxing Weiye Land Consolidation Co., Ltd. (北京國興偉業土地整理有限公司), the chairman and legal representative of Beijing Guotai Pilot Sailing Boat Investment Co., Ltd. (北京國泰領航帆艇投資有限公司), and the general manager and legal representative of Guotai Jinglu Investment Holdings Co., Ltd. (國泰京魯投資控股有限公司) since December 2007.

Mr. Zhou was the chairman and legal representative of Guoyu Economic Development Corporation (國宇經濟發展總公司) (formerly China Three Gorges Economic Development Corporation (中國三峽經濟發展總公司)) from December 2004 to May 2007. He was also the general manager and legal representative of Hualian Real Estate Development Company (中國華聯房地產開發公司) from March 2001 to May 2007. Mr. Zhou obtained a bachelor degree of science, majoring in urban planning, from Chongqing University (formerly known as Chongqing Construction Engineering College (重慶建築工程學院)) in August 1983 and an MBA from Murdoch University in Australia in 2001.

# Biographical Details of Directors and Senior Management

## SENIOR MANAGEMENT

Our senior management consists of our executive directors and the following persons:

| Name | Age | Position in our Group |
|---|---|---|
| Mr. LIANG Tao | 37 | Chief financial officer of our Group |
| Mr. ZHONG Zhiqiang | 46 | Risk control director of Success Guarantee |
| Mr. PANG Chung Fai Benny | 47 | Company Secretary |

**Mr. LIANG Tao**, aged 37, was appointed as the chief financial officer of our Group on 18 October 2013 and is responsible for overseeing the financial matters of our Group. Mr. Liang has over 11 years of experience in financial management. Mr. Liang joined our Group in December 2010 and was responsible for the initial public offering of the Company in 2013. Prior to joining our Group, Mr. Liang has experience on undertaking the listing of a mainland enterprise in NASDAQ. Mr. Liang has been with L & L Energy, Inc., a US public company, and United Group Rail (NZ) Limited, an Australian listed company, and has been responsible for financial matters of the two companies. He holds Bachelor of Business Studies of Massey University majoring in accounting.

**Mr. ZHONG Zhiqiang**, aged 46, is the director of Investment and Financing Committee and is responsible for the investment and financing management of the Group. He is also the risk control director of Success Guarantee and is responsible for overseeing the risk management department of Success Guarantee. Mr. Zhong joined our Group in October 2009. Prior to joining of our Group, Mr. Zhong worked at the Bank of China from 1991 to 2009 for handling foreign exchange settlement, provision of loans and credits and sales and personal financing. His last position with the bank was assistant manager of the personal financial department. Mr. Zhong obtained a bachelor's degree in economics majoring in finance from Jinan University in Guangdong, the PRC in January 2004.

## COMPANY SECRETARY

**Mr. PANG Chung Fai Benny**, aged 47, was appointed as our Company Secretary on 18 October 2013. Mr. Pang is the sole proprietor of Benny Pang & Co., a firm of solicitors in Hong Kong and a partner of F. Zimmern & Co., a firm of solicitors in Hong Kong. Mr. Pang has been practising as a lawyer for over 20 years. Mr. Pang is currently (i) an independent non-executive director of Yuanda China Holdings Limited, a company listed on the Main Board with stock code 2789; (ii) an independent non-executive director of Sanbase Corporation Limited, a company listed on the growth enterprise market of the Stock Exchange with stock code 8501; (iii) an independent non-executive director of Janco Holdings Limited, a Company listed on the growth enterprise market of the Stock Exchange with stock code 8035; and (iv) a non-executive director of Huabang Financial Holdings Limited Technology Holdings Limited, a company listed on the Main Board with stock code 3638.

**Independent auditor's report to the shareholders of China Success Finance Group Holdings Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Success Finance Group Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 69 to 176, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We 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 Cayman Islands, 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.

**Impairment of receivables and provisions of guarantee losses**
*Refer to notes 12, 13, 14 and 21 to the consolidated financial statements and the accounting policies on pages 87 and 100.*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| The Group has applied Hong Kong Financial Reporting Standard No.9 — Financial Instruments ("HKFRS 9") since 1 January 2018 and developed a new expected credit loss model ("ECL model") for measuring impairment losses on financial assets and provisions for losses on financial guarantees issued by the Group.<br><br>The determination of loss allowances using the ECL model is subject to a number of key parameters and assumptions, including the identification of credit-impaired stage, estimates of probability of default, loss given default, exposures at default and discount rate, 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.<br><br>In particular, the determination of the loss allowances and provisions for guarantee losses is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The Group's expected credit losses and provisions for guarantee losses are derived from estimates including the Group's historical losses, internal and external credit grading and other adjustment factors. | Our audit procedures to assess the impairment of receivables and provisions for guarantee losses included the following:<br><br>• understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of receivables and financial guarantees issued, the identification of the three stages of ECL model and the measurement of impairment losses for receivables and provisions for financial guarantees issued;<br><br>• 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 credit-impaired stage, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments. |

**Impairment of receivables and provisions of guarantee losses** ***(continued)***

*Refer to notes 12, 13, 14 and 21 to the consolidated financial statements and the accounting policies on pages 87 and 100. (continued)*

| 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 debtors, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors.<br><br>Whilst the Group appoints external valuers for the valuation of certain properties and other illiquid collateral, 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 impairment losses and provisions for guarantee losses as at the end of the reporting period.<br><br>We identified the impairment of receivables and provisions for guarantee losses as a key audit matter because of the inherent uncertainty and management judgment involved and because of their significance to the financial results and capital of the Group. | • 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 receivables or guarantees agreements, we compared the total balance of the receivables grading report and guarantee list, which contain information used by management to assess impairment losses and provisions for guarantee losses with the general ledger, selecting samples and comparing individual receivables and guarantee information with the underlying receivables and guarantee agreements and other related documentation to assess the accuracy of compilation of the receivables grading report and of the guarantee list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources.<br><br>• 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. |

**Impairment of receivables and provisions of guarantee losses** ***(continued)***

*Refer to notes 12, 13, 14 and 21 to the consolidated financial statements and the accounting policies on pages 87 and 100. (continued)*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| | 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. |
| | • evaluating the validity of management's assessment on whether the credit risk of the receivables and guarantees have, or have not, increased significantly since initial recognition and whether the receivables and guarantees are credit-impaired by selecting samples in industries more vulnerable to the current economic situation. We checked the overdue information, making enquiries of the credit managers about the debtors' business operations, checking debtors' financial information and researching market information about debtors' businesses. |
| | • for receivables 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. |

**Impairment of receivables and provisions of guarantee losses** ***(continued)***

*Refer to notes 12, 13, 14 and 21 to the consolidated financial statements and the accounting policies on pages 87 and 100. (continued)*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| | 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.<br><br>• recalculating the amount of credit loss allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for receivables and guarantees where the credit risk of receivables and guarantees has not, or has, increased significantly since initial recognition, with the assistance of our internal specialists in financial risk management, establishing our own valuation models to perform revaluations.<br><br>• assessing the completeness and accuracy of outstanding financial guarantees by inspecting contracts, on a sample basis, and obtaining confirmations from the beneficiaries of all financial guarantees issued.<br><br>• evaluating whether the disclosures on impairment of receivables and provisions for guarantee losses meet the disclosure requirements in Hong Kong Financial Reporting Standard No.7 — Financial Instruments: Disclosures ("HKFRS 7"). |

**Assessing the carrying value of the Group's interest in Success Credit**

*Refer to note 16 to the consolidated financial statements and the accounting policies on pages 81, 82 and 87.*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| The Group's 27.08% interest in Foshan Chancheng Success Micro Credit Co., Ltd. ("Success Credit"), which is an unlisted corporate entity, is the principal component of the Group's interest in associates in the consolidated statement of financial position.<br><br>Under the equity method of accounting, interests in associates are initially stated at cost and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associates less any impairment allowances.<br><br>As Success Credit did not have new business and sustained a loss for the year ended 31 December 2019, there existed indicators of potential impairment of the Group's interest therein. Management prepared an estimate of the recoverable amount of the Group's interest in Success Credit based on net assets of Success Credit. This was performed by preparing credit review for all loans and taking the assets and liabilities of Success Credit into account to reassess the net assets of Success Credit. A number of key judgements were made by management in determining the recoverable amount of loans which included:<br><br>• discount rate;<br><br>• duration of disposal; and<br><br>• risk factor | Our audit procedures to assess the carrying value of the Group's interest in Success Credit included the following:<br><br>• discussing the Company development and loan quality with Success Credit's management, checking the loan contracts and repayment during the year;<br><br>• obtaining the list of pledged assets and the latest evaluation reports;<br><br>• evaluating the assumptions and judgements adopted by management in its discount rate, duration of disposal and the risk factor used to derive the recoverable amount of the loans through the following procedures：<br><br>    • conducting research on the assumptions and judgements relating to influence factors based on market information available;<br><br>    • performing an alternative calculation of the discount rate and comparing this calculation with the discount rate applied by management;<br><br>• Recalculating the net assets of Success Credit through reassessment of the assets and liabilities to consider if it is necessary to make provision for impairment of interests in associates; |

**Assessing the carrying value of the Group's interest in Success Credit** ***(continued)***

*Refer to note 16 to the consolidated financial statements and the accounting policies on pages 81, 82 and 87.*
*(continued)*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| We identified assessing the carrying value of the interest in Success Credit as a key audit matter because of its significance to the consolidated financial statements and because assessing the key impairment assumptions involved a significant degree of management judgement which may affect both the carrying value of the Group's interest in Success Credit as well as any impairment charge for the year. | • considering whether the disclosures the consolidated financial statements in respect of the impairment assessment of the Group's interest in Success Credit reflected the risks inherent in the key assumptions with reference to the requirements of the prevailing accounting standards. |

**Assessing the fair value of FVTPL**

*Refer to note 18 to the consolidated financial statements and the accounting policies on pages 82 and 83.*

**The Key Audit Matter**

The Group's 3.5% interest in Foshan Shengshi Junen Enterprise Management Company Limited ("Shengshi Junen"), and 12.9% interest in Guangdong MuPai Technology Limited Company ("MuPai") which are both classified as FVTPL in the consolidated statement of financial position.

Under the HKFRS 9, the initial measurement and subsequent measurement of FVTPL shall adopt fair value measurement and its changes shall be included in profit or loss.

Management involved valuer to prepare estimates of these FVTPL by the asset-based approach which is mainly to separate the assets and liabilities of target company and evaluate the value respectively. A number of key assumptions and judgements were made by management in determining the inputs for the method which included:

- The prospective earnings would provide a reasonable return to the Appraised asset, and that target company has adequate working capital to operate its business from time to time;

**How the matter was addressed in our audit**

Our audit procedures to assess the fair value of FVTPL included the following:

- getting access to the details of the contracts, inspecting the accuracy of classification of financial instruments;
- discussing the purpose of equity investments with management, visiting "Shengshi Junen" and "MuPai" project site in sudden inspection;
- collecting, checking the qualification and valuation reports of the valuer hired by the management;
- engaging our valuation specialists to assist us in evaluating the assumptions and judgements adopted by management relating to inflation, terminal values and the discount rate used to form the fair value of FVTPL through the following procedures：
  - conducting research on the assumptions and judgements relating to inflation, terminal values and the discount rate based on market information available;
  - performing an alternative calculation of the discount rate and comparing this calculation with the discount rate applied by management;

**Assessing the fair value of FVTPL *(continued)***

*Refer to note 18 to the consolidated financial statements and the accounting policies on pages 82 and 83. (continued)*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| • The Appraised Asset has obtained relevant government's approvals for the sale of the Appraised Asset or the assets owned by target company and is able to dispose of and transfer free of all encumbrances (including but not limited to the cost of transaction) in the market; and<br><br>• The Appraised Asset can be freely disposed and transferred free of all encumbrances for its existing uses in the market to both local and overseas purchasers without payment of any premium to the government.<br><br>We identified assessing the financial assets of FVTPL as a key audit matter because of its significance to the consolidated financial statements and there are significant judgements in classification of financial instruments under HKFRS 9. | • checking the qualification and independence, reviewing the workingpaper of the valuer involved by the auditor; |

## 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 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 responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 Choi Ching Hin.

**KPMG**
*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2020

# Consolidated Statement of Profit or Loss

for the year ended 31 December 2019
*(Expressed in Renminbi)*

| | Note | 2019<br>RMB'000 | 2018<br>(Note)<br>RMB'000 |
|---|---|---|---|
| Guarantee income | | **1,419,386** | 343,435 |
| Less: guarantee service fee | | **(1,338,833)** | (312,607) |
| Net guarantee fee income | | **80,553** | 30,828 |
| Interest income | | **9,754** | 36,099 |
| Less: interest expenses | | **(22,518)** | (16,452) |
| Net interest (expenses)/income | | **(12,764)** | 19,647 |
| Service fee from consulting services | | **1,254** | 5,603 |
| Revenue | 3 | **69,043** | 56,078 |
| Other revenue | 4 | **17,306** | 4,964 |
| Impairment and provision charged | 5(a) | **(471,989)** | (2,291) |
| Operating expenses | | **(55,028)** | (53,077) |
| Net fair value gain on other financial assets | | **4,336** | 15,885 |
| Share of (losses)/gains of associates | | **(27,061)** | 1,622 |
| **(Loss)/Profit before taxation** | 5 | **(463,393)** | 23,181 |
| Income tax | 6(a) | **32,144** | (17,900) |
| **(Loss)/Profit for the year** | | **(431,249)** | 5,281 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(430,061)** | 5,662 |
| Non-controlling interests | | **(1,188)** | (381) |
| **(Loss)/Profit for the year** | | **(431,249)** | 5,281 |
| **(Loss)/Earnings per share (RMB per share)** | | | |
| Basic | 9(a) | **(0.82)** | 0.01 |
| Diluted | 9(b) | **(0.82)** | 0.01 |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 75 to 176 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 28(b).

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019
*(Expressed in Renminbi)*

| | 2019 RMB'000 | 2018 (Note) RMB'000 |
|---|---|---|
| **(Loss)/Profit for the year** | **(431,249)** | 5,281 |
| **Other comprehensive (loss)/income for the year (after tax and reclassification adjustments)** | | |
| *Item that may be reclassified to profit or loss:* | | |
| Exchange differences on translation of financial statements of operations outside the mainland China | **(1,928)** | 2,722 |
| **Total comprehensive (loss)/income for the year** | **(433,177)** | 8,003 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **(431,989)** | 8,384 |
| Non-controlling interests | **(1,188)** | (381) |
| **Total comprehensive (loss)/income for the year** | **(433,177)** | 8,003 |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 75 to 176 form part of these financial statements.

# Consolidated Statement of Financial Position

at 31 December 2019
*(Expressed in Renminbi)*

| | Note | **31 December 2019** **RMB'000** | 31 December 2018 (Note) RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank deposits | 10 | **1,067,291** | 719,072 |
| Pledged bank deposits | 11 | **95,289** | 86,188 |
| Trade and other receivables | 12 | **705,669** | 725,219 |
| Factoring receivable | 13 | **59,112** | 90,999 |
| Finance lease receivable | 14 | **45,339** | 186,906 |
| Interests in associates | 16 | **68,541** | 91,602 |
| Equipment | 17 | **843** | 1,420 |
| Intangible assets | | **3** | 11 |
| Goodwill | 20 | **—** | 5,695 |
| Other financial assets | 18 | **43,753** | 23,951 |
| Deferred tax assets | 19(c) | **65,127** | 7,215 |
| Other assets | | **374** | — |
| **Total assets** | | **2,151,341** | 1,938,278 |
| **Liabilities** | | | |
| Liabilities from guarantees | 21 | **486,645** | 128,187 |
| Pledged deposits received | 22 | **766,997** | 309,021 |
| Interest-bearing borrowings | 23 | **38,555** | — |
| Liability component of convertible bonds | 24 | **66,771** | 110,640 |
| Accruals and other payables | 25 | **223,450** | 393,937 |
| Current tax | 19(a) | **21,305** | 17,867 |
| Obligations under finance leases | | **—** | 389 |
| Lease liabilities | 26 | **669** | — |
| **Total liabilities** | | **1,604,392** | 960,041 |
| **NET ASSETS** | | **546,949** | 978,237 |

The notes on pages 75 to 176 form part of these financial statements.

| | Note | **31 December 2019** | 31 December 2018 (Note) |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28(c) | **4,187** | 4,187 |
| Reserves | | **542,079** | 972,179 |
| **Total equity attributable to equity shareholders of the Company** | | **546,266** | 976,366 |
| **Non-controlling interests** | | **683** | 1,871 |
| **TOTAL EQUITY** | | **546,949** | 978,237 |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

Approved and authorised for issue by the board of directors on 30 March 2020.

張鐵偉
**Zhang Tiewei**
*Director*

李斌
**Li Bin**
*Director*

The notes on pages 75 to 176 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2019
*(Expressed in Renminbi)*

| | Notes | Share capital RMB'000 Note 28(c) | Share premium RMB'000 Note 28(d) | Capital reserve RMB'000 Note 28(e) | Surplus reserve RMB'000 Note 28(f) | Regulatory reserve RMB'000 Note 28(g) | Exchange reserve RMB'000 Note 28(h) | Retained earnings/ (accumulated losses) RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity shareholders of the Company | | | | | | | | | |
| **Balance at 31 December 2018 and 1 January 2019** | | 4,187 | 442,174 | 334,697 | 56,997 | 30,988 | 9,828 | 97,495 | 976,366 | 1,871 | 978,237 |
| **Changes in equity for 2019** | | | | | | | | | | | |
| Loss for the year | | – | – | – | – | – | – | (430,061) | (430,061) | (1,188) | (431,249) |
| Exchange differences on translation of financial statements of operations outside the mainland China | | – | – | – | – | – | (1,928) | – | (1,928) | – | (1,928) |
| Total comprehensive loss | | – | – | – | – | – | (1,928) | (430,061) | (431,989) | (1,188) | (433,177) |
| Contribution from shareholder | 28(e) | – | – | 1,889 | – | – | – | – | 1,889 | – | 1,889 |
| Regulatory reserve appropriation | 28(g) | – | – | – | – | – | – | – | – | – | – |
| Surplus reserve appropriation | | – | – | – | – | – | – | – | – | – | – |
| Convertible bonds capital reserve | 28(e) | – | – | (17,099) | – | – | – | 17,099 | – | – | – |
| **Balance at 31 December 2019** | | 4,187 | 442,174 | 319,487 | 56,997 | 30,988 | 7,900 | (315,467) | 546,266 | 683 | 546,949 |
| **Adjusted balance at 1 January 2018** | | 4,241 | 447,472 | 304,828 | 47,128 | 18,126 | 7,106 | 114,564 | 943,465 | 2,252 | 945,717 |
| **Changes in equity for 2018** | | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | 5,662 | 5,662 | (381) | 5,281 |
| Exchange differences on translation of financial statements of operations outside the mainland China | | – | – | – | – | – | 2,722 | – | 2,722 | – | 2,722 |
| Total comprehensive income | | – | – | – | – | – | 2,722 | 5,662 | 8,384 | (381) | 8,003 |
| Purchase of own share | 28(c)/(d) | (54) | (5,298) | – | – | – | – | – | (5,352) | – | (5,352) |
| Regulatory reserve appropriation | 28(g) | – | – | – | – | 12,862 | – | (12,862) | – | – | – |
| Surplus reserve appropriation | 28(f) | – | – | – | 9,869 | – | – | (9,869) | – | – | – |
| Equity settled share-based transactions | 28(e) | – | – | 174 | – | – | – | – | 174 | – | 174 |
| Convertible bonds capital reserve | 28(e) | – | – | 29,695 | – | – | – | – | 29,695 | – | 29,695 |
| **Balance at 31 December 2018** | | 4,187 | 442,174 | 334,697 | 56,997 | 30,988 | 9,828 | 97,495 | 976,366 | 1,871 | 978,237 |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 75 to 176 form part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2019
*(Expressed in Renminbi)*

| | Note | 2019 RMB'000 | 2018 (Note 1) RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash (used in)/generated from operations | 10(b) | **(16,990)** | 105,761 |
| PRC income tax paid | 19(a) | **(22,330)** | (15,725) |
| **Net cash (used in)/generated from operating activities** | | **(39,320)** | 90,036 |
| **Investing activities** | | | |
| Proceeds from investments in subsidiaries | 15 | **23,000** | — |
| (Investment in)/Proceeds from capital withdrawal of an associate | 16 | **(4,000)** | 3,200 |
| Proceeds from sales of equipments | | **—** | 32 |
| Payment for purchase of equipments | 17 | **(28)** | (48) |
| Acquisition of a subsidiary | | **—** | (4,302) |
| Acquisition of financial assets | 18 | **(11,850)** | — |
| Interest received | | **10,336** | 4,273 |
| **Net cash generated from investing activities** | | **17,458** | 3,155 |
| **Financing activities** | | | |
| Payment for repurchase of shares | | **—** | (5,351) |
| Interest paid | 10(c) | **(9,611)** | (4,350) |
| Payment on redemption of interest-bearing borrowings | 23 | **(8,958)** | — |
| Repayment of bank loans | | **—** | (5,000) |
| Net proceeds from issuance of convertible bonds | 24 | **—** | 122,116 |
| Capital and interest element of lease rentals paid | 10(c) | **(1,102)** | (171) |
| **Net cash (used in)/generated from financing activities** | | **(19,671)** | 107,244 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(41,533)** | 200,435 |
| **Cash and cash equivalents at 1 January** | 10 | **235,661** | 39,320 |
| **Effect of foreign exchange rate changes** | | **(291)** | (4,094) |
| **Cash and cash equivalents at 31 December** | 10 | **193,837** | 235,661 |

Note 1: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 75 to 176 form part of these 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 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 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— investments in debt and equity securities (see note 1(g)); and

— derivative financial instruments (see note 1(h)).

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.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

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 2.

### (c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies *(continued)*

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

*a. New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

*b. Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 30(a). For an explanation of how the Group applies lessee accounting, see note 1(j)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6%.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies *(continued)*

*b. Lessee accounting and transitional impact (continued)*

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 30(a) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

| | **1 January 2019 RMB'000** |
|---|---|
| Operating lease commitments at 31 December 2018 | 2,523 |
| Less: commitments relating to leases exempt from capitalisation: | |
| — short-term leases and other leases with remaining lease term ending on or before 31 December 2019 | (1,425) |
| | 1,098 |
| Less: total future interest expenses | (232) |
| Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 | 866 |
| Total lease liabilities recognised at 1 January 2019 | 866 |

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies *(continued)*

*b. Lessee accounting and transitional impact (continued)*

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summaries the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

| | Carrying amount at 31 December 2018 RMB'000 | Capitalisation of operating lease contracts RMB'000 | Carrying amount at 1 January 2019 RMB'000 |
|---|---|---|---|
| **Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:** | | | |
| Other assets | — | 866 | 866 |
| **Total assets** | 1,938,278 | 866 | 1,939,144 |
| Lease liabilities | — | (866) | (866) |
| **Total liabilities** | (960,041) | (866) | (960,907) |
| **Net assets** | 978,237 | — | 978,237 |

The impact on the financial result, segment results and cash flows of the Group are immaterial.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (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.

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(g)) or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (e) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (k)(iii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the any other long-term interests that in substance form part of the Group's net investment in the associate (after applying the ECL model to such other long-term interests where applicable (see note 1(k)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in an associate or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint 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(g)). In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 1(k)).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (e) Associates *(continued)*

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 1(k)), unless classified as held for sale.

### (f) 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(k)).

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.

### (g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments 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 29(d). These investments are subsequently accounted for as follows, depending on their classification.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Other investments in debt and equity securities *(continued)*

*(A) Investments other than equity investments*

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment 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 1(u)(i)).

— fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment 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 investment 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 investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

*(B) Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(u)(iv).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

### (i) Equipment

Items of equipment, including right-of-use assets arising from leases of underlying equipment (see note 1(j)) are stated at cost less accumulated depreciation and impairment losses (see note 1(k)(iii)).

Gains or losses arising from the retirement or disposal of an item of equipment 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 items of equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | *Estimated useful life* |
|---|---|
| Motor vehicles | 4–5 years |
| Office and other equipment | 3–5 years |

Where parts of an item of equipment have different useful lives, the cost of the item 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.

### (j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (j) Leased assets *(continued)*

*(i) As a lessee*

*(A) Policy applicable from 1 January 2019*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'other assets' and presents lease liabilities separately in the statement of financial position.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (j) Leased assets *(continued)*

*(i) As a lessee (continued)*

*(B) Policy applicable prior to 1 January 2019*

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

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

*(ii) As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption, then the Group classifies the sub-lease as an operating lease.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Credit losses and impairment of assets

*(i) Credit losses from financial instruments*

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade receivables, lease receivables and other receivables, including loans to associates, which is held for the collection of contractual cash flows which represent solely payments of principal and interest);

Other financial assets measured at fair value, including units in bond funds, equity and debt securities and derivative financial assets measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, 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).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

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

— fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

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

— lease receivables: discount rate used in the measurement of the lease receivable;

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Credit losses and impairment of assets *(continued)*

#### *(i) Credit losses from financial instruments (continued)*

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.

Loss allowances for trade receivables, finance lease receivables and factoring receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), 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 (including a loan commitment) 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 90 days 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.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Credit losses and impairment of assets *(continued)*

*(i) Credit losses from financial instruments (continued)*

*Significant increases in credit risk (continued)*

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, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

### 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (k) Credit losses and impairment of assets *(continued)*

*(i) Credit losses from financial instruments (continued)*

*Basis of calculation of interest income*

Interest income recognised in accordance with note 1(u)(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;

— 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, lease receivable or contract 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.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Credit losses and impairment of assets *(continued)*

*(ii) Credit losses from financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(k)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

### 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (k) Credit losses and impairment of assets *(continued)*

*(iii) Impairment of other non-current 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:

— equipment, including right-of-use assets (other than property carried at revalued amounts);

— intangible assets;

— goodwill; and

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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, 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 the 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or Group of units) and then, to reduce the carrying amount of the other 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 (if measurable) or value in use (if determinable).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Credit losses and impairment of assets *(continued)*

*(iii) Impairment of other non-current assets (continued)*

— *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.

*(iv) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### (l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(k)(i)).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (m) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(k)(i).

### (n) Other payables

Other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(k)(ii), other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (o) Interest-bearing borrowings

Interest-bearing borrowings are measured 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. Borrowing costs are expensed in the period in which they are incurred.

### (p) Convertible bonds

*(i) Convertible bonds that contain an equity component*

Convertible notes that can be converted into ordinary shares at the option of the Purchaser, where the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured at fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible bonds as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Convertible bonds *(continued)*

*(i) Convertible bonds that contain an equity component (continued)*

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bonds are converted or redeemed.

If the bonds are converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, the capital reserve is released directly to retained profits.

### (q) Employee benefits

*(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave and 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.

Pursuant to the relevant laws and regulations of the PRC, the Group's subsidiaries in the PRC have joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (q) Employee benefits *(continued)*

*(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the share issued) or the option expires (when it is released directly to retained profits).

In the Company's statement of financial position, the cost of the share-based payment granted to employees of the subsidiary are recognised as cost of investment in the subsidiary (see note 1(d)).

*(iii) Defined benefit retirement plan obligations*

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (q) Employee benefits *(continued)*

*(iii) Defined benefit retirement plan obligations (continued)*

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "distribution costs" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

When the benefits of a plan are changed, or when a plan is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

*(iv) Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

### (r) 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 reporting period, and any adjustment to tax payable in respect of previous years.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) Income tax *(continued)*

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 reporting period. Deferred tax assets and liabilities are not discounted.

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.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) Income tax *(continued)*

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 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 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.

### (s) Guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

The Group issues performance guarantee and litigation guarantee contracts, in which the Group agrees to provide guarantees to its customers who entered into contracts with third parties for services to be rendered, goods to be supplied or obligation to fulfil within an agreed time period. The Group is required to compensate the guarantee holder if a specified uncertain future event adversely results in the counterparties' failure to delivery services and goods, or to fulfil the obligation.

Where the Group issues a guarantee, the fair value of the guarantee is initially recognised as deferred income within liabilities from guarantees. The fair value of guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (s) Guarantees issued *(continued)*

The fair value of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from guarantees issued. In addition, provisions are recognised in accordance with note 1(t) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in deferred income in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

### (t) Provisions and contingent liabilities

Provisions are 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.

### (u) Revenue and other income

Income is classified by the Group as revenue when it arises from 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 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.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Revenue and other income *(continued)*

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 under 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(k)(i)).

*(ii) Guarantee fee income*

The amount of the guarantee is recognised when guarantee contracts have been made whereby the related guarantee obligation has been accepted, the economic benefits associated with the guarantee contracts will probably flow in, and the amount of revenue associated with guarantee contracts can be measured reliably. The fair value of the guarantee is initially recognised as deferred income and is amortised in profit or loss over the term of the guarantee as guarantee fee income (see note 1(s)).

*(iii) Service fee from consulting services*

The Group collects service fee by providing various consulting services to customers.

- If one of the following conditions is met, the Group will recognize the revenue according to the performance progress in the period:
  - the customer obtains the economic benefits through the Group's performance;
  - the customer is able to control the services performed by the Group in the performance process;
  - the services performed by the Group in the performance process have irreplaceable uses, and the Group has the right to collect the payment for the part of performance that has been completed.
- In other cases, the Group recognizes the revenue when the customer obtains the relevant service control right.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Revenue and other income *(continued)*

*(iv) Dividends*

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

### (v) 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.

### (w) 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.

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.

The results of foreign operations are translated into Renminbi ("RMB") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (w) Translation of foreign currencies *(continued)*

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

### (x) 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 of the other entity (or an associate 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 party.

(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).

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.

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements 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 services, the type or class of customers, the methods used to 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.

During the reporting period, the directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing financing solutions to customers, which is the basis to allocate resources and assess performance of the Group.

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile. All the Group's revenue and non- current assets are principally attributable to the PRC, being the single geographical region.

## 2 ACCOUNTING JUDGEMENT AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

### *(a) Critical accounting judgements in applying the Group's accounting policies*

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

— Note 1(k): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

— Note 1(k): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

### *(b) Sources of estimation uncertainty*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes.

— Note 1(k): impairment of financial instruments: determining inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

— Note 1(r): recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

— As explained in policy note 1(c), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

## 3 REVENUE

The principal activities of the Group are the provision of guarantees, financial leasing, factoring and financial consultancy services. The amount of each significant category of revenue recognised during the year is as follows:

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| **Guarantee fee income** | | |
| — Income from financial guarantees | **8,447** | 6,159 |
| — Income from online financial guarantees | **1,409,603** | 332,976 |
| — Income from performance guarantees | **1,279** | 3,725 |
| — Income from litigation guarantees | **57** | 575 |
| Gross guarantee fee income | **1,419,386** | 343,435 |
| Less: guarantee service fee | **(1,338,833)** | (312,607) |
| **Net guarantee fee income** | **80,553** | 30,828 |
| **Interest (expenses)/income** | | |
| — Interest income from receivables | **305** | 416 |
| — Interest income from finance leasing | **5,381** | 18,295 |
| — Interest income from factoring | **4,068** | 6,067 |
| — Interest income from down payments for investment | **—** | 11,321 |
| Less: interest expenses | **(22,518)** | (16,452) |
| **Net interest (expenses)/income** | **(12,764)** | 19,647 |
| Service fee from consulting services | **1,254** | 5,603 |
| Total | **69,043** | 56,078 |

During the year 2019, the Group's largest single customer contributed 10.45% of the Group's revenue (2018: 12.70%); while the percentage of the Group's top 5 customers' revenue was 17.33% (2018: 42.87%).

During the year 2019, the Group's largest single cooperation third party that referring customers to the Group has referred customers' revenue of 33.98% (2018: 25.39%) of the Group's revenue; while the percentage of the Group's top 5 cooperation third parties that referring customers to the Group have referred customers' revenue was 77.72% (2018: 37.65%).

## 4 OTHER REVENUE

| | Note | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| Fair value gain on modification of the terms of convertible bonds | | **4,274** | — |
| Interest income from bank deposits | | **12,073** | 2,846 |
| Interest income from related parties | 31(c) | **—** | 1,860 |
| Government grants | (a) | **922** | 120 |
| Others | | **37** | 138 |
| Total | | **17,306** | 4,964 |

(a) Guangdong Success Finance Guarantee Company Limited ("Success Guarantee") received funding support mainly from Foshan Municipal Bureau of Finance. The entitlement of the government grants was under the discretion of the relevant government bureaus. The government grants were provided to the Group for its support to small and medium enterprises. The grants were unconditional and were therefore recognised as income when received.For the year ended 31 December 2019, a government grant amounted to RMB865,672 (2018: RMB60,000) was rewarded to Success Guarantee.

Guangdong Success Asset Management Company Limited ("Success Asset") received funding support mainly from the Econimic Promition Bureau of Shunde District of Foshan City. The entitlement of the government grants was under the discretion of the relevant government bureaus. The purpose of the government grants was to grant financial assistance to enterprises above certain designated size. For the year ended 31 December 2019, a government grant amounted to RMB50,000 (2018: RMB50,000) was rewarded to Success Asset.

## 5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is arrived at after charging/(crediting):

### (a) Impairment and provision — charged/(written back)

| | Note | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| Provision charged/(written back) for guarantees issued | 21(a) | **2,945** | (1,567) |
| Impairment allowances charged for: | | | |
| — receivables from guarantee payments | 12(a)(ii) | **167,185** | 1,614 |
| — factoring receivable | 13(b) | **26,446** | 787 |
| — finance lease receivable | 14(b) | **140,471** | 1,827 |
| — trade and other receivable | | **129,119** | — |
| — intangible assets written off | | **—** | 61 |
| Recoveries of amounts previously written off | | **—** | (431) |
| Impairment of goodwill | | **5,823** | — |
| Total | | **471,989** | 2,291 |

### (b) Staff costs

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Salaries, wages and other benefits | **21,597** | 23,441 |
| Contributions to defined contribution retirement plan | **610** | 485 |
| Equity settled share-based payment expenses | **—** | 174 |
| Total | **22,207** | 24,100 |

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Schemes based on certain percentages of the eligible employees' salaries. The local government authority is responsible for the entire pension obligations payable to the retired employees.

The Group has no other material obligations for payments of retirement and other post- retirement benefits of employees other than the contributions described above.

## 5 (LOSS)/PROFIT BEFORE TAXATION *(continued)*

### (c) Other items

| | Note | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| Depreciation charge | | **1,469** | 599 |
| — right-of-use assets | | **903** | — |
| — owned equipment | | **566** | 599 |
| Amortisation | | **173** | 397 |
| Operating lease charges in respect of leasing of properties | 1(c)b(i) | **1,890** | 4,132 |
| Auditors' remuneration | | **2,920** | 2,407 |
| — audit services | | **1,798** | 1,710 |
| — other services | | **1,122** | 697 |
| Net foreign exchange loss | | **291** | 4,094 |

The operating lease charges above are exempted from HKFRS 16 since the remaining lease term ends within 12 months.

## 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### (a) Taxation in the consolidated statement of profit or loss represents:

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| **Current tax** | | |
| Provision for PRC income tax for the year | **(30,818)** | (20,665) |
| Tax filing differences | **5,050** | (25) |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **57,912** | 2,790 |
| Total | **32,144** | (17,900) |

## 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

### (b) Reconciliation between income tax and accounting (loss)/profit at applicable tax rates:

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| (Loss)/Profit before taxation | **(463,393)** | 23,181 |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable in the jurisdictions concerned | **115,848** | (5,795) |
| Tax effect of unused tax losses not recognised | **(88,486)** | (11,918) |
| Tax effect of non-deductible expenses | **(268)** | (162) |
| Tax filing differences | **5,050** | (25) |
| Actual tax expense | **32,144** | (17,900) |

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands, respectively.

(ii) No provision for Hong Kong Profits Tax has been made for the Company and the subsidiaries located in Hong Kong as the Company and the subsidiaries had not derived any income subject to Hong Kong Profits Tax during the year.

(iii) According to the PRC Corporate Income Tax ("CIT") Law that took effect on 1 January 2008, the Group's PRC subsidiaries are subject to PRC income tax at the statutory tax rate of 25%.

(iv) Pursuant to the CIT Law and its related regulations, non-PRC-resident enterprises are levied withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from PRC enterprises for profits earned since 1 January 2008. Distributions of earnings generated prior to 1 January 2008 are exempt from such withholding tax. As a part of the continuing evaluation of the Group's dividend policy, management considered that for the purpose of business development, the undistributed earnings from 1 January 2008 of the PRC subsidiaries amounted to RMB139,972,000 as at 31 December 2019 (2018: RMB241,622,000) will not be distributed in the foreseeable future. As such, no deferred tax liabilities were recognised in respect of the PRC withholding tax.

## 7 DIRECTORS' 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:

| | For the year ended 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Directors' fees** | **Salaries, allowances and benefits in kind** | **Retirement scheme contributions** | **Sub-total** | **Share-based payments (note (i))** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Chairman and executive director** | | | | | | |
| Mr. Zhang Tiewei | 3,170 | — | — | 3,170 | — | 3,170 |
| **Executive directors** | | | | | | |
| Mr. Li Bin | — | 2,145 | 31 | 2,176 | — | 2,176 |
| Ms. Dai Jing | — | 1,772 | 29 | 1,801 | — | 1,801 |
| Mr. Xu Kaiying | 2,113 | 14 | — | 2,127 | — | 2,127 |
| Mr. Pang Haoquan | 1,057 | — | — | 1,057 | — | 1,057 |
| **Non-executive director** | | | | | | |
| Mr. He Darong | 211 | — | — | 211 | — | 211 |
| **Independent non-executive directors** | | | | | | |
| Mr. Tsang Hung Kei | 211 | — | — | 211 | — | 211 |
| Mr. Au Tien Chee Arthur | 211 | — | — | 211 | — | 211 |
| Mr. Xu Yan | 211 | — | — | 211 | — | 211 |
| Mr. Zhou Xiaojiang | 211 | — | — | 211 | — | 211 |
| Total | 7,395 | 3,931 | 60 | 11,386 | — | 11,386 |

## 7 DIRECTORS' REMUNERATION *(continued)*

| | For the year ended 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Directors' fees | Salaries, allowances and benefits in kind | Retirement scheme contributions | Sub-total | Share-based payments (note (i)) | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Chairman and executive director** | | | | | | |
| Mr. Zhang Tiewei | 1,773 | — | — | 1,773 | — | 1,773 |
| **Executive directors** | | | | | | |
| Mr. Li Bin | — | 846 | 31 | 877 | 28 | 905 |
| Ms. Dai Jing | — | 652 | 30 | 682 | 24 | 706 |
| Mr. Xu Kaiying | 1,182 | 15 | — | 1,197 | — | 1,197 |
| Mr. Pang Haoquan | 591 | — | — | 591 | — | 591 |
| **Non-executive director** | | | | | | |
| Mr. He Darong | 203 | — | — | 203 | — | 203 |
| **Independent non-executive directors** | | | | | | |
| Mr. Tsang Hung Kei | 203 | — | — | 203 | — | 203 |
| Mr. Au Tien Chee Arthur | 203 | — | — | 203 | — | 203 |
| Mr. Xu Yan | 203 | — | — | 203 | — | 203 |
| Mr. Zhou Xiaojiang | 203 | — | — | 203 | — | 203 |
| Total | 4,561 | 1,513 | 61 | 6,135 | 52 | 6,187 |

Notes:

(i) Share-based payments

These represent the estimated value of share options granted to the director under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(q)(ii).

(ii) There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2019.

According to the financial performance of the year ended 31 December 2018, on 29 March 2019, the board of directors decided not to grant the suspended 50% payment of executive directors from 1 March 2018 to 31 December 2018.

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emolument, four (2018: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2018: one) individual is as follows:

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Salaries and other emoluments | **1,364** | 1,077 |
| Contributions to defined contribution retirement plan | **33** | 49 |
| Share-based payments | **—** | 13 |
| Total | **1,397** | 1,139 |

The emoluments of the one (2018: one) individual with the highest emoluments are within the following bands:

| | **2019** | 2018 |
|---|---|---|
| HKD1,000,000 — HKD2,000,000 | **1** | 1 |

There were no amounts paid during the years ended 31 December 2019 and 2018 to the individuals in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join.

**Other comprehensive income**

Tax effects relating to each component of other comprehensive income

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Before tax amout RMB'000** | **Tax benefit RMB'000** | **Net-of-tax amount RMB'000** | Before tax amout RMB'000 | Tax expense RMB'000 | Net-of-tax amount RMB'000 |
| Exchange differences on translation of: | | | | | | |
| — financial statements of overseas subsidiaries | 2,571 | 643 | 1,928 | (3,629) | (907) | (2,722) |

## 9 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB430,061,000 (2018 profit: RMB5,662,000) and the weighted average of 524,635,000 ordinary shares (2018: 528,212,000 ordinary shares) in issue during the year, calculated as follows:

***Weighted average number of ordinary shares***

| | **2019** | 2018 |
|---|---|---|
| | **'000** | '000 |
| Issued ordinary shares at 1 January | **524,635** | 530,805 |
| Effect of shares repurchase | **—** | (2,593) |
| Weighted average number of ordinary shares at 31 December | **524,635** | 528,212 |

### (b) Diluted (loss)/earnings per share

The Group has convertible bonds as dilutive potential ordinary shares during the year ended 31 December 2019.

As the Group's convertible bonds have an anti-dilutive effect to the basic earnings per share calculation for the year ended 31 December 2019, and, therefore, diluted (loss)/earnings per share are the same as the basic (loss)/earnings per share.

## 10 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

### (a) Cash and cash equivalents comprise:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| Demand deposits and term deposits with banks with original maturity less than three months | **193,765** | 235,609 |
| Bank deposit with original maturity over three months | **102,400** | — |
| Restricted customer pledged deposits | **71** | 61 |
| Restricted third-party pledged deposits | **766,926** | 308,960 |
| Other restricted funds | **4,057** | 174,390 |
| Cash in hand | **72** | 52 |
| **Cash and bank deposits in the consolidated statement of financial position** | **1,067,291** | 719,072 |
| Bank deposit with original maturity over three months | **(102,400)** | — |
| Restricted customer pledged deposits | **(71)** | (61) |
| Restricted third-party pledged deposits | **(766,926)** | (308,960) |
| Other restricted funds | **(4,057)** | (174,390) |
| **Cash and cash equivalents in the consolidated cash flow statement** | **193,837** | 235,661 |

Pursuant to the Implementing Rules for the Administration of Financial Guarantee Companies promulgated by the People's Government of the Guangdong Province on 27 September 2010 and the Notice on Regulating the Management of Customer Pledged Deposits of Financial Guarantee Institutions announced by the Joint Committee for the Regulation of the Financial Guarantee Industry on 15 April 2012, the Group is required to set up certain arrangements to manage the customers' pledged deposits by 31 March 2011.

These arrangements include: (i) enter into tripartite custodian agreement among lending bank, customer or the third party and the Group, for ensuring the entrustment of lending bank to manage the deposits; (ii) deposit the pledged deposit received from the customer/third party into a designated custodian bank account; and (iii) such deposit is not available for use by the Group.

## 10 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

### (a) Cash and cash equivalents comprise: *(continued)*

In order to comply with the aforesaid rules and regulations, the Group had set up internal guidelines which were adopted by the Group in May 2012. However, the aforesaid rules and regulations are not enforceable to banks and the Group could not enter into tripartite custodian arrangement with certain lending banks. As at 31 December 2019, restricted customer pledged deposits of RMB66,000 (2018: RMB56,000) were deposited into a designated bank account under tripartite custodian arrangements. For those guarantee services without setting up tripartite custodian arrangements, the Group has maintained the restricted customer pledged deposits received in the Group's bank accounts.

Pursuant to the agreements in relation to the online financial guarantee business, the Group set up certain arrangements to manage the third parties' pledged deposits.

These arrangements include: (i) enter into tripartite custodian agreement among lending bank, the third party and the Group, for ensuring the entrustment of lending bank to manage the deposits; (ii) deposit the pledged deposit received from the third party into a designated custodian bank account; and (iii) such deposit is not available for use by the Group. As at 31 December 2019, restricted third-party pledged deposits of RMB766,926,000 (2018: 308,960,000) were deposited into a designated bank account under tripartite custodian arrangements. There are corresponding same amount of balances being recorded in pledged deposits received (note 22).

As at 31 December, the restricted pledged deposits received were maintained as follows:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Restricted third-party pledged deposits | **766,926** | 308,960 |
| Restricted customer pledged deposits: | | |
| — designated custodian bank accounts | **66** | 56 |
| — the Group's bank accounts | **5** | 5 |
| Total | **766,997** | 309,021 |

## 10 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

### (b) Reconciliation of (loss)/profit before taxation to cash (used in)/generated from operations

| | Note | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **(Loss)/Profit before taxation** | | **(463,393)** | 23,181 |
| **Adjustments for:** | | | |
| Depreciation and amortisation | 5(c) | **1,642** | 996 |
| Impairment and provision charged | 5(a) | **471,989** | 2,291 |
| Share of losses/(gains) of associates | | **27,061** | (1,622) |
| Unrealised foreign exchange losses | | **754** | 15,339 |
| Interest income | 4 | **(12,073)** | (4,706) |
| Equity settled share-based payment expenses | 5(b) | **—** | 174 |
| Interest expenses | 3 | **22,518** | 16,452 |
| Net fair value gain on other financial assets | | **(4,336)** | (15,885) |
| Other revenue on modification of the terms of convertible bonds | 24 | **(4,274)** | — |
| **Changes in working capital:** | | | |
| (Increase)/decrease in pledged bank deposits | 11 | **(9,101)** | 9,311 |
| Increase in trade and other receivables | | **(239,520)** | (383,304) |
| Decrease in factoring receivable | 13 | **5,441** | 1,943 |
| Decrease/(increase) in finance lease receivable | 14 | **1,096** | (14,112) |
| (Decrease)/increase in accruals and other payables | | **(170,307)** | 342,719 |
| Increase in deferred income | 21 | **355,513** | 112,984 |
| **Cash (used in)/generated from operating activities** | | **(16,990)** | 105,761 |

## 10 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

### (c) Reconciliation of liabilities arising from financing activities

| | Note | Interest-bearing borrowings RMB'000 | Liability component of convertible bonds RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2019** | | — | 110,640 | 1,255 | 111,895 |
| **Changes from financing cash flows:** | | | | | |
| Recognition of the terms of the convertible bonds and interest-bearing borrowings upon modification | 24 | 41,257 | (41,257) | — | — |
| Repayment of interest-bearing borrowings | 23 | (8,958) | — | — | (8,958) |
| Capital and interest element of lease rentals paid | | — | — | (1,102) | (1,102) |
| Interest paid | | (4,079) | (5,532) | — | (9,611) |
| **Total changes from financing cash flows** | | 28,220 | (46,789) | (1,102) | (19,671) |
| **Exchange adjustments** | | 179 | 2,825 | 10 | 3,014 |
| **Other changes:** | | | | | |
| Interest expenses | | 10,311 | 11,879 | 92 | 22,282 |
| Other revenue | | — | (2,576) | — | (2,576) |
| Increase in lease liabilities | 26 | — | — | 414 | 414 |
| Increase in other payables | | 366 | 968 | — | 1,334 |
| Decrease in other receivables | | (521) | (10,176) | — | (10,697) |
| **Total other changes** | | 10,156 | 95 | 506 | 10,757 |
| **At 31 December 2019** | | 38,555 | 66,771 | 669 | 105,995 |

## 11 PLEDGED BANK DEPOSITS

Pledged bank deposits represent the deposits pledged to banks for the financial guarantees that the Group provides to the customers for their borrowings from banks.

## 12 TRADE AND OTHER RECEIVABLES

| | Note | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|---|
| Receivables from guarantee payments | (a)(i) | **245,197** | 247,083 |
| Less: allowances for doubtful debts | (a)(ii) | **(181,617)** | (14,432) |
| | | **63,580** | 232,651 |
| Trade debtors from consultancy services | | **369** | 13,344 |
| Trade debtors from guarantees | | **79,947** | 22,801 |
| | | **80,316** | 36,145 |
| Trade receivables | (a) | **143,896** | 268,796 |
| Down payments for investments net of impairment allowances | (b) | **24,857** | 74,850 |
| Deposit and other receivables, net of impairment allowances | (c) | **70,540** | 210,378 |
| Amounts due from related parties | 31(d) | **20,480** | 27,568 |
| | | **259,773** | 581,592 |
| Deferred expenses of online financial guarantee business | | **425,580** | 98,075 |
| Mortgage assets | | **3,199** | 3,380 |
| Others | | **17,117** | 42,172 |
| Total | | **705,669** | 725,219 |

## 12 TRADE AND OTHER RECEIVABLES *(continued)*

### (a) Ageing analysis of trade receivables

As of the end of the reporting period, the ageing analysis of trade receivables (net of allowances for doubtful debts), based on the guarantee income recognition date or advance payment date, is as follows:

| | Note | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|---|
| Within 1 month | | **66,275** | 14,563 |
| Over 1 month but less than 3 months | | **3,233** | — |
| Over 3 months but less than 1 year | | **12,464** | 7,381 |
| More than 1 year | | **243,541** | 261,284 |
| Total | | **325,513** | 283,228 |
| Less: allowances for doubtful debts | (ii) | **(181,617)** | (14,432) |
| Total | | **143,896** | 268,796 |

*(i) Receivables from guarantee payments*

Receivables from guarantee payments represented payments made by the Group to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurred because the customers fail to make payments when due in accordance with the terms of the corresponding debt instruments. Receivables from guarantee payments were interest-bearing and the Group holds certain collaterals over certain customers.

During the year ended 31 December 2019, the Group did not dispose of receivables from guarantee payments.

## 12 TRADE AND OTHER RECEIVABLES *(continued)*

### (a) Ageing analysis of trade receivables *(continued)*

*(ii) Trade receivables that are impaired*

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against debtors directly (see note 1(k)).

At 31 December 2019, the Group's debtors of RMB325,513,000 (2018: RMB283,228,000) of receivables from guarantee payments were determined to be stage 3 lifetime ECL credit-impaired, see note 12(a). These related to customers or other parties that were in financial difficulties and management assessed that the receivables are not expected to be fully recovered. Consequently, allowances for the doubtful debts were recognised as follows:

| | **2019 Lifetime ECL credit-impaired RMB'000** |
|---|---|
| As at 31 December 2018 | 14,432 |
| Net re-measurement of loss allowance | 167,185 |
| As at 31 December 2019 | 181,617 |

| | 2018 Lifetime ECL credit-impaired RMB'000 |
|---|---|
| As at 31 December 2017 | 12,818 |
| Net re-measurement of loss allowance | 1,614 |
| As at 31 December 2018 | 14,432 |

## 12 TRADE AND OTHER RECEIVABLES *(continued)*

### (b) Down payments for investments, net of impairment allowances

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Down payments for investments | **81,557** | 74,850 |
| Less: allowances | **(56,700)** | — |
| Total | **24,857** | 74,850 |

***Ageing analysis***

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Less than 1 year | **—** | — |
| More than 1 year | **24,857** | 74,850 |
| Total | **24,857** | 74,850 |

Down payments for investments represented the down payments for the acquisition project that the Group is conducting. At 31 December 2019, the Group's debtors had impairment allowances of RMB56,700,000 of down payments for investments. These related to customers or other parties that were in financial difficulties and management assessed that the receivables are not expected to be fully recovered. Down payments for investments were determined to be stage 3 lifetime ECL credit-impaired.

## 12 TRADE AND OTHER RECEIVABLES *(continued)*

### (c) Deposit and other receivables, net of impairment allowances

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Deposit and other receivables | **138,901** | 216,478 |
| Less: allowances for other receivables | **(68,361)** | (6,100) |
| Total | **70,540** | 210,378 |

***Ageing analysis***

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Less than 1 year | **39,032** | 139,680 |
| More than 1 year | **31,508** | 70,698 |
| Total | **70,540** | 210,378 |

| | **2019 Lifetime ECL credit-impaired RMB'000** |
|---|---|
| As at 31 December 2018 | (6,100) |
| Net re-measurement of loss allowance | (62,261) |
| As at 31 December 2019 | (68,361) |

| | 2018 Lifetime ECL credit-impaired RMB'000 |
|---|---|
| As at 31 December 2017 | (6,100) |
| Net re-measurement of loss allowance | — |
| As at 31 December 2018 | (6,100) |

## 12 TRADE AND OTHER RECEIVABLES *(continued)*

### (c) Deposit and other receivables, net of impairment allowances *(continued)*

As at 31 December 2019, management adopted a lifetime ECL credit impaired assessment on the Group's debtor's amounting to RMB68,361,000, for which a full impairment allowance had been provided.

As at 31 December 2018, management adopted a lifetime ECL credit impaired assessment on the Group's debtor's amounting to RMB6,100,000, for which a full impairment allowance had been provided.

## 13 FACTORING RECEIVABLE

| | | **31 December 2019** | | |
|---|---|---|---|---|
| | Notes | **12-month ECL RMB'000** | **Lifetime ECL credit-impaired RMB'000** | **Total RMB'000** |
| Factoring receivable | | 56,559 | 26,950 | 83,509 |
| Interest receivable from factoring receivable | | 196 | 4,896 | 5,092 |
| Less: allowances for factoring receivable | (a)/(b) | (1,577) | (27,912) | (29,489) |
| Carrying amount of factoring receivable | | 55,178 | 3,934 | 59,112 |

| | | 31 December 2018 | | |
|---|---|---|---|---|
| | Notes | 12-month ECL RMB'000 | Lifetime ECL credit-impaired RMB'000 | Total RMB'000 |
| Factoring receivable | | 62,000 | 26,950 | 88,950 |
| Interest receivable from factoring receivable | | 196 | 4,896 | 5,092 |
| Less: allowances for factoring receivable | (a)/(b) | (1,569) | (1,474) | (3,043) |
| Carrying amount of factoring receivable | | 60,627 | 30,372 | 90,999 |

## 13 FACTORING RECEIVABLE *(continued)*

### (a) Ageing analysis

As of the end of the reporting period, the ageing analysis of factoring receivable, based on the maturity date in contracts, is as follows:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Within 1 month | **105** | 105 |
| Over 1 month but less than 3 months | **—** | — |
| Over 3 months but less than 1 year | **36,560** | 65,116 |
| More than 1 year | **51,936** | 28,821 |
| Total | **88,601** | 94,042 |
| Less: allowances for factoring receivable | **(29,489)** | (3,043) |
| Total | **59,112** | 90,999 |

### (b) Impairment of factoring receivable

Impairment losses in respect of factoring receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against debtors directly (see note 1(k)).

Consequently, an allowance of impairment losses for factoring receivable during the year was recognised as follows:

| | **2019** | | |
|---|---|---|---|
| | **12-month ECL RMB'000** | **Lifetime ECL credit-impaired RMB'000** | **Total RMB'000** |
| Balance at 31 December 2018 and 1 January 2019 | 1,569 | 1,474 | 3,043 |
| Net re-measurement of loss allowance | 8 | 26,438 | 26,446 |
| Balance at 31 December 2019 | 1,577 | 27,912 | 29,489 |

## 13 FACTORING RECEIVABLE *(continued)*

| | 2018 | | |
|---|---|---|---|
| | 12-month ECL RMB'000 | Lifetime ECL credit-impaired RMB'000 | Total RMB'000 |
| Balance at 1 January 2018 | 1,717 | 539 | 2,256 |
| Transfer to 12-month ECL | (123) | 123 | — |
| Net re-measurement of loss allowance | (25) | 812 | 787 |
| Balance at 31 December 2018 | 1,569 | 1,474 | 3,043 |

## 14 FINANCE LEASE RECEIVABLE

| | Notes | **31 December 2019** | | |
|---|---|---|---|---|
| | | **12-month ECL RMB'000** | **Lifetime ECL credit-impaired RMB'000** | **Total RMB'000** |
| Net amount of finance lease receivable | | 46,823 | 144,567 | 191,390 |
| Less: allowances for finance lease receivable | (a)/(b) | (1,484) | (144,567) | (146,051) |
| Carrying amount of finance lease receivable | | 45,339 | — | 45,339 |

| | Notes | 31 December 2018 | | |
|---|---|---|---|---|
| | | 12-month ECL RMB'000 | Lifetime ECL credit-impaired RMB'000 | Total RMB'000 |
| Net amount of finance lease receivable | | 47,919 | 144,567 | 192,486 |
| Less: allowances for finance lease receivable | (a)/(b) | (1,389) | (4,191) | (5,580) |
| Carrying amount of finance lease receivable | | 46,530 | 140,376 | 186,906 |

## 14 FINANCE LEASE RECEIVABLE *(continued)*

**(a) The table below analyses the Group's finance lease receivable by relevant maturity Grouping at the end of the reporting period:**

| | **31 December 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Present value of the minimum lease payments RMB'000** | **Total minimum lease payments RMB'000** | Present value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 |
| Overdue | 145,039 | 145,039 | 28,179 | 28,179 |
| Within 1 year | 46,351 | 50,898 | 109,774 | 116,640 |
| After 1 year but within 5 years | — | — | 54,533 | 58,357 |
| Total | 191,390 | 195,937 | 192,486 | 203,176 |
| Less: allowances for finance lease receivable | (146,051) | (146,051) | (5,580) | (5,580) |
| Net investment in finance lease receivable | 45,339 | 49,886 | 186,906 | 197,596 |

**(b) Impairment allowances charged for finance lease receivable**

| | **2019** | | |
|---|---|---|---|
| | **12-month ECL RMB'000** | **Lifetime ECL credit-impaired RMB'000** | **Total RMB'000** |
| Balance at 31 December 2018 and 1 January 2019 | 1,389 | 4,191 | 5,580 |
| Net re-measurement of loss allowance | 95 | 140,376 | 140,471 |
| Balance at 31 December 2019 | 1,484 | 144,567 | 146,051 |

## 14 FINANCE LEASE RECEIVABLE *(continued)*

### (b) Impairment allowances charged for finance lease receivable *(continued)*

| | 2018 | | |
|---|---|---|---|
| | 12-month ECL RMB'000 | Lifetime ECL credit-impaired RMB'000 | Total RMB'000 |
| Balance at 1 January 2018 | 1,008 | 2,745 | 3,753 |
| Net re-measurement of loss allowance | 381 | 1,446 | 1,827 |
| Balance at 31 December 2018 | 1,389 | 4,191 | 5,580 |

### (c) An analysis of the overdue finance lease receivable is as follows:

| | **31 December 2019** | | | | 31 December 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Overdue within 3 months RMB'000** | **Overdue over 3 months but within 1 year RMB'000** | **Over 1 year RMB'000** | **Total RMB'000** | Overdue within 3 months RMB'000 | Overdue over 3 months but within 1 year RMB'000 | Over 1 year RMB'000 | Total RMB'000 |
| Finance lease receivable | **38,985** | **95,830** | **10,224** | **145,039** | — | 27,713 | 466 | 28,179 |

*(Expressed in Renminbi unless otherwise indicated)*

## 15 INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries of the Group.

| | | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|---|
| Name of company | Place of incorporation and kind of legal entity | Date of incorporation | Fully paid-up capital | Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
| Double Chance Developments Limited ("Double Chance") | BVI Ltd | 8 February 2012 | 1 share of USD1 each | 100% | 100% | — | Investment holding |
| Yes Success Limited ("Yes Success") | BVI Ltd | 3 June 2015 | 1 share of USD1 each | 100% | 100% | — | Investment holding |
| China Success Capital Limited ("Success Capital") | BVI Ltd | 29 June 2016 | 1 share of USD1 each | 100% | 100% | — | Investment holding |
| China Success Finance Holdings Limited ("Success Finance") | Hong Kong Ltd | 18 November 2011 | 10,000 shares of HKD1 each | 100% | — | 100% | Investment holding |
| China Success Capital (HK) Limited ("Success Capital (HK)") | Hong Kong Ltd | 1 August 2016 | — | 100% | — | 100% | Provision of asset management and merger services outside the PRC |
| Guangdong Success Asset Management Company Limited ("Success Asset") | The PRC Ltd | 23 June 2004 | RMB170,270,000 | 99.27% | — | 99.27% | Provision of asset management and financial consultancy services in the PRC |
| Guangdong Success Finance Guarantee Company Limited ("Success Guarantee") | The PRC Ltd | 26 December 1996 | RMB430,000,000 | 99.27% | — | 100% | Provision of financial guarantee services in the PRC |
| Shenzhen Success Financial Leasing Company Limited ("Success Financial Leasing") | The PRC Ltd | 6 June 2014 | USD28,000,000 | 100% | — | 100% | Provision of financial leasing services in the PRC |
| Shenzhen Success Equity Investment Fund Management Limited ("Success Equity Fund") | The PRC Ltd | 6 September 2014 | RMB15,000,000 | 100% | — | 100% | Equity investment in the PRC |
| Foshan Success Cloud Technology Company Limited ("Success Cloud") (Note 1) | The PRC Ltd | 9 January 2019 | RMB 1,000,000 | 69.49% | — | 70% | Provision of cloud technology development services in the PRC |

*(Expressed in Renminbi unless otherwise indicated)*

### 15 INVESTMENTS IN SUBSIDIARIES *(continued)*

| | | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|---|
| **Name of company** | **Place of incorporation and kind of legal entity** | **Date of incorporation** | **Fully paid-up capital** | **Group's effective interest** | **Held by the Company** | **Held by a subsidiary** | **Principal activities** |
| Foshan Success Technologies Company Limited ("Success Technologies") (Note 2) | The PRC Ltd | 11 December 2018 | — | 45.56% | — | 45.90% | Provision of software development services in the PRC |
| Shenzhen Success Number One Equity Investment Fund Limited Partnership ("Success Fund") | The PRC LLP | 14 January 2015 | RMB194,000,000 | 100% | — | 100% | Equity investment in the PRC |
| Shenzhen Qianhai Success Housing Wealth Management Company Limited ("Qianhai Success Housing") | The PRC Ltd | 8 July 2015 | RMB61,000,000 | 100% | — | 100% | Provision of real estate financial services in the PRC |
| Foshan Success Financial Services Outsouring Limited ("Success Financial Services") | The PRC Ltd | 15 October 2015 | RMB30,126,000 | 60% | — | 60% | Provision of real estate financial services in the PRC |
| Guangzhou Hengyue Number Six Investment Limited Partnership ("Hengyue Number Six") | The PRC LLP | 23 February 2017 | RMB45,070,027 | 99.34% | — | 100% | Equity investment in the PRC |
| Foshan Guangda Asset Management Company Limited ("Guangda Asset") | The PRC Ltd | 27 April 2017 | — | 99.27% | — | 100% | Provision of asset management services in the PRC |
| T. M. Management Limited ("T. M. Management") | Hong Kong Ltd | 4 March 1986 | HKD 100,000 | 100% | — | 100% | Provision of portfolio management services such as stocks, funds, bonds and so on outside the PRC |
| Guangzhou Hengyue Number Ten Investment Limited Partnership ("Hengyue Number Ten") | The PRC LLP | 9 August 2016 | — | 99.22% | — | 99.95% | Equity investment in the PRC |
| Success Fund Management Limited ("Success Fund Management") | Cayman Islands Ltd | 15 June 2018 | — | 100% | 100% | — | Fund management outside the PRC |

(Expressed in Renminbi unless otherwise indicated)

## 15 INVESTMENTS IN SUBSIDIARIES *(continued)*

| | | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|---|
| Name of company | Place of incorporation and kind of legal entity | Date of incorporation | Fully paid-up capital | Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
| China Success Investment Funds Segregated Portfolio Company ("Success Investment Funds") | Cayman Islands Ltd | 15 June 2018 | — | 100% | 100% | — | Fund investment outside the PRC |

Note 1 On 9 January 2019, Success Asset set up Success Cloud, holding 70% of shares. The remaining 30% shares were held by an individual investor "Wu Hao".

Note 2 On 11 December 2018, Success Asset set up Success Technologies, holding 45.90% of shares. The remaining 54.10% shares were held by Guangzhou Information Technologies Company Limited (44.10%) and Beijing Internet Technologies Company Limited (10%). Two shareholders have not actually contributed, and the executive directors are appointed by "Success Asset".

Note 3 On 12 December 2019, Foshan government approved the cancellation of Foshan Zaisheng Number One Enterprise Management Consultancy Limited Partnership.

Note 4 The subsidiary has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise additional right-of-use assets and lease liabilities of RMB866,000 relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated.

(Expressed in Renminbi unless otherwise indicated)

## 16 INTERESTS IN ASSOCIATES

The following list contains the particulars of the associates, which are unlisted corporate entities whose quoted market price is not available:

| | | | | Proportion of ownership interest | | |
|---|---|---|---|---|---|---|
| Name of associate | Form of business structure | Place of incorporation and operation | Fully paid-up capital by all investors | Group's effective interest | Held by a subsidiary | Principal activity |
| Foshan Chancheng Success Micro Credit Co., Ltd. ("Success Credit") 佛山市禪城集成小額貸款有限公司* (「集成貸款」) | Incorporated | The PRC | RMB250,000,000 | 27.08% | 27.28% | Micro credit financing |
| Guangzhou Hengsheng Fund Management Co., Ltd. ("Guangzhou Hengsheng") 廣州恒晟基金管理有限公司* (「恒晟基金」) | Incorporated | The PRC | RMB23,900,000 | 40% (note 1) | 40% | Equity fund management |
| Guangzhou Rongdacheng Information Technology Service Co., Ltd. ("Guangzhou Rongdacheng") 廣州融達成信息技術服務有限公司* (「廣州融達成」) | Incorporated | The PRC | RMB8,000,000 | 30% (note 2) | 30% | Information technology |
| Guangzhou Success Capital Management Co. Ltd. ("Guangzhou Success Cpaital") 廣州集成資本管理有限公司* (「廣州集成資本」) | Incorporated | The PRC | RMB4,000,000 | 40% (note 4) | 40% | Business Service |

* The English translation of the names is for reference only. The official names of the entities are in Chinese.

Note 1 Together with two entities, Success Fund established Guangzhou Hengsheng on 23 November 2015. Success Fund had fully paid up its subscribed capital of RMB20,000,000, which accounted for 40% of the total subscribed capital. In 2017, Xizang Xuekunfushen Investment Co.Ltd. (西藏雪坤富神投資有限公司), one of its shareholders, has paid up RMB3,900,000 of its subscribed capital.

Note 2 Together with two entities and two individuals, Success Fund established Guangzhou Rongdacheng on 20 July 2016. Success Fund had fully paid up its subscribed capital of RMB3,000,000, which accounted for 30% of the total subscribed capital.

## 16 INTERESTS IN ASSOCIATES *(continued)*

Note 3 Together with two entities, Success Fund established Foshan Fozhiying Industrial Investment Co.Ltd. on 25 August 2016. Success Fund had subscribed capital of RMB2,400,000, which accounted for 30% of the total subscribed capital. Foshan Fozhiying Industrial Investment Co.Ltd has been cancelled on 8 April 2019.

Note 4 Together with three entities, Qianhai Success Housing established Guangzhou Success Capital on 24 July 2019. Qianhai Success Housing had paid RMB 4,000,000, which is half of its subscribed capital, and Qianhai Success Housing accounted for 40% of the total subscribed capital.

Note 5 The associates have initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise additional right-of-use assets and lease liabilities of RMB866,000 relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

(a) Summarised financial information of the Success Credit as a material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Gross amounts of the associate's | | |
| Current assets | **162,638** | 286,873 |
| Non-current assets | **72,938** | 41,195 |
| Current liabilities | **(70,881)** | (68,455) |
| Equity | **164,695** | 259,613 |

## 16 INTERESTS IN ASSOCIATES *(continued)*

(a) *(continued)*

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Revenue | **5,596** | 7,216 |
| Expenses | **(102,278)** | (17,227) |
| Total comprehensive income | **(96,682)** | (10,011) |

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| *Reconciled to the Group's interests in the associate* | | |
| Gross amounts of net assets of the associate | **164,695** | 259,613 |
| Group's effective interest | **27.08%** | 27.08% |
| Group's share of net assets of the associate | **44,601** | 70,305 |
| Non-controlling interests in the net assets of the associate | **328** | 517 |
| Goodwill | **4,232** | 4,232 |
| Impairment on cost | **(5,855)** | (5,855) |
| Carrying amount in the consolidated financial statements | **43,306** | 69,199 |

As at 31 December 2019, the proportion of ownership interest in Success Credit held by Success Guarantee was 27.08%. Success Guarantee has significant influence in Success Credit by appointing 3 of 9 representatives in the board of directors.

The recoverable amount of the Group's interest in Success Credit estimated using the value in use method was lower than the total carrying amount of the Group's interest in Success Credit. As a result, an impairment of RMB5,855,000 was recognised for interest in Success Credit as at 31 December 2019 (31 December 2018: RMB5,855,000). As Success Credit did not have new business and sustained a loss for the year ended 31 December 2019, there existed indicators of potential impairment of the Group's interest therein. The Group prepared an estimate of the recoverable amount of the Group's interest in Success Credit based on net assets of Success Credit. This was performed by preparing credit review for all loans and taking the assets and liabilities of Success Credit into account to reassess the net assets of Success Credit. Thus, no provision made in current year.

## 16 INTERESTS IN ASSOCIATES *(continued)*

### (b) Aggregate information of associates that are not individually material

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | **25,235** | 22,403 |

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Aggregate amounts of the Group's share of those associates | | |
| (Loss)/gain from operations | **(1,168)** | 19 |
| Total comprehensive income | **(1,168)** | 19 |

## 17 EQUIPMENT

| | Motor vehicles RMB'000 | Office and other equipment RMB'000 | Total equipment RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 4,127 | 2,851 | 6,978 |
| Additions | — | 48 | 48 |
| Disposals | (81) | (566) | (647) |
| Exchange adjustments | 64 | 27 | 91 |
| At 31 December 2018 and 1 January 2019 | 4,110 | 2,360 | 6,470 |
| Additions | — | 28 | 28 |
| Disposals | — | (289) | (289) |
| Exchange adjustments | 31 | 12 | 43 |
| At 31 December 2019 | 4,141 | 2,111 | 6,252 |
| **Accumulated depreciation** | | | |
| At 1 January 2018 | (3,190) | (1,876) | (5,066) |
| Charge for the year | (239) | (325) | (564) |
| Written back on disposal | 77 | 538 | 615 |
| Exchange adjustments | (20) | (15) | (35) |
| At 31 December 2018 and 1 January 2019 | (3,372) | (1,678) | (5,050) |
| Charge for the year | (270) | (273) | (543) |
| Written back on disposal | — | 207 | 207 |
| Exchange adjustments | (15) | (8) | (23) |
| At 31 December 2019 | (3,657) | (1,752) | (5,409) |
| **Net book value** | | | |
| At 31 December 2019 | 484 | 359 | 843 |
| At 31 December 2018 | 738 | 682 | 1,420 |

## 18 OTHER FINANCIAL ASSETS

| | Note | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|---|
| **Financial assets measured at FVPL** | | | |
| — Unlisted equity investment | | **38,375** | 23,951 |
| — Conversion option embedded in convertible bonds | 24 | **1,728** | — |
| — Repurchase option | | **3,650** | — |
| Total | | **43,753** | 23,951 |

On 6 April 2012, Success Guarantee entered into an agreement with Foshan Success Finance Group Co., Ltd. ("Foshan Finance"). On 12 October 2012, Guangdong Success Asset Management Company Limited ("Success Asset") entered into a tripartite agreement with Foshan Finance and a third party, who is a constructor. These agreements are related to acquisition of properties from Foshan Finance by Success Guarantee and Success Asset at a total consideration of RMB54,300,000. The properties are floors of a commercial building located in Foshan, the PRC. According to the agreements, Foshan Finance acts as the representative to lead the whole tender and development process, while the construction of the commercial building is subcontracted to the constructor by Foshan Finance. On 21 October 2013, Success Guarantee entered into a supplementary agreement with Foshan Finance, and Success Asset entered into a supplementary tripartite agreement with Foshan Finance and the constructor. On 23 October 2013, the prepayments of RMB20,893,000 and RMB27,300,000 was refunded to Success Guarantee and Success Asset, respectively. Prepayments of RMB6,107,000 from Success Guarantee was 3.5% of the costs of the land use rights of RMB174,480,000, which were paid by Foshan Finance to the relevant governmental bureau for and on behalf of and attributable to Success Guarantee.

On 25 January 2017, to increase the efficiency of the construction and development of the properties, Success Guarantee entered into an agreement with seven entities, which are related parties to the Group. On 9 February 2017, the eight parties established Foshan Shengshi Junen Enterprise Management Company Limited ("Shengshi Junen Enterprise Management"). Pursuant to the Article of Shengshi Junen Enterprise Management, Success Guarantee holds 3.5% shares of Shengshi Junen Enterprise Management, and contributed a 3.5% interest in the properties as the registered capital of Shengshi Junen Enterprise Management. On 14 November 2017, all shareholders of Shengshi Junen Enterprise Management paid up capital of RMB4,536,000 by cash. Success Guarantee contributed a 3.5% interest and paid up RMB159,000.

On 3 July 2019, Shenzhen Success Financial Leasing Company Limited ("Success Financial Leasing") signed an agreement with Guangdong Yinhe Motorcycle Group Company Limited (the shareholder of Guangdong Mupai Technology Company Limited ("Guangdong Mupai")) that Success Financial Leasing acquired 12.90% equity of Guangdong Mupai through 11.85 million capital injection. As the transaction was facilitated by Mr. Zhang Tiewei, the Chairman and executive director of the Group, Mr. Zhang Tiewei held shares indirectly in the Guangdong Mupai, it is accounted for capital reserve and deem to be a contribution from shareholder (see note 28(e)) for the difference between the acquisition price and the fair value of Guangdong Mupai's equity.

## 18 OTHER FINANCIAL ASSETS *(continued)*

At 31 December 2019, the carrying amount of equity investment was RMB38,375,000 (2018: RMB23,951,000), 3.5% of the value of Shengshi Junen Enterprise Management and 12.9% of the value Guangdong Mupai.

## 19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (a) Current taxation in the consolidated statement of financial position represents:

| | Note | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| At 1 January | | **17,867** | 12,902 |
| Provision for PRC income tax for the year | 6(a) | **25,768** | 20,690 |
| PRC income tax paid | | **(22,330)** | (15,725) |
| At 31 December | | **21,305** | 17,867 |

### (b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the year are as follows:

| | Deferred income RMB'000 | Provision of financial guarantee losses RMB'000 | Impairment allowances for trade and other receivables RMB'000 | Accrued expenses RMB'000 | Share of profit of an associate RMB'000 | Government grants RMB'000 | Interest receivables RMB'000 | Long-term unamortised expenses RMB'000 | Fair value change gains and losses RMB'000 | Re-guarantee fee RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | 2,016 | (3,049) | 7,695 | 536 | (717) | (1,956) | (44) | – | – | (56) | 4,425 |
| Credited/(charged) to profit or loss | 28,239 | 377 | 1,058 | 403 | (401) | 1,467 | (107) | (24,275) | (3,971) | – | 2,790 |
| At 31 December 2018 and 1 January 2019 | 30,255 | (2,672) | 8,753 | 939 | (1,118) | (489) | (151) | (24,275) | (3,971) | (56) | 7,215 |
| Credited/(charged) to profit or loss | 93,275 | 2,672 | 43,228 | 735 | 1,118 | 489 | (434) | (82,087) | (1,084) | – | 57,912 |
| At 31 December 2019 | 123,530 | – | 51,981 | 1,674 | – | – | (585) | (106,362) | (5,055) | (56) | 65,127 |

## 19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

### (c) Reconciliation to the consolidated statement of financial position

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **65,127** | 7,215 |

### (d) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the Group has not recognised deferred tax assets of RMB80,570,000 (2018: RMB7,955,000) in respect of cumulative tax losses of RMB345,971,000 (2018: RMB42,225,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The remaining unused tax losses were mainly from Success Financial Leasing (RMB134,770,000), Success Guarantee (RMB75,332,000) and Success Equity Fund (RMB 51,494,000) and do not expire under current tax legislation.

### (e) Deferred tax liabilities not recognised

At 31 December 2019, temporary differences relating to the undistributed profits of the PRC subsidiaries amounted to RMB139,972,000 (2018: RMB241,622,000). Deferred tax liabilities of RMB13,997,000 (2018: RMB24,162,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that these profits will not be distributed in the foreseeable future (note 6(b)(iv)).

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 20 GOODWILL

**Cost:**

| | |
|---|---|
| At 31 December 2018 | 5,695 |
| Exchange adjustments | 128 |
| At 31 December 2019 | 5,823 |

**Accumulated impairment losses:**

| | |
|---|---|
| At 1 January 2018, 31 December 2018 and 1 January 2019 | — |
| Impairment loss | (5,823) |
| At 31 December 2019 | (5,823) |

**Carrying amount:**

| | |
|---|---|
| At 31 December 2019 | — |
| At 31 December 2018 | 5,695 |

On 14 February 2018, the Group acquired 100% ordinary shares of T. M. Management Limited, which is licensed to carry out business of Type 9 Regulated activities as defined in the Securities and Futures Ordinance. The total consideration of the transaction was HKD6,897,000 which was paid in cash, of which HKD1,290,000 has been prepaid as at 31 December 2017. This has resulted in a goodwill arising on a business combination amounted to HKD6,500,000. Since T.M. Management conduct no business activities until 31 December 2019, the Group has charged full impairment for the goodwill of T.M. Management.

## 21 LIABILITIES FROM GUARANTEES

| | Note | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|---|
| Deferred income | | **476,534** | 121,021 |
| Provision of guarantee losses | (a) | **10,111** | 7,166 |
| Total | | **486,645** | 128,187 |

### (a) Provision of guarantee losses

| | Note | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|---|
| At 1 January | | **7,166** | 8,733 |
| Charged/(written back) for the year | 5(a) | **2,945** | (1,567) |
| At 31 December | | **10,111** | 7,166 |

## 22 PLEDGED DEPOSITS RECEIVED

Pledged deposits received represent deposits received from customers or third parties as collateral security for the online financial guarantees issued by the Group. These deposits will be refunded to the customers or third parties upon expiry of the corresponding guarantee contracts. According to the contract, these deposits are expected to be settled within one year.

## 23 INTEREST-BEARING BORROWINGS

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Note payables | **38,555** | — |

Note payables arose from the amendment deed regarding to the convertible bonds (note 24) on 11 January 2019. The fair value of Note payable was HKD46,057,000 on 11 January 2019. Note payable carries 6% coupon interest per annum payable semi-annually in arrears on 1 February and 1 August in each year. The Company shall pay each Purchaser administrative fee equal to 1% of the aggregate principal amount of the outstanding bonds held by each Purchaser on each of the issue date and each anniversary thereof.

The maturity date of note payable is 31 January 2020, upon which the Company can apply for one year extension subject to the Purchaser's approval. At maturity, the Company shall repay at an amount equal to the aggregate of the outstanding principal amount, and an amount that would yield an internal rate of return of 10% on the aggregate principal amount of the Notes held by such Purchaser from the issue date until the date on which the entire outstanding amount of such redemption price has been fully paid by the Issuer to such Purchaser.

The effective interest rate of Note payable is 27.3%. On 12 November 2019, the Group redeemed the principal of Note payable of HKD10,000,000 in advance. As at 31 December 2019, certain shares were pledged to Purchaser.

## 24 LIABILITY COMPONENT OF CONVERTIBLE BONDS

(a) On 1 February 2018, the Company issued the convertible bonds (the "Original CBs") with a principal amount of HKD154,000,000 at face value. For details, please refer to the Company's announcement on 25 January 2018. Major terms of the Original CBs are as below:

(i) The Original CBs carry 6% coupon interest per annum payable semi-annually in arrears on 1 February and 1 August in each year. The Company shall pay each Purchaser administrative fee equal to 1% of the aggregate principal amount of the outstanding bonds held by each Purchaser on each of the issue date and each anniversary thereof.

(ii) The issuer may redeem the Original CBs in full, but not in part, at any time the first anniversary of the issue date at an amount equal to the aggregate of: (i) the aggregate principal amount of all the outstanding CBs; (ii) any accrued but unpaid interest (including any default Interest) and outstanding administrative fees on such outstanding CBs; and (iii) an amount that would yield an internal rate of return of 10% on the aggregate principal amount of such outstanding CBs from the issue date until the date on which the entire outstanding amount of such redemption price has been fully paid by the issuer.

(iii) Subject to and upon compliance with those conditions in contract, the conversion right in respect of the Original CBs may be exercised, at the option of the Purchaser thereof, at any time full or in part after 12 months from the issue date up to the close of business on 1 business day prior to the maturity date (both days inclusive) by giving a notice to the issuer of not less than 10 business days. The conversion price will initially be HKD2.20 per share.

(iv) Major financial requirements of the Original CBs are as below:

— the Total Net Assets being not less than RMB800,000,000 (or its equivalent in any other currency or currencies) without taking into account the effect on the Total Net Assets caused by a change of the fair value for the Bonds;

— the Gearing Ratio being not more than forty (40) per cent;

The Original CBs contain two components, the liability and equity components. The initial fair value of the two components was determined based on gross proceeds at issuance. The initial fair value less allocated transaction costs of the liability component was estimated to be approximately HKD116,928,000 as at the issuance date by using the Binomial Tree Model, taking into account the terms and conditions of the Original CBs. In subsequent periods, the liability component is measured at amortised cost using effective interest rate method. The effective interest rate of the liability component of CBs is 17.8% per annum. The residual amount less allocated transaction costs representing the value of the equity component of approximately HKD37,128,000, was presented in equity under the heading 'capital reserve'.

## 24 LIABILITY COMPONENT OF CONVERTIBLE BONDS *(continued)*

(b) On 11 January 2019, the Company entered into an amendment deed ("Amendment Deed"). Pursuant to the Amendment Deed, certain terms of the CBs were amended, including: (i) repayment of a partial principal amount of the CBs of HKD10,000,000, (ii) issuance of a HKD60,000,000.00 interest-bearing Note at an interest rate of 6%, (iii) a downward revision of Conversion Price from HKD2.20 to HKD1.09 for the outstanding 77,064,200 Conversion Shares of the CBs with a principal amount of HKD84,000,000 (the "New CBs"), and (iv) an early redemption option that the Company could redeem, or a designated third party could purchase, the outstanding New CBs with an internal rate of return of 26% on the aggregate principal amount of such outstanding New CBs, in whole or in part, from the issue date until the date on which the entire outstanding amount of such redemption price has been fully paid by the Company. For details, please refer to the Company's announcement on 27 December 2018.

The amendment resulted in the derecognition of the original CBs as a whole and the recognition of an interest-bearing borrowing (note 23) at fair value of RMB41,257,000 for the Note payable, new financial liability and equity components of the New CBs and a financial asset at fair value of RMB1,728,000 (note 18) for the early redemption option. Fair value gain arose from such amendment, of which RMB4,274,000 was recognised in other revenue (note 4) in the consolidated statement of profit or loss and RMB17,099,000 was recognised in equity.

The New CBs contain two components, the liability and equity components. The initial fair value of the liability component was estimated to be approximately HKD66,844,000 as at 11 January 2019. In subsequent periods, the liability component is measured at amortised cost using effective interest rate method. The effective interest rate of the liability component of the New CBs is 20.6% per annum. The residual amount representing the value of the equity component of approximately HKD14,539,000, was presented in equity under the heading 'capital reserve'.

As mentioned in note 29, the convertible bond and note payable are subject to repayment on demand clauses which can be exercised by the bond Purchaser at its sole discretion. Up to the date of approval of these financial statements, the Group has not received any demand notice from Purchaser of the bond for immediate repayment.

## 24 LIABILITY COMPONENT OF CONVERTIBLE BONDS *(continued)*

The movements of components of the CBs and the New CBs during the period are set out below:

| | **Liability component** RMB'000 | **Equity component** RMB'000 |
|---|---|---|
| At the date of issue | 93,660 | 29,695 |
| Interest charge | 16,224 | — |
| Net increase in interest payable | (3,001) | — |
| Net increase in administrative fee paid in advance | 112 | — |
| Interest paid | (4,015) | — |
| Administrative fee paid | (1,238) | — |
| Exchange adjustment | 8,898 | — |
| At 31 December 2018 and 1 January 2019 | 110,640 | 29,695 |
| Interest charge | 602 | — |
| Net increase in interest payable | (245) | — |
| Net increase in administrative fee paid in advance | (41) | — |
| Exchange adjustment | 2,068 | — |
| At 11 January 2019 before modification | 113,024 | 29,695 |
| Derecognition of the CBs | (113,024) | (29,695) |
| Recognition of the New CBs upon modification | 59,878 | 12,596 |
| Interest charge | 11,277 | — |
| Net increase in interest payable | (1,873) | — |
| Net increase in administrative fee paid in advance | (11) | — |
| Interest paid | (2,505) | — |
| Administrative fee paid | (752) | — |
| Exchange adjustment | 757 | — |
| At 31 December 2019 | 66,771 | 12,596 |

## 25 ACCRUALS AND OTHER PAYABLES

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Accruals and other payables | **223,450** | 393,937 |

(i) Accruals and other payables are expected to be settled within one year or time dependent but both of them are repayable on demand.

### 26 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

| | 31 December 2019 | | 1 January 2019 (Note) | | 31 December 2018 (Note) | |
|---|---|---|---|---|---|---|
| | Present Value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 | Present Value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 | Present Value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 |
| Within 1 year | 460 | 487 | 1,016 | 1,051 | 166 | 171 |
| After 1 year but within 2 years | 209 | 219 | 166 | 182 | 156 | 171 |
| After 2 years but within 5 years | — | — | 73 | 97 | 67 | 86 |
| | 209 | 219 | 239 | 279 | 223 | 257 |
| | 669 | 706 | 1,255 | 1,330 | 389 | 428 |
| Less: total future interest expenses | | (37) | | (75) | | (39) |
| Present value of lease liabilities | | 669 | | 1,255 | | 389 |

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

## 27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company adopted a share option scheme on 18 October 2013 (the "Share Option Scheme") whereby one director and 49 employees in the Group are invited, to take up options at HKD1 to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

### (a) The terms and conditions of the grants are as follows:

| Date granted | Vesting date | Expiry date | Number of share options granted | | | Contractual life of options |
|---|---|---|---|---|---|---|
| | | | Director | Employees | Total | |
| 6 November 2013 | 30 June 2014 | 5 November 2023 | 500,000 | 4,500,000 | 5,000,000 | 10 years |
| | 30 June 2016 | 5 November 2023 | 300,000 | 2,700,000 | 3,000,000 | 10 years |
| | 30 June 2018 | 5 November 2023 | 200,000 | 1,800,000 | 2,000,000 | 10 years |
| | | | 1,000,000 | 9,000,000 | 10,000,000 | |

### (b) The number and weighted average exercise prices of share options are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Exercise price** | **Number of options '000** | Exercise | Number of options '000 |
| Granted and outstanding at the beginning of the year | **HKD1.90** | **6,488** | HKD1.90 | 6,501 |
| Forfeited during the year | **HKD1.90** | **—** | HKD1.90 | (13) |
| Exercised during the year | **HKD1.90** | **—** | HKD1.90 | — |
| Granted and outstanding at the end of the year | **HKD1.90** | **6,488** | HKD1.90 | 6,488 |
| Exercisable at the end of the year | **HKD1.90** | **5,638** | HKD1.90 | 5,638 |

Note: The options outstanding at 31 December 2019 had an exercise price of HKD1.9 and a weighted average remaining contractual life of 3.8 years (2018: 4.8 years).

## 27 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

### (c) Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

*Fair value of share options and assumptions*

| | |
|---|---|
| Fair value (weighted average) per share option at measurement date | HKD1.60 |
| Share price | HKD2.68 |
| Exercise price | HKD1.90 |
| Expected volatility rate | 65% |
| Option life | 10 years |
| Expected dividends | 0% |
| Risk-free interest rate (based on Exchange Fund Notes) | 1.87% |

The expected volatility is based on the historic volatilities of the share prices of the comparable companies in recent years around the date of valuation. Changes in the subjective input assumptions could materially affect the fair value estimate.

The risk-free rate of interest with expected term shown above was taken to be the linearly interpolated yields of the Hong Kong Exchange Fund Notes as at the grant date.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no other market conditions associated with the share options grants.

## 28 SHARE CAPITAL AND RESERVES

### (a) Movements in components of equity

The reconciliation between the opening and closing balances 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:

| | The Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital RMB'000 Note 28(c) | Share premium RMB'000 Note 28(d) | Capital reserve RMB'000 Note 28(e) | Exchange reserve RMB'000 Note 28(h) | Accumulated losses RMB'000 | Total RMB'000 |
| Balance on 1 January 2018 | 4,241 | 447,472 | 8,860 | 17,596 | (63,098) | 415,071 |
| Changes in equity for 2018: | | | | | | |
| Loss for the year | — | — | — | — | (49,261) | (49,261) |
| Exchange differences on translation of financial statement | — | — | — | 20,184 | — | 20,184 |
| Total comprehensive income | — | — | — | 20,184 | (49,261) | (29,077) |
| Purchase of own shares | (54) | (5,300) | — | — | — | (5,354) |
| Shares issued under share option scheme | — | — | 29,694 | — | — | 29,694 |
| Equity settled share-based transactions | — | — | 174 | — | — | 174 |
| Balance at 31 December 2018 | 4,187 | 442,172 | 38,728 | 37,780 | (112,359) | 410,508 |

## 28 SHARE CAPITAL AND RESERVES *(continued)*

### (a) Movements in components of equity *(continued)*

| | The Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital RMB'000 Note 28(c) | Share premium RMB'000 Note 28(d) | Capital reserve RMB'000 Note 28(e) | Exchange reserve RMB'000 Note 28(h) | Accumulated losses RMB'000 | Total RMB'000 |
| Balance at 31 December 2018 | 4,187 | 442,172 | 38,728 | 37,780 | (112,359) | 410,508 |
| Changes in equity for 2019: | | | | | | |
| Loss for the year | — | — | — | — | (38,017) | (38,017) |
| Exchange differences on translation of financial statement | — | — | — | 8,204 | — | 8,204 |
| Total comprehensive income | — | — | — | 8,204 | (38,017) | (29,813) |
| Convertible bond | — | — | (17,099) | — | 17,099 | — |
| Balance at 31 December 2019 | 4,187 | 442,172 | 21,629 | 45,984 | (133,277) | 380,695 |

### (b) Dividends

The Company did not declare dividend through the year of 2019 and 2018. Thus, there is no balance for dividend payable at 31 December 2019.

## 28 SHARE CAPITAL AND RESERVES *(continued)*

### (c) Share capital

*(i) Authorised and issued share capital*

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **No. of shares '000** | **Share capital HKD'000** | **Share capital RMB'000** | No. of shares '000 | Share capital HKD'000 | Share capital RMB'000 |
| **Authorised:** | | | | | | |
| Ordinary shares of HKD0.01 each | 800,000 | 8,000 | 6,512 | 800,000 | 8,000 | 6,512 |
| **Ordinary shares, issued and fully paid:** | | | | | | |
| At 1 January | 524,635 | 5,246 | 4,187 | 530,805 | 5,308 | 4,241 |
| Shares repurchased | — | — | — | (6,170) | (62) | (54) |
| At 31 December | 524,635 | 5,246 | 4,187 | 524,635 | 5,246 | 4,187 |

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

***(ii) Purchase of own shares***

The Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

| | **Number of shares repurchased** | **Highest price paid per share** HKD | **Lowest price paid per share** HKD | **Aggregate price paid** HKD'000 |
|---|---|---|---|---|
| Month/Year | | | | |
| July 2018 | 5,770,000 | 1 | 1 | 5,896 |
| October 2018 | 400,000 | 1 | 1 | 298 |
| Total | | | | 6,194 |

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid on the repurchased shares of HKD6,194,000 was paid wholly out of retained profits.

## 28 SHARE CAPITAL AND RESERVES *(continued)*

### (d) Share premium

Under the Companies Law of the Cayman Islands, the funds in the Company's share premium account are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

### (e) Capital reserve

The capital reserve comprises the following:

— the difference between the nominal value of share capital of the Company and the paid- up capital of Success Guarantee, plus the net assets acquired from the inserting companies (holding companies of Success Guarantee, including the Company, Double Chance, Success Finance and Success Asset) pursuant to a Group reorganisation completed on 17 September 2012;

— the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payment in note 1(q)(ii);

— the amount allocated to the unexercised equity component of convertible notes issued by the Company recognised in accordance with the accounting policy adopted for convertible notes in note 1(p).

— the waiver of debts from related parties in 2013.

— Contribution from shareholder: the difference between the acquisition price and the fair value of Guangdong Mupai's equity (see note 18).

### (f) Surplus reserve

Surplus reserve comprises statutory surplus reserve and discretionary surplus reserve.

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

Subject to the approval of equity holders of the entities established in the PRC, 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 make good previous years' losses, if any, and may be converted into capital.

## 28 SHARE CAPITAL AND RESERVES *(continued)*

### (g) Regulatory reserve

According to the Interim Measures for the Administration of Financial Guarantee Companies ("Interim Measures") issued at 8 March 2010 by the relevant government authorities in the PRC, financial guarantee companies shall establish unearned premium reserve equal to 50% of guarantee premium recognised during the year, and indemnification reserve of no less than 1% of the outstanding guarantee balances undertaken by the entities established in the PRC. The Group started to accrue the required amounts set by relevant government authorities less the provision of financial guarantee losses as regulatory reserve from 2011. According to the details implementation guidance No. 149 issued by the People's Government of Guangdong Province on the Interim Measures, the use of the aforementioned regulatory reserve is subject to further guidance from the Financial Work Office of People's Government of Guangdong Province.

### (h) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

### (i) Distributability of reserves

At 31 December 2019, the aggregate amounts of reserves available for distribution to equity shareholders of the Company was RMB376,510,000 (2018: RMB406,320,000).

The directors had not proposed any dividends distribution for the years ended 31 December 2019 and 2018.

### (j) 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 commensurately 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 shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and lease liabilities but excludes redeemable preference shares) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, market and liquidity 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.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk primarily arises from the possibility that a customer or counterparty in the transaction may default, leading to losses. Credit risk is primarily attributable to outstanding guarantees issued by the Group, financial leasing service, factoring receivable and down payments for investment. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks, for which the Group considers to having low credit risk.

The Group has entered into financial guarantee contracts in which it has guaranteed the financial institutions (including the banks) the repayment of loans entered into by customers of the Group. The Group has the obligation to compensate the financial institutions for the losses they would suffer if customers fail to repay.

Risk management committees of Success Guarantee, Success Financial Leasing and Success Asset under the leadership of the executive directors are tasked with organising and coordinating the risk management and internal control for guarantee business, financial leasing business and factoring business, respectively. The committees comprised of the Group's internal personnel. The committees are responsible for (i) designing and implementation of overall risk management internal control policies and procedures and establishing appropriate risk appetite; (ii) designing and execution of due diligence procedures; (iii) reviewing the creditworthiness of customers before submitting to the executive directors for final approval.

The Group has taken measures to identify credit risks arising from guarantees issued, finance lease receivable, factoring receivable and down payments for investments. The Group manages credit risk at every stage along the approval process, including pre-transaction, in-transaction and post- transaction monitoring processes. The Group conducts due diligence and evaluates customers by internal credit assessment system during the pre-approval process.

Guarantees issuance, finance leases issuance and factoring issuance are subject to approval of the risk management committees and the executive Directors.

The project managers assigned to each case monitor the post-transaction status of the customers. Each manager is responsible for a number of customers. They visit the customers regularly to understand their operation and financial status by checking their financial reports, sale contracts, sale invoices, value added tax filing documents, utility bills and bank statements and other relevant documents.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

The Group has established guidelines on the acceptability of various classes of collateral and determined the corresponding valuation parameters. The guidelines and collateral valuation parameters are subject to regular reviews to ensure their effectiveness over credit risk management. The extent of collateral coverage over the Group's outstanding guarantees depends on the type of customers and the product offered. Types of collateral mainly include land use rights, machineries and equipment, properties and vehicles, etc. As at 31 December 2019, the carrying value of outstanding guarantees of RMB14,062,874,000 (2018: RMB5,431,857,000) is fully or partially covered by collateral.

*(i) Risk concentration*

When a certain number of clients 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 specific industries or geographical locations. As the Group mainly operates its businesses in Guangdong Province of the PRC, there exists a certain level of geographical concentration risk for its guarantee portfolios in that it might be affected by changes in the local economic conditions.

As at 31 December 2019, the Group has a group of customers that was in the construction industry sector at Foshan in financial difficulties. The banks of this group of customers have packed their debts as assets packages and sold the assets packages to two asset management companies. Instead of arranging restructuring of these purchased debts for this group of customers, these two asset management companies announced to dispose of the collaterals in assets packages in April 2019 and June 2019, respectively. These indicators significantly increase the uncertainty of recoverability for the receivables from this group of customers. In view of these circumstances, the directors have given careful consideration and performed assessment on the future recoverability of the receivables due from this group of customers. The Group has made impairment allowances of RMB457,502,000 in total as at 31 December 2019 (notes 12, 13 and 14).

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

#### *(i) Risk concentration (continued)*

The maximum exposure to credit risk in respect of these guarantees as at 31 December is as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **RMB'000** | **%** | RMB'000 | % |
| Traditional financial services | **57,303** | **0%** | 11,823 | 0% |
| Online financial services | **13,500,136** | **96%** | 4,523,416 | 83% |
| Construction and installation | **419,787** | **3%** | 747,970 | 14% |
| Wholesale and retailing | **65,730** | **1%** | 115,441 | 2% |
| Manufacturing and processing | **—** | **—** | 16,498 | 0% |
| Others | **19,918** | **0%** | 16,709 | 1% |
| Total | **14,062,874** | **100%** | 5,431,857 | 100% |

The maximum exposure to credit risk in respect of receivables from guarantee payments, financial leasing service, factoring receivable and down payments for investments as at 31 December is as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **RMB'000** | **%** | RMB'000 | % |
| Construction and installation | **140,446** | **54%** | 547,154 | 69% |
| Business service | **40,713** | **15%** | 105,057 | 13% |
| Wholesale and retailing | **57,556** | **22%** | 58,689 | 7% |
| Financial services | **13,913** | **5%** | 38,848 | 5% |
| Others | **10,800** | **4%** | 46,036 | 6% |
| Total | **263,428** | **100%** | 795,784 | 100% |

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

*(ii) Measurement of ECL*

Based on whether there is a significant increase in credit risk and whether the asset has incurred credit impairment, the Group measures allowances for loss of different assets with 12-month ECL or lifetime ECL, respectively.

The Group measures loss provision of the financial instruments that meet the following conditions according to the amount of expected credit losses within the next 12 months, and measures loss allowances for other financial instruments in accordance with the amount of lifetime expected credit losses.

— The financial instruments that are determined to have low credit risk at the reporting date; or

— The financial instruments for which credit risk has not increased significantly since initial recognition.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

#### *(ii) Measurement of ECL (continued)*

*Significant increase in credit risk*

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial instruments has increased significantly.

If the counterparty is listed in the watch list and one or more of the following criteria are met:

— The credit spread increases significantly;

— Significant changes with an adverse effect that have taken place in the counterparty's business, financial and economic status;

— Application of a grace period or debt-restructuring;

— Significant changes with an adverse effect in the counterparty's operating conditions;

— Less value of the collaterals;

— Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of guarantees;

— The payment is more than 30 days past due.

The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

As at 31 December 2019, the Group has not considered that any of its financial instruments has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

*(ii) Measurement of ECL (continued)*

*Definition of "default" and "credit-impaired assets"*

When a financial instrument meets one or more of the following conditions, the Group considers the financial asset to be in default, and the criteria are consistent with the definition of credit-impaired assets.

The financial asset is more than 90 days past due.

The counterparty meets the criterion of "having difficulty in repayment", which indicates that the counterparty has significant financial difficulty, including:

— the counterparty has been in the grace period for a long time;

— the death of the counterparty;

— the counterparty enters bankruptcy;

— the counterparty breaches (one or more) terms of the contract that the debtor shall be subject to;

— the disappearance of an active market for the related financial asset because of financial difficulties faced by the counterparty;

— the creditor make concessions due to the financial difficulties faced by the counterparty;

— it becomes probable that the counterparty will enter bankruptcy;

— a higher discount was obtained during the acquisition of assets, and the assets has incurred credit loss when they are acquired.

The above criteria apply to all financial instruments of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

#### *(ii) Measurement of ECL (continued)*

*Notes to the parameters, assumptions and valuation techniques*

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

— PD refers to the likelihood that a counterparty will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the guarantee;

— EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the guarantee;

— LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the expected credit losses by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the expected credit losses for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

#### *(ii) Measurement of ECL (continued)*

*Notes to the parameters, assumptions and valuation techniques (continued)*

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

— In respect of the guarantees with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of over-limit repayment and prepayments/refinancing made by the counterparty.

— In respect of the products of revolving credit agreement, the Group estimates the remaining withdrawal within the limits by using the balance of the loan after previous withdrawals and the "credit conversion factor", so as to predict the exposure at default. Based on the Group's analysis on recent default data, these assumptions vary based on differences in product type and utilization rate of the limits.

— The Group determines the 12-month LGD and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

— As to guarantees, the Group determines the LGD according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.

— Forward-looking economic information should be considered when determining the 12- month and lifetime PD, EAD and LGD.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including GDP, increase in RMB loans, PPI, etc.

There has been no significant changes in the valuation techniques and key assumptions during the reporting period.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

*(ii) Measurement of ECL (continued)*

*Notes to the parameters, assumptions and valuation techniques (continued)*

The Group's other credit risk is attributable to bank deposits and security deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The bank deposits and security deposits of the Group are mainly held with well-known financial institutions. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Group.

### (b) Market risk

Market risk arises when the adverse changes in market prices (interest rates, exchange rates, as well as equity prices and other prices) lead to losses from the Group's on-balance sheet and off-balance sheet businesses. The Group's market risk mainly arises from currency risk and interest rate risk.

*(i) Currency risk*

The Group's businesses are principally conducted in RMB, while most of the Group's monetary assets and liabilities are denominated in HKD and RMB. At the end of the reporting period, the recognised assets or liabilities are mainly denominated in the functional currency of the Group entity to which they relate. Accordingly, the directors considered the Group's exposure to foreign currency risk is not significant during the year.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict to foreign currencies for current account transactions in the future.

Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands and the Group may not be able to pay dividend in foreign currencies to its equity shareholders.

*(ii) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is principally engaged in the provision of guarantee service, finance lease service, factoring service and related consulting services to SME enterprises in the PRC. Its interest rate risk arises primarily from deposits with banks, factoring receivable, finance lease receivable and obligations under finance leases.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its cash flow risks.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (b) Market risk *(continued)*

#### *(iii) Interest rate profile*

The following tables detail the interest rate profile of the Group's assets and liabilities as of the end of the years:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Fixed interest rate | | |
| Financial assets | | |
| — Cash and bank deposits | **102,413** | 74 |
| — Pledged bank deposits | **94,892** | 84,581 |
| — Factoring receivable | **83,509** | 88,950 |
| — Finance lease receivable | **191,390** | 192,486 |
| | **472,204** | 366,091 |
| Financial liabilities | | |
| — Obligations under finance leases | **(272)** | (389) |
| — Interest-bearing borrowings | **(44,789)** | — |
| | **(45,061)** | (389) |
| Net | **427,143** | 365,702 |
| Variable interest rate | | |
| Financial assets | | |
| — Cash and bank deposits | **193,752** | 235,535 |
| — Pledged bank deposits | **397** | 1,607 |
| | **194,149** | 237,142 |
| Net fixed rate financial assets as a percentage of total net financial assets | **69%** | 61% |

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (b) Market risk *(continued)*

#### *(iv) Sensitivity analysis*

At 31 December 2019, 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 (loss)/profit after tax and retained profits/(accumulated losses) for the next 12 months by approximately RMB728,000 (2018: RMB889,000).

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. The impact on the Group's retained (loss)/profit after tax is estimated as an annualised impact on interest expense or income of such a change in interest rates.

The analysis is performed on the same basis as 2018.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) 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 longer term.

As at 31 December 2019, the Group has approximately RMB105,326,000 bond payables due to a Purchaser, which consisted of convertible bond of RMB66,771,000 (note 24) and note payable of RMB38,555,000 (note 23) (collectively "the bond").

Pursuant to the subscription agreement of the bond, there are financial covenants that the Group's total net assets should be not less than RMB800,000,000 without taking into account the effect on the net assets caused by a change of fair value for the bond and the Group's gearing ratio, as defined in the subscription agreement, should not be more than 40 per cent. As at 31 December 2019, the Group's total net assets was less than RMB800,000,000 and the Group's gearing ratio is higher than 40 percent. Accordingly, the bond is subject to the bond Purchaser's right of repayment on demand. The bond Purchaser also has the right to confiscate the pledged 110,000,000 shares of the Group, held by Mr. Zhang Tiewei. Up to the date of approval of these financial statements, the Group has not received any demand notice from Purchaser of the bond for immediate repayment.

The Group is conducting capital management arrangements to manage the Group's liquidity needs and to improve the Group's financial position which include, but are not limited to, the following:

— the Group has repaid the note payable amounted of HKD 21,326,000, approximately RMB 19,214,000 as per the repayment schedule of the note payable in February 2020.

— Mr. Zhang Tiewei, the chairman and executive director, would continue to provide personal guarantee and deposit no less than 110,000,000 shares of Group in the bond Purchaser's account for the bond; and

— the Group is negotiating with the bond's Purchaser for renewal of the financial covenants clauses and extension of the subscription agreement of the bond. The renewed agreement is still under processing by lawyers up to the date of these financial statements.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) Liquidity risk *(continued)*

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

| | | Contractual undiscounted cash outflows as at 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Contractual undiscounted cash outflows RMB'000 | Repayable on demand RMB'000 | Within six months RMB'000 | One year or less but over six months RMB'000 | Two years or less but over one year RMB'000 | Five years or less but over two years RMB'000 |
| **Non-derivatives financial liabilities** | | | | | | | |
| Liability component of convertible bonds | 66,771 | 82,770 | 82,770 | — | — | — | — |
| Lease Liability | 669 | 706 | 40 | 203 | 244 | 219 | — |
| Interest-bearing borrowings | 38,555 | 54,587 | 54,587 | — | — | — | — |
| Total | 105,995 | 138,063 | 137,397 | 203 | 244 | 219 | — |
| **Guarantees** | | | | | | | |
| Financial guarantee | 126,046 | 126,046 | — | 40,316 | 30,000 | 55,730 | — |
| Online financial services | 13,500,136 | 13,500,136 | 13,500,136 | — | — | — | — |
| Performance guarantee | 380,052 | 380,052 | — | 48,984 | 51,263 | 78,948 | 200,857 |
| Litigation guarantee | 56,640 | 56,640 | 5,735 | 39,325 | 11,580 | — | — |
| Maximum guarantees exposure | 14,062,874 | 14,062,874 | 13,505,871 | 128,625 | 92,843 | 134,678 | 200,857 |

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) Liquidity risk *(continued)*

| | | Contractual undiscounted cash outflows as at 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Contractual undiscounted cash outflows RMB'000 | Repayable on demand RMB'000 | Within six months RMB'000 | One year or less but over six months RMB'000 | Two years or less but over one year RMB'000 | Five years or less but over two years RMB'000 |
| **Non-derivatives financial liabilities** | | | | | | | |
| Obligations under finance leases | 389 | 428 | — | 86 | 85 | 171 | 86 |
| Liability component of convertible bonds | 110,640 | 157,873 | — | 5,397 | 4,048 | 9,445 | 138,983 |
| Total | 111,029 | 158,301 | — | 5,483 | 4,133 | 9,616 | 139,069 |
| **Guarantees** | | | | | | | |
| Financial guarantee | 111,661 | 111,661 | — | 44,100 | 53,937 | 9,494 | 4,130 |
| Online financial services | 4,523,416 | 4,523,416 | 4,523,416 | — | — | — | — |
| Performance guarantee | 721,925 | 721,925 | — | 369,317 | 136,974 | 149,013 | 66,621 |
| Litigation guarantee | 74,855 | 74,855 | 25,000 | — | 49,855 | — | — |
| Maximum guarantees exposure | 5,431,857 | 5,431,857 | 4,548,416 | 413,417 | 240,766 | 158,507 | 70,751 |

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled less than 12 months after the reporting date.

| | Note | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Factoring receivable | 13 | **55,178** | 60,627 |
| Finance lease receivable | 14 | **45,339** | 46,530 |
| **Financial liabilities** | | | |
| Lease liabilities | 26 | **460** | 166 |
| Liability component of convertible bonds | 24 | **66,771** | 8,675 |
| Interest-bearing borrowings | 23 | **38,555** | — |

For the cash and cash equivalents of the Group as at 31 December 2019 and 31 December 2018, please refer to note 10.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) Liquidity risk *(continued)*

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

| | Note | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Other financial assets | 18 | **43,753** | 23,951 |
| **Financial liabilities** | | | |
| Lease liabilities | 26 | **209** | 223 |
| Liability component of convertible bonds | 24 | **—** | 101,965 |

### (d) Fair value measurement

*(i) Financial assets 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, categorised 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.

As at 31 December 2019, the Group held only one other financial asset, which was an equity investment in an unlisted company (note 18), with fair value measurement categorised into level 3.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (d) Fair value measurement *(continued)*

*(i) Financial assets measured at fair value (continued)*

*Information about Level 3 fair value measurements*

The fair value of unlisted equity investment is determined using the sales comparison approach for the land element of the property and depreciated replacement cost approach for the improvement of the property.

The movement during the year in the balance of Level 3 fair value measurements is as follows:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Other financial assets | | |
| At 1 January | **23,951** | 8,066 |
| Additional investment acquired | **13,738** | — |
| Conversion option embedded in convertible bonds | **1,728** | — |
| Repurchase option | **3,650** | — |
| Changes in fair value recognised in profit or loss during the year | **686** | 15,885 |
| At 31 December | **43,753** | 23,951 |

*(ii) Fair values of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2019 and as at 31 December 2018.

The following summarises the major methods and assumptions used in estimating the fair value of financial instruments.

*(i) Trade and other receivables, factoring receivable and finance lease receivable*

Trade and other receivables, factoring receivable and finance lease receivable are initially recognised at fair value and thereafter stated at amortised cost less allowances for impairment of doubtful debts. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (d) Fair value measurement *(continued)*

*(ii) Fair values of financial assets and liabilities carried at other than fair value (continued)*

*(i) Trade and other receivables, factoring receivable and finance lease receivable (continued)*

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

*(ii) Guarantees issued*

The fair value of guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

*(iii) Interest rates used for determining fair value*

The market interest rates adopted for determining the fair value of trade and other receivables are ranging from 2.36% to 2.89% as at 31 December 2019 (2018: 2.45% to 3.05%).

## 30 COMMITMENTS

**(a) At 31 December 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:**

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Within 1 year | **339** | 2,407 |
| After 1 year but less than 5 years | **106** | 116 |
| Total | **445** | 2,523 |

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(j), and the details regarding the Group's future lease payments are disclosed in note 26.

## 31 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Name and relationship with related parties

During the year, transactions with the following parties are considered as related parties:

| Name of related party | Relationship |
|---|---|
| Mr. Zhang Tiewei | A substantial shareholder, chairman and executive director |
| Mr. Xu Kaiying | A substantial shareholder and executive director |
| Mr. Pang Haoquan | A substantial shareholder and executive director |
| Mr. Li Bin | Chief executive officer and executive director |
| Ms. Dai Jing | Chief operation officer and executive director |
| Mr. He Darong | A substantial shareholder and non-executive director |
| Mr. Tsang Hung Kei | Independent non-executive director |
| Mr. Au Tien Chee Arthur | Independent non-executive director |
| Mr. Xu Yan | Independent non-executive director |
| Mr. Zhou Xiaojiang | Independent non-executive director |
| Foshan Finance （佛山市集成金融集團有限公司） | A company of which 100% interest is held by Mr. Zhang Tiewei, Mr. Xu Kaiying and Mr. Pang Haoquan |
| Success Credit （佛山市禪城集成小額貸款有限公司） | Associate of the Group since 18 December 2012 |
| Shengshi Junen Enterprise Management （佛山市盛世雋恩企業管理有限公司） | A company of which 35% interest is held by Mr. Zhang Tiewei, Mr. Xu Kaiying and Mr. Pang Haoquan |
| Guangdong Success Data Co., Ltd. （廣東集成數據有限公司） | A company of which 30% interest is held by Mr. Zhang Tiewei, Mr. Xu Kaiying and Mr. Pang Haoquan |
| Guangzhou Hengsheng Fund Management Co., Ltd （廣州恒晟基金管理有限公司） | A company of which 40% interest is held by Success Fund |
| Guangdong Mupai Technology Co., Ltd （廣東睦湃科技有限公司） | A company of which 30% interest is held by Mr. Zhang Tiewei, Mr. Xu Kaiying and Mr. Pang Haoquan |

## 31 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 7, certain of the highest paid employees as disclosed in note 8 and two other key management personnel (Zhiqiang Zhong, RMB337,562 ; Guihong Shi, RMB1,088,322), is as follows:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Salaries, allowances and other benefits | **14,106** | 10,568 |
| Contributions to defined contribution retirement plan | **103** | 128 |
| Equity compensation benefits | **—** | 87 |
| Total | **14,209** | 10,783 |

Total remuneration is included in "staff costs" (note 5(b)).

### (c) Related parties transactions

| | Note | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| Services fee expense | | **(2,878)** | (1,030) |
| Net interest income | | **—** | 1,860 |
| Settlement of advance | | **—** | 4 |
| Entrusting payment | | **(2,205)** | 2,205 |
| Loan | | **—** | 20,480 |
| Equity investment in Guangdong Mupai | 18 | **(13,739)** | — |
| Total | | **(18,822)** | 23,519 |

## 31 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (d) Balances with other related parties

At the end of the reporting period, the Group had the following balances with related parties:

Amounts due from related parties

| | Note | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|---|
| Success Credit | (i) | **20,480** | 25,363 |
| Shengshi Junen Enterprise Management | | **—** | 2,205 |
| Success Data | | **—** | 1,400 |
| Mupai Technology | | **13,739** | — |
| Total | | **34,219** | 28,968 |

(i) On 20 March 2014, the shareholders of Success Credit approved to make a dividend with an amount of RMB15,000,000 to its shareholders. Success Guarantee was entitled to receive the dividend with an amount of RMB2,730,000. On 31 December 2019, the balance on borrowings from Success Guarantee to Success Credit is RMB22,633,000, which includes a principal of RMB20,480,000 and an interest of RMB2,153,000. The interest rate of this borrowing is 12%. Based on the operating condition of Success Credit, impairment has been made for both dividend and interest receivable.

## 32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank deposits | | **2,948** | 15,126 |
| Trade and other receivables | | **495,598** | 520,108 |
| Investment in subsidiaries | 15 | **12,797** | 12,681 |
| Financial assets at fair value through profit or loss | | **1,728** | — |
| Equipment | | **21** | 152 |
| Intangible assets | | **3** | 6 |
| **Total assets** | | **513,095** | 548,073 |
| **Liabilities** | | | |
| Liability component of convertible bonds | | **66,771** | 110,640 |
| Interest-bearing borrowing | | **38,555** | — |
| Accruals and other payables | | **27,074** | 26,925 |
| **Total liabilities** | | **132,400** | 137,565 |
| **NET ASSETS** | | **380,695** | 410,508 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28(c) | **4,187** | 4,187 |
| Reserves | | **376,508** | 406,321 |
| **TOTAL EQUITY** | | **380,695** | 410,508 |

Approved and authorised for issue by the board of directors on 30 March 2020.

張鐵偉
**Zhang Tiewei**
*Director*

李斌
**Li Bin**
*Director*

*(Expressed in Renminbi unless otherwise indicated)*

## 33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The coronavirus outbreak since early 2020 has brought about additional uncertainties in the Company's operating environment and has impacted the Company's operations and financial position.

The Company has been closely monitoring the impact of the outbreak on the Company's businesses and has put in place contingency measures. The Company will keep our contingency measures under review as the situation evolves. As far as the Company's businesses are concerned, the outbreak has probably impacted the repayment abilities of some debtors. These estimated impacts have not been reflected in the financial information as of 31 December 2019. The actual impacts may differ from these estimates as situation continues to evolve and further information may become available.

## 34 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

## 35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to HKFRS 3, *Definition of a business* | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8, *Definition of material* | 1 January 2020 |

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.