CHINA HUIRONG FINANCIAL HOLDINGS LIMITED
中國匯融金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1290

ANNUAL REPORT 2019

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

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

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

COMMITTEE COMPOSITION

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Technology Finance Business Committee[2]

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

COMPANY SECRETARY

Miss Leung Ching Ching

AUTHORISED REPRESENTATIVES

Mr. Wu Min
Miss Leung Ching Ching

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

PRINCIPAL BANKS

Jiangsu Bank, Suzhou Branch
Suzhou Bank, Suzhou Branch

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS

Mayer Brown
Haiwen & Partners

COMPANY'S WEBSITE

www.cnhuirong.com

STOCK CODE

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

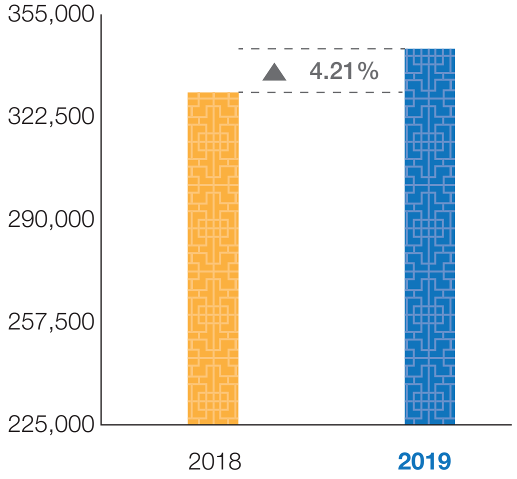
01290

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

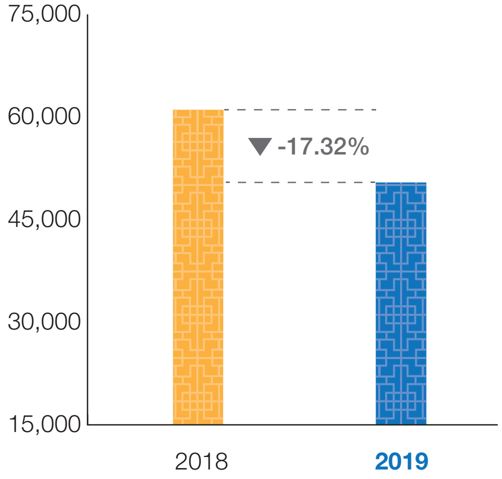
2 The Internet Finance Business Committee has been replaced by the Technology Finance Business Committee with effect from 26 March 2019.

	For the year ended or as at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Operating Results					
Operation income*	**344,134**	330,229	272,353	248,334	375,536
Profit attributable to equity holders	**50,429**	60,996	50,904	40,078	101,886
Financial Position					
Total assets	**3,001,631**	2,800,226	3,034,269	3,136,179	2,769,417
Cash at bank and on hand	**1,047,858**	810,138	941,645	912,349	670,547
Loans to customers	**1,703,704**	1,738,283	1,945,652	2,024,425	2,030,053
Total liabilities	**1,053,187**	903,198	1,180,304	1,336,041	1,002,596
Net assets	**1,948,444**	1,897,028	1,853,965	1,800,138	1,766,821

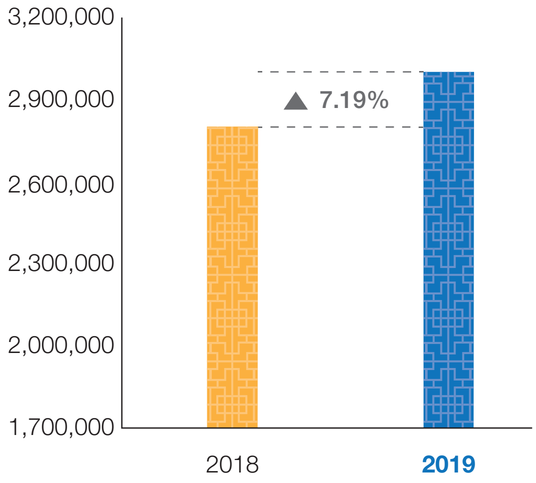
Operating income (RMB'000)



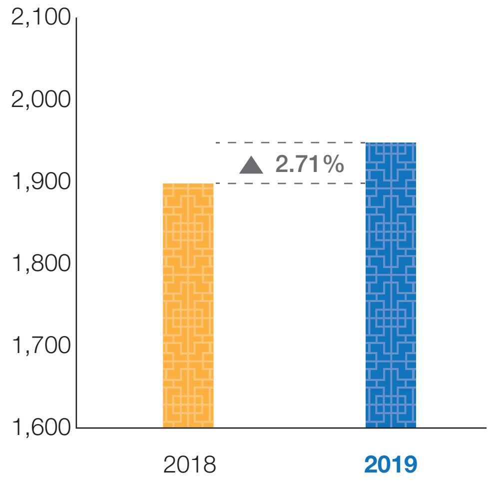
Profit attributable to equity holders (RMB'000)



Total assets (RMB'000)



Net assets (RMB'000)



* Following a change in the nature of the Group's operations, operating income for the year ended 31 December 2018 and 2019 includes interest income, consultancy fee income, and commission fee income. Operating income for the year ended 31 December 2015, 2016 and 2017 is interest income.

Wu Min
Chairman of the Board

We have positioned ourselves as a comprehensive financial service provider which offers diversified products to SMEs and individuals. By relying on our four major business divisions, namely the Inclusive Finance Business Division, the Technology Finance Business Division, the Online Lending Intermediary Business Division and the Insurance Brokerage Business Division, we went beyond the traditional financial mindset to develop small-amount and fragmented financial credit business by using financial technologies like big data and blockchain.

On behalf of the board of directors of China Huirong Financial Holdings Limited, I am pleased to present the annual report for the year ended 31 December 2019.

In 2019, amid the Sino-US trade frictions and economic downturn, the Company proactively adjusted its development strategies. On the inclusive finance business side, we optimized and strengthened our real estate mortgage business, focused on the development of business across regions and completed the capital increase of the sub-loan fund on top of active cooperation with banks on sub-loan business. On the technology finance business side, we organically integrated the business resources of commercial factoring and supply chain management, and continued to explore areas including big-data risk control and loan facilitation technology. On the online lending intermediary business side, we actively sought for transformation in response to the requirements of regulators. On the insurance brokerage business side, we deepened the exploration of the products of co-insurance organisation and actively undertook all kinds of property insurance businesses. On the headquarters management side, as it further enhanced its standard of delicacy management, the Company further improved the service support from back office, further reduced administrative expenses, and deepened people's understanding of performance-oriented appraisal.

Hereby I would like to express my sincere gratitude on behalf of the Board to all of our staff for their diligent contribution and to all shareholders for their full support.

Since early 2020, the novel coronavirus outbreak spreaded across the world, causing significant influences on the normal operation of societies and economies and constituting the biggest challenge on the development of the Company. In this regard, the Company will continue to enhance its market competitiveness, use its strengths in aspects such as relations with local governments, social reputation and innovation capacity, maintain agility and sense of urgency in respect of challenges and opportunities in reinforcing its existing business model and monitoring development opportunities in emerging financial sectors. The Company will also uphold its talent strategy of refusing idle person, removing incompetent person, valuing talents and introducing masters in order to form a high-calibre and flexibly functional talent team. Meanwhile, it will continue its delicacy management for cutting costs, saving expensives and improving management efficiency.

We are now gaining momentum for 2020.

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

26 March 2020

With the goal of achieving nationwide business coverage, the Company has fully leveraged its status as a listed company in Hong Kong and its access to the international capital markets and implemented the dual-driver strategy of "inclusive finance plus technology finance", for striving to offer comprehensive financial services to small and medium enterprises ("SMEs") and individual clients as well as quality and safe financial assets to investors and financial institutions. As our brand has been well regarded by the public with our stable asset quality, we have gradually developed into a company that offers comprehensive fin-tech services.

In 2019, the Company established four business divisions, namely, the inclusive finance business division, technology finance business division, online lending intermediary business division and insurance brokerage business division, and classified our original businesses and new businesses into such four divisions by business scope and nature for operation and management. To present business updates of the Company to the shareholders of the Company, this management discussion and analysis has been organized according to these four business divisions to help our investors get a better understanding of the Company's existing business composition.

1. BUSINESS REVIEW AND DEVELOPMENT

1.1 Inclusive Finance Business Division

Inclusive finance business division conducts its business through platforms such as Suzhou Wuzhong Pawnshop Co. Ltd* (蘇州市吳中典當有限責任公司) ("Wuzhong Pawnshop") (the largest pawnshop in Mainland China in terms of paid-up registered capital of RMB1,000 million), Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.* (蘇州市吳中區東山農村小額貸款有限公司) ("Dongshan Micro-finance") (a company with paid-up registered capital of RMB300 million and partially owned by local government), Suzhou Huifang Rongtong SME Guided Turnover Loan Fund (Limited Partnership)* (蘇州匯方融通中小微企業轉貸引導基金合伙企業(有限合伙)) ("Huifang Rongtong") (a company with paid-up registered capital of RMB100 million, and partially owned by a state-owned enterprise), Suzhou Huifang Tongda Information Technology Company Limited (蘇州匯方同達信息科技有限公司) ("Huifang Tongda") (a company with paid-up registered capital of RMB500 million). Such division operates inclusive finance business by adhering to inclusive finance principle of small scale and decentralization and has attached great importance to risk prevention and control. Major products under this division include secured loans (including real estate backed loans and personal property backed loans), unsecured loans (including equity interest backed loans, guaranteed loans and other unsecured loans) and entrusted loans, which focus on solving problems of short-term business turnover of SMEs and personal short-term capital turnover. The business of inclusive finance business division has covered over several core cities including Suzhou, Chengdu, Wuhan and Hefei, and is striving to become a leading service provider of inclusive finance in the PRC.

(a) Wuzhong Pawnshop

For the year ended 31 December 2019, the following table sets out the details of total transaction amount and number of loans granted during the indicated periods:

	For the year ended 31 December	
	2019	2018
Total transaction amount of new secured loans (RMB million)		
Total transaction amount of new real estate backed loans	**329**	398
Total transaction amount of new personal property backed loans	**66**	103
Total transaction number of new secured loans		
Total transaction number of new real estate backed loans	**386**	380
Total transaction number of new personal property backed loans	**3,275**	4,134
Total transaction amount of new unsecured loans (RMB million)	**922**	913
Total transaction number of new unsecured loans	**47**	61

Wuzhong Pawnshop primarily engages in secured loan and unsecured loan businesses. Secured loans mainly include real estate backed loans and personal property backed loans.

Real estate backed loan business primarily provides personal residential mortgage loans against properties located at core urban areas and is featured by low risks and low turnover rates. Its business coverage mainly concentrates in Jiangsu Province, Chengdu, Wuhan and Hefei. As one of the core products of the inclusive finance business division, secured loan has quality customer resources and has maintained a sound and steady trend of development. During the year of 2019, the total transaction amount and number of real estate backed loans granted by the Company were RMB329 million and 386 respectively, representing a trend of micro-differentiated development.

For personal property backed pawn loan business, the Company has developed a variety of personal property pawn products, including gold, jewelry, diamonds, watches, bags and suitcases. Pawn industry is a traditional industry with long history, traditional personal property pawn industry has suffered a huge influence imposed by the rapid development of consumer loans and cash loans in recent years. In recent two years, the Company seeked innovation and changes in adversity to provide our customers with more diversified and more competitive personal property backed loan service through store upgrading and transformation, Internet publicity to obtain customers, door-to-door service and other ways, striving to regenerate the prosperity of traditional pawn industry.

Unsecured loans mainly include equity interest backed loans and other products which are mainly issued to shareholders of mature enterprises with large operation scale and stable cash flow, aiming to enrich product categories and offer comprehensive financial services to our customers.

(b) Turnover loan business of Huifang Rongtong

Huifang Rongtong primarily engages in unsecured loan businesses. For the year ended 31 December 2019, the following table sets out the details of total new loans granted to SMEs and individuals under our turnover loan business during the indicated periods:

	For the year ended 31 December	
	2019	2018
Total new loan amount granted (RMB million)	**2,620**	2,210
Total number of new loans granted	**253**	269
Balance at the end of the Reporting Period (principal) (RMB million)	**41.14**	0

Huifang Rongtong primarily offers bank bridge loan. Bank bridge loan primarily provides funds for bridge of bank loans to SMEs who has continuous banking facility, with the features of low risks and high turnover rates. Huifang Rongtong has reached strategic cooperation on such bank bridge loan with more than 20 banks. We had established a sub-loan fund with Suzhou Wuzhong Financial Holdings Group Limited* (蘇州市吳中金融控股有限公司), a company owned by the Wuzhong District Government in Suzhou of Jiangsu Province, and such government-enterprise cooperation fund is scarce in Suzhou and even Jiangsu Province. Such fund has served a large number of SMEs and local government platforms and accumulated over 1,000 individual and corporate customers, and became stable revenue and profit growth point of the Company. During the year of 2019, the business showed a decrease in the total number of new loans and an increase in the total amount of new loans, mainly because it served a large number of government platform customers. The government platform customers feature a large amount of single loans and low risks, which is highly complementary to the original SMEs turnover loan business.

(c) Dongshan Micro-finance

For the year ended 31 December 2019, the following table sets out the details of total new loans secured by real estate, guaranteed loans and other unsecured loans during the indicated periods:

	For the year ended 31 December	
	2019	2018
Total amount of new loan granted (RMB million)	**941**	1,067
Total number of new loans granted	**623**	962
Balance at the end of the Reporting Period (principal) (RMB million)	**382**	419

Dongshan Micro-finance is one of the few micro-finance companies rated "AAA" in Jiangsu Province, and primarily engages in providing small loans for "rural areas, agriculture and rural people" ("三農") and financial services such as finance guarantee. Due to the needs of risk control and regulatory compliance, Dongshan Micro- finance suspended some of its foreclosure loan business in 2019, re-optimized the allocation of business working capital, and continued to focus on the development and management of high-quality credit assets.

1.2 Technology Finance Business Division

The technology finance business division is a new business division established in 2019, mainly dedicated to four major operations including technical lending facilitation, technical factoring, supply chain management and Hong Kong operation. Functioning as a new strategic business division of the Company and with the support of technologies such as cloud computation, big data and blockchain, the business division focuses on providing technical loan facilitation services including intelligent decision making engine, user analysis, real-time risk control, electronic contract, intelligent customer service to small and medium-sized commercial banks and online financial platforms.

(a) Aomeishu — Technical Lending Facilitation

In order to solve the existing bottleneck that the Company encounters in carrying out business with its self-owned capital and give full play to the Company's 20-year experience in in-depth development of the financial lending market, our technology finance business division made its explorations and attempts in respect of technical lending facilitation. The Company has acquired Sichuan Aomeishu Technology Co., Ltd.* (四川奧美殊科技有限公司) in March 2019, whose business scope includes financial information technology outsourcing and financial business process outsourcing as entrusted by financial institutions, and then formed an initial business plan of technical lending facilitation after making plenty of market researches and consultations. Currently, preparations for the formal commencement of operation of technical lending facilitation have been oriented as "Channel Cooperation Center of Financial Institutions". Leveraging on fintech platform and big data risk control technologies, this business will focus on referring high-quality customers and underlying assets, the majority of which would be real estates, to various financial institutions including city commercial banks, trusts, consumer finance companies and online micro lending companies.

(b) Huida — Technology Factoring Business

Suzhou Huida Commercial Factoring Co., Ltd.* (蘇州匯達商業保理有限公司) was established on 30 May 2016 with a registered capital of RMB50 million and is principally engaged in accepting assignment of accounts receivable from core enterprise customers and installment of accounts receivable. The company has changed the traditional operating model of factoring business through fintech empowering and has effectively competed with traditional factoring companies through differential positioning and focusing on the funding demands under specific consumption and trading scenarios. The following table sets out the operating information of the factoring business as of 31 December 2019:

	For the year ended 31 December	
	2019	2018
Total number of new transaction relating to accounts receivable assignment	**9**	9
Total number of transaction relating to installment of accounts receivable	**56**	0

(c) Supply Chain Management

Suzhou Huifang Supply Chain Management Company Limited (蘇州市匯方供應鏈管理有限公司) ("Huifang Supply Chain") is a supply chain management brand company under the technology finance business division. It specializes in FMCG and bulk commodities to provide financial services for new supply chain scenarios.

(d) Hong Kong Operation

The technology finance business division obtained a money lender's license in Hong Kong in January 2019 to carry out licensed money lending business. As at 31 December 2019, the balance of outstanding loans at the end of the period was RMB20 million.

1.3 Online Lending Intermediary Business Division

In order to diversify its business and expand its income stream, on 8 January 2015, the Group formally launched its online "peer-to-peer" lending ("P2P Lending") platform, namely Suzhou Qian Dai (www.suzhoumoney.com), which forms its online lending intermediary business division. The following table sets forth information in relation to lending business through our online lending intermediary platform for the indicated periods:

	For the year ended 31 December	
	2019	2018
Total transaction amount of the lending business (RMB million)	**319**	639
Total number of transactions of the lending business	**362**	1,862
Balance at the end of the Reporting Period (RMB million)	**174**	339

As of 31 December 2019, total transaction amount and number of lending business of Suzhou Qian Dai decreased sharply as compared with the corresponding period of last year, which was mainly because Suzhou Qian Dai has further downsized its business in light of industry regulatory policies on online lending and has maintained strict control over the total amount and total number of its lending business so as to actively seek compliance transformation.

1.4 Insurance Brokerage Business Division

On 19 June 2018, the Company acquired Suzhou Huifang Anda Insurance Agency Company Limited* (蘇州匯方安達保險代理有限公司) ("Huifang Anda"), formerly named as Nanjing Shun'an Insurance Agency Company Limited* (南京舜安保險代理有限公司) and established its insurance brokerage business division. Huifang Anda, the operation of which covers property insurance, credit letter insurance, liability insurance, personal insurance and others, has actively integrated its resources with local government and insurers and developed a brand-new insurance operating model through breaking through the traditional business pattern of insurance industry and combining with the internet and diversified insurance brokerage concepts.

2. FINANCIAL REVIEW

2.1 Overall Financial Data

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Operating Results		
Operating income	**344,134**	330,229
Net operating income	**158,627**	146,751
Net assets	**1,948,444**	1,897,028
General and administrative expenses	**70,300**	73,721
Income tax expenses	**25,644**	37,994
Profit attributable to equity holders	**50,429**	60,996
Basic earnings per share (RMB)	**0.046**	0.056

2.2 Financial Analysis on Four Principal Business Divisions

The four business divisions were established in 2019, please see the following financial analysis on the four principal business divisions and headquarters management.

2.2.1 Inclusive Finance Business Division

	For the year ended 31 December 2019 RMB'000
Operating income	**276,189**
Operating cost	**49,325**
Other non-operating gains/(losses)	**(139,632)**
Profit before tax	**87,232**

As the core business segment of the Company, for the year of 2019, the inclusive finance business division maintained stable growth by applying the assessment system of business division. In addition, the operating costs were effectively controlled while each of the product lines ran steadily. As of 31 December 2019, the operating income amounted to RMB276,189 thousand and the profit before tax amounted to RMB87,232 thousand.

2.2.2 Technology Finance Business Division

	For the year ended 31 December 2019 RMB'000
Operating income	**7,188**
Operating cost	**89**
Other non-operating gains/(losses)	**(2,404)**
Profit before tax	**4,695**

As an emerging strategic department of the Company, the technology finance business division completed the team building in 2019 and carried out continuous exploration and innovation on the technology finance business. The technical lending facilitation business was push forward steadily, and factoring business made innovations, laying a solid foundation for future development. The technology factoring business recorded an operating income of RMB7,188 thousand and a profit before tax of RMB4,695 thousand by the year ended 31 December 2019.

2.2.3 Online Lending Intermediary Business Division

	For the year ended 31 December 2019 RMB'000
Operating income	**11,999**
Operating cost	**13**
Other non-operating gains/(losses)	**(7,251)**
Profit before tax	**4,735**

Affected by the policies on the regulation of online leading industry (namely the reduction of both the number of online leading institutions and their business scale), Suzhou Qian Dai further reduced its business scale, and since it failed to realise scale benefits, the operating income and profit decreased significantly year on year.

2.2.4 Insurance Brokerage Business Division

	For the year ended 31 December 2019 RMB'000
Operating income	30,171
Operating cost	26,092
Other non-operating gains/(losses)	(1,772)
Profit before tax	2,307

In 2019, on the basis of consolidating the accident insurance coinsurance business for construction personnel, insurance brokerage business division has signed insurance brokerage cooperation agreements with more than ten insurance companies in the province to establish strategic cooperation relations, and successfully explored in the fields of property insurance, liability insurance, engineering insurance, etc.

2.2.5 Headquarters Management

	For the year ended 31 December 2019 RMB'000
Operating income	21,578
Operating cost	7,253
Other non-operating gains/(losses)	(22,408)
Profit before tax	(8,083)

As the core of China Huirong's progress and development, the headquarters has undertaken the service functions of investment management, risk prevention and control, scientific and technological support, logistics support, etc.. The operating income of the headquarters in 2019 mainly includes the interest income of term deposits of Suzhou Huifang Technology Co., Ltd. In recent years, it has been committed to lowering costs and increasing efficiency. At present, it has effectively controlled general and administrative expenses for three consecutive years. In the future, it will continue to promote fine management to increase income and reduce expenditure.

3. CREDIT RISK

3.1 Loan Classification and Impairment Allowances

The following table sets out analysis on the credit risk exposures of loans to customers that are included in the expected credit loss ("ECL") assessment:

	As at 31 December 2019				As at 31 December 2018
	ECL Staging				
	Stage 1 12-months ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000	Total RMB'000
Loans to customers					
Secured loans to customers (a)	**362,602**	**11,922**	**797,433**	**1,171,957**	1,277,155
Unsecured loans to customers (b)	**750,158**	**–**	**247,633**	**997,791**	792,729
Gross carrying amount	**1,112,760**	**11,922**	**1,045,066**	**2,169,748**	2,069,884
Loss allowances	**(32,292)**	**(1,745)**	**(432,007)**	**(466,044)**	(331,601)
Carrying amount	**1,080,468**	**10,177**	**613,059**	**1,703,704**	1,738,283
Term deposits with banks					
Credit grade					
AAA	**847,725**	**–**	**–**	**847,725**	663,439
AA+	**–**	**–**	**–**	**–**	–
A	**–**	**–**	**–**	**–**	–
Gross carrying amount	**847,725**	**–**	**–**	**847,725**	663,439
Loss allowances	**(164)**	**–**	**–**	**(164)**	(164)
Carrying amount	**847,561**	**–**	**–**	**847,561**	663,275
Other current assets (excluding repossessed assets)					
Gross carrying amount	**40,797**	**–**	**20,468**	**61,265**	83,324
Loss allowances	**(55)**	**–**	**(3,265)**	**(3,320)**	(2,352)
Carrying amount	**40,742**	**–**	**17,203**	**57,945**	80,972

In light of the changes in market environment, impairment allowances were made to adequately reflect the Group's market risk exposure. As at 31 December 2019, the aggregate impairment allowance for secured loans to customers and unsecured loans to customers amounted to RMB466,044 thousand, representing approximately 21.48% of the total outstanding loans granted to customers (before provision); the overall impairment allowance of the Company increased by RMB134,443 thousand as compared with the end of last year.

The following table sets forth the breakdown of impairment allowance of the Group as of the indicated dates:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Secured loans to customers	**263,784**	165,608
Unsecured loans to customers	**202,260**	165,993
	466,044	331,601

3.2 New Loans under Legal Proceedings

	For the year ended 31 December 2019
New Secured Loans	
Number of clients	**38**
Outstanding loans (RMB thousand)	**132,385**
New Unsecured Loans	
Number of clients	**5**
Outstanding loans (RMB thousand)	**35,574**

As at 31 December 2019, the balance of loans under legal proceedings accounted for 28.1% of the balance of loans to customers, representing a slight decrease from 28.8% as at 31 December 2018. For the year ended 31 December 2019, the aggregate principal and interest of new loans under legal proceedings and loans under legal proceedings concluded was RMB167,959 thousand and RMB155,371 thousand, respectively.

4. BORROWINGS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Bank borrowings (a)	**936,400**	766,286
Borrowings from microfinance companies (b)	**33,500**	55,000
Borrowings from securities company (c)	**10,000**	15,540
Borrowings from other company	**13,530**	—
SME private placement bond issued (d)	**2,800**	—
Private placement note	**—**	13,250
	996,230 (e)	850,076

(a) Bank borrowings are all with maturity within one year and bear fixed interest rates ranging from 3.45% to 5.87% per annum in the year ended 31 December 2019 (2018: fixed rate from 4.35% to 6.09%).

As at 31 December 2019, bank borrowings with principal amount of RMB315.0 million (2018: RMB491.0 million) are secured by restricted term deposits of US$50.2 million (2018: US$85.2 million).

As at 31 December 2019, bank borrowings with principal amount of RMB261.5 million (2018: RMB74.0 million) are secured by restricted term deposits of RMB275.9 million (2018: RMB78.7 million).

As at 31 December 2019, bank borrowings with principal amount of RMB180.0 million (31 December 2018: RMB200.0 million) are guaranteed by Wuzhong Jiaye and the Ultimate Shareholders.

As at 31 December 2019, bank borrowings with principal amount of USD25.6 million (31 December 2018: Nil) are secured by restricted term deposits of RMB180.2 million and are guaranteed by Bank of Jiangsu.

The fair values of bank borrowings approximate their carrying amounts as the discounting impact is not significant.

As at 31 December 2019, the Group has no undrawn bank borrowing facilities (31 December 2018: nil).

(b) As at 31 December 2019, borrowings from microfinance companies with principal amount of RMB33.5 million are guaranteed by Jiangsu Wuzhong Group Co., Ltd. ("Wuzhong Group") (31 December 2018: RMB55.0 million).

(c) As at 31 December 2019, borrowings from a securities company with principal amount of RMB10.0 million are pledged by equity investment and cash dividends held by the Group (2018: RMB15.5 million).

(d) As at 31 December 2019, SME private placement bond is issued to fund the lending business to small and micro enterprises in the Jiangsu Province. The bond has a maturity within one year and bears fixed interest rate of 7.3% per annum (2018: Nil). The bond is guaranteed by Jiang Su Jin Chuang Credit Re-guarantee Company ("江蘇金創信用再擔保") (2018: Nil).

(e) All borrowings amounting to 996.23 million bear fixed interest rates.

5. CAPITAL EXPENDITURE

Our capital expenditure primarily consists of purchases of property, plant and equipment and intangible assets. Our capital expenditure was RMB983 thousand for the year ended 31 December 2019, as compared with RMB38,615 thousand for the corresponding period of last year.

6. TOTAL EQUITY AND CAPITAL MANAGEMENT

6.1 Total Equity

The total equity as at 31 December 2019 was RMB1,948.4 million, representing an increase of RMB51.4 million or 2.7% as compared with that as at 31 December 2018. The increase was due to an increase of the net profit attributable to equity holders amounting to RMB50.4 million during the Reporting Year.

6.2 Gearing ratio management

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

Our gearing ratio as at 31 December 2019 was 29.5% (2018: 27.4%).

7. SIGNIFICANT INVESTMENTS, ACQUISITION AND DISPOSAL

7.1 Acquisition of Sichuan Aomeishu Technology Co., Ltd.* (四川奧美姝科技有限公司)

On 8 March 2019, the Company acquired Sichuan Danyantai Technology Co., Ltd.* (四川膽眼態科技有限公司), which has the qualification to carry out loan facilitation business. On 28 April 2019, its name was changed to Sichuan Aomeishu Technology Co., Ltd.* (四川奧美姝科技有限公司).

Save as disclosed above, there was no other significant investments, acquisition and disposal during the Reporting Period.

As none of the applicable percentage ratio(s) (as calculated in accordance with Rule 14.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) for the aforesaid transactions exceeds 5%, none of the aforesaid transactions constitutes a notifiable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

8. CONTINGENCIES, CONTRACTUAL OBLIGATIONS, LIQUIDITY AND FINANCIAL RESOURCES

8.1 Contingencies

As at 31 December 2019, the Group did not have any significant contingent liabilities except the following commitments (2018: Same).

8.2 Commitments

(a) Capital commitments

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Hillcrest Associated Limited (i)	**438**	438

(i) The purchase consideration of Hillcrest Associated Limited is HK$1 million, of which HK$0.5 million (equivalent to RMB0.4 million) has not been paid by the Group as at 31 December 2019 (31 December 2018: HK$0.5 million (equivalent to RMB0.4 million)).

8.3 Liquidity and capital resources

(a) Cash flow analysis

As at 31 December 2019, the Group's cash and cash equivalents amounted to RMB181,038 thousand, representing an increase of RMB47,302 thousand as compared with that of the corresponding period of last year. The following table sets forth a summary of our cash flows for the indicated periods:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net cash (outflow)/inflow from operating activities	**(53,043)**	232,251
Net cash outflow from investing activities	**(21,437)**	(43,657)
Net cash inflow/(outflow) from financing activities	**121,432**	(313,337)
Net increase/(decrease) in cash and cash equivalents	**46,952**	(124,743)
Cash and cash equivalents at the end of year	**181,038**	133,736

Net Cash Flow from Operating Activities

During the Reporting Year, net cash outflow from operating activities amounted to RMB53,043 thousand, mainly due to payments of interest on borrowings and income tax.

Net Cash Flow from Investing Activities

During the Reporting Year, net cash outflow from investing activities amounted to RMB21.4 million.

Net Cash Flow from Financing Activities

During the Reporting Year, net cash inflow from financing activities amounted to RMB121,432 thousand, mainly due to increase of credit facilities in 2019 to meet the needs of business development.

(b) **Liquidity risk**

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

9. FOREIGN EXCHANGE RISK

The Group operates principally in the PRC. The majority of recognized assets and liabilities are denominated in RMB and the majority of transactions are settled in RMB.

Exposure

The Group's exposure to foreign currency risk at the end of the Reporting Year, expressed in RMB thousand, is as follows:

	As at 31 December			
	2019		2018	
	USD	**HKD**	USD	HKD
Cash at bank and cash on hand	**373,763**	**9,410**	599,215	9,833
Loans to customers	**—**	**20,745**	17,230	19,322
Derivative financial instruments	**7,952**	**—**	—	—
Borrowings	**(178,647)**	**—**	—	—
Net exposure	**203,068**	**30,155**	616,445	29,155

During this year, the following foreign-exchange related amounts were recognized in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2019	2018
Exchange (losses)/gains	**(1,115)**	34,397

Should US dollar and Hong Kong dollar weaken/strengthen by 1% against RMB with all other variables held constant, the profit before income tax would have been RMB4.1 million (2018: RMB6.5 million) lower/higher for the year ended 31 December 2019, mainly as a result of foreign exchange losses/gains on translation of US dollar and Hong Kong dollar denominated balances.

10. HUMAN RESOURCE AND EMPLOYEE BENEFITS

As at 31 December 2019, the Group had a total of 161 full-time employees, with a decrease of 7 people from 168 people as at 31 December 2018. Based on the development of our business, we will formulate diversified human resources optimization plans, and review of our employees' performance so as to adjust the number of our employees and our remuneration policy. We have developed a diversified human resources optimization plan. The remuneration of our employees and senior management is determined by their experience and abilities, their responsibilities to the Group and the Group's performance and profitability.

For the year ended 31 December 2019, the expenses for employee remuneration and benefits were approximately RMB38,851 thousand, representing an decrease of approximately RMB1,757 thousand compared with the same period of last year.

The Group has developed a training management plan for all staff, details of which are set out in the section headed "Environmental, Social and Governance Report — 2.3 Development and Training" of this annual report.

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

11. FUTURE PLANS RELATING TO MATERIAL INVESTMENTS

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

12. EVENTS AFTER REPORTING PERIOD

(i) Dividend

A dividend in respect of profits for the year ended 31 December 2019 of HK$0.0130 per Share, amounting to a total dividend of HK$14.1 million (equivalent to approximately RMB12.7 million), is to be proposed at the annual general meeting on 28 May 2020 (2018: A dividend in respect of the year ended 31 December 2018 of HK$0.0130 per Share, amounting to a total dividend of HK$14.1 million (equivalent to approximately RMB12.4 million), was proposed at the annual general meeting on 28 May 2019). These financial statements do not reflect this dividend payable.

(ii) Acquisition of equity interests in Dongshan Micro-finance

On 13 January 2020, the Group further purchased 10% of the equity interests in Dongshan Micro-finance for a cash consideration of RMB30 million from an individual shareholder. After the acquisition, the Group owns 70% of the equity interests in Dongshan Micro-finance.

(iii) Outbreak of Coronavirus Disease 2019

Since early 2020, the epidemic of Coronavirus Disease 2019 ("the COVID-19 outbreak") has spread across China and other countries, and it has affected business and economic activities to some extent. Up to the date of this report, the impacts of the COVID-19 outbreak on the Group's financial positions and the macro-economic conditions as a whole are still uncertain, the Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group in the future.

PROSPECTS

Inclusive Finance Business Division: Firstly, on the basis of consolidation of small-amount dispersed property-guaranteed loan business, the Company will proactively explore the cooperative mode to loan facilitation, and solve the deficiency of funds for expansion of property-guaranteed loan business. Meanwhile, efforts will be made to strengthen cooperation with external asset management companies, remove the overdue assets out of the balance sheet, further revitalize funds, and create the whole chain of sound development of property-guaranteed loan business; secondly, the Company will grasp opportunities to specialize in the featured business of sub-loan funds, focus on business risks, strengthen cooperation with banks and rural governments, reinforce top marketing, expand business regions along the trend, and proactively promote the expansion of sub-loan fund business across regions.

Technology Finance Business Division: The Company will stably promote the development of the lending business with technology, establish the big data risk control system that can withstand testing, and improve the market competitiveness; introduce state-owned assets into sci-tech factoring business, reinforce capital fund and shareholders' superiority, and create opportunities for bank financing. In addition to traditional receivables factoring business, efforts will also be made to explore business models such as consumer finance and supply chain finance.

Internet Lending Intermediary Business Division: Under the guidance of the regulators, the internet lending intermediary platform of Suzhou Qian Dai was actively seek compliance transformation to make efforts to obtain licenses for online small-amount loans. It strives to become a licensed online lending institution.

Insurance Brokerage Business Division: Following the tenet of "Credit, Responsibility, Specialty and Compliance", the Company will make full use of the superiority of equity participation by state-owned assets, and obtain the insurance projects paid or subsidized by the finance or funded by district or state-owned assets, or the existing insurance projects of the district government. Meanwhile, the Company will independently explore customized products, seek for continuous flow of cooperation, dig the superiority of internal resources, and give full play to the strength of flexible types of operation.

DIRECTORS

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

Executive Directors

Mr. WU Min (吳敏), aged 51, is the chairman and the chief executive officer of our Company and was appointed as an executive Director of the Company on 17 May 2012. Mr. Wu is responsible for convening and presiding over the board meetings regularly and making decisions for the key issues of our Company, such as determining the Company's macroscopic development direction, researching into relevant national policies and avoiding the systemic risks in our industry and the day-to-day operations and strategic development of our Company. Upon joining our Group in 26 January 2011, Mr. Wu has been the General Manager of the PRC Operating Entity. He possesses approximately 30 years of experience in commercial banking, finance and management. Mr. Wu worked in various positions in the Suzhou branch of the Industrial and Commercial Bank of China from 1985 to 2011, including being the President and Secretary of the Committee of Communist Party of China of the Wuzhong branch between 2005 and 2011. Mr. Wu graduated from Jiangsu Radio and TV University (江蘇廣播電視大學), majoring in finance, in July 1994; from the Party School of the Central Committee of Communist Party of China Correspondence Institute (中共中央黨校函授學院), majoring in executive management, in December 2001 and from the School of Business of Soochow University (蘇州大學商學院) in October 2003, where he completed a postgraduate course in finance and from China Europe International Business School in November 2017, where he completed an EMBA degree. In November 2000, Mr. Wu obtained the Intermediate Economist qualification (中級經濟師任職資格) issued by the Ministry of Personnel of the PRC (中國人事部).

Mr. ZHANG Changsong (張長松), aged 47, is the chief financial officer of the Company and was appointed as an executive Director of the Company on 4 January 2016. He is also a general manager of Technology Finance Division of the Company. Mr. Zhang is a senior accountant recognized by the Jiangsu Provincial Department of Human Resources and Social Security and a certified internal auditor recognized by the China Institute of Internal Audit with the authorization from the Institute of Internal Auditors. Mr. Zhang has also been awarded the professional designation of Certification in Risk Management Assurance by the Institute of Internal Auditors. Mr. Zhang received his bachelor degree in accounting from Anhui University of Finance & Economics, formerly known as Anhui Institute of Finance and Trade, in 1998 and obtained his master degree from Tsinghua University in 2019. Mr. Zhang has more than 20 years of experience in auditing and accounting. In September 1998, he started working as an auditing staff at Anhui Xinhua Bookstore, which is currently known as Anhui Xinhua Media Co., Ltd. (the shares of which are listed on the Shanghai Stock Exchange). From 2005 to 2012, Mr. Zhang worked as an accounting supervisor, assistant manager in the asset auditing department, manager in the asset auditing department at Jiangsu Wuzhong Group Co., Ltd., respectively. During the period from 2013 to 31 December 2015, he was the vice chief auditor and general manager in the asset auditing department, a member of the audit committee and the budget committee at Jiangsu Wuzhong Group Co., Ltd.

Non-executive Directors

Mr. ZHUO You (卓有), aged 51, was appointed as a non-executive Director of the Company on 17 May 2012. Mr. Zhuo is currently the director and Vice President of Wuzhong Group responsible for the strategic investment and overall management of Wuzhong Group. Mr. Zhuo is also Secretary of the Committee of the Communist Party of Wuzhong Group. He graduated from Suzhou Vocational University (蘇州市職業大學) in July 1990 where he completed a secretarial course. Mr. Zhuo was a reporter and editor of Suzhou Wuxian Radio Station (蘇州吳縣市廣播電台) from August 1990 to February 1995. Since 1995, he has held various positions including the positions of planning director, manager of the administration and management department, office director, assistant general manager and deputy managing director of Wuzhong Group and general manager of Suzhou Taihu Construction Investment Company (蘇州太湖建設投資公司), a subsidiary of Wuzhong Group.

Mr. ZHANG Cheng (張成), aged 37, was appointed as a non-executive Director of the Company on 17 May 2012. Mr. Zhang is responsible for the investor relation of our Company. Mr. Zhang graduated from Nanjing University with a bachelor's degree in economics and a master's degree in western economics in June 2002 and June 2005, respectively. Mr. Zhang was the investment manager of the Strategic Investment Department of Wuzhong Group from July 2005 to February 2006. From February 2006 to February 2008, he served as the assistant general manager of Jiangsu Wuzhong Hi-Tech Venture Capital Co., Ltd (江蘇吳中高科創業投資有限公司), a subsidiary of Wuzhong Group, and from February 2008, he became the deputy general manager and from February 2011, he became the general manager of such company. From February 2010 to January 2019, Mr. Zhang also worked successively as the deputy general manager and the general manager of Suzhou Education Investment Company (蘇州教育投資有限公司), a subsidiary of Wuzhong Group. During his various positions in Wuzhong Group and the two subsidiaries of Wuzhong Group, Mr. Zhang is responsible for the management and development in relation to investment in the bio-pharmaceutical, information technology areas and private education.

Ms. ZHANG Shu (張姝), aged 54, was appointed as a non-executive Director of the Company on 18 March 2016. Ms. Zhang has been a vice president of Jiangsu Wuzhong Group Co., Ltd. since December 2011. Ms. Zhang has more than 28 years of experience in banking and finance industry. From August 1986 to May 1990, she worked as a clerk at the sales department of Suzhou branch of Bank of China. From May 1990 to October 1999, Ms. Zhang commenced working as a clerk in the bill settlement department and subsequently became the chief officer of loan department at Suzhou branch of Bank of China. Afterwards, Ms. Zhang worked as an assistant vice president in the administration division of BOC International Holdings Limited in Hong Kong from November 1999 to August 2003. She became the vice president of Suzhou Industrial District branch of Bank of China from September 2003 to March 2007 and then worked as the president of Suzhou Wuzhong branch of Bank of China from March 2007 to October 2011. Ms. Zhang then worked as the general manager of the risk management department of Suzhou branch of Bank of China from October 2011 to December 2011. Ms. Zhang obtained a diploma in English from Nanjing Normal University (南京師範大學) in June 1995 and a postgraduate degree in world economics from the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in September 1998. Ms. Zhang was awarded with the qualification certificate of speciality and technology in the speciality of financial economics (intermediate level) by the Human Resources Department of the People's Republic of China (中華人民共和國人事部) in November 1997.

Mr. LING Xiaoming (凌曉明), aged 47, was appointed as a non-executive Director of the Company on 28 May 2018. Mr. Ling has over 20 years of experience in the legal profession. Mr. Ling has been the chief risk officer of Jiangsu Wuzhong Group Co., Ltd. since February 2018. He served as a general manager of the legal department of Jiangsu Wuzhong Group Co., Ltd. from May 2016 to February 2018. Mr. Ling worked in the judiciary system of the Jiangsu Province for approximately 20 years and held various positions such as judge and presiding judge of different courts from August 1995 to April 2016. Mr. Ling received the Bachelor of Law from East China University of Political Science and Law (華東政法大學), formerly known as East China University of Politics and Law (華東政法學院), in 1995, and the Master of Law from Jilin University (吉林大學) in 2007. Mr. Ling was qualified as a lawyer in the People's Republic of China in 2017.

Independent Non-executive Directors

Mr. ZHANG Huaqiao (張化橋), aged 56, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Zhang graduated from the Graduate School of the People's Bank of China (中國人民銀行研究生部) with a master's degree in economics in 1986; and from the Australian National University with a master's degree in economics in January 1991. From July 1986 to January 1989, Mr. Zhang was employed at the People's Bank of China in Beijing and from June 1999 to April 2006, Mr. Zhang worked at the Equities Department of UBS AG, Hong Kong Branch at which he first served as the head of the China research team and later became the co-head of the China research team. From March 2006 to September 2008, Mr. Zhang was the chief operating officer of Shenzhen Investment Limited (深圳控股有限公司) (the shares of which are listed on the Stock Exchange (Stock Code: 0604)).

Mr. Zhang currently holds the directorships as follows:

- independent non-executive director of Fosun International Limited (the shares of which are listed on the Stock Exchange (Stock Code: 656)), since March 2012;
- independent non-executive director of Zhong An Real Estate Limited (the shares of which are listed on the Stock Exchange (Stock Code: 672)), since January 2013;
- independent non-executive director of Logan Property Holdings Company Limited (the shares of which are listed on the Stock Exchange (Stock Code: 3380)), since November 2013; and
- independent non-executive director of Luye Pharma Group Ltd. (the shares of which are listed on the Stock Exchange (Stock Code: 2186)), since June 2014.

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

- independent non-executive director of Yancoal Australia Limited (the shares of which are listed on the Australian Securities Exchange (ASX Code: YAL)), from April 2014 to January 2018;
- independent non-executive director of Wanda Hotel Development Company Limited (formerly known as Wanda Commercial Properties (Group) Co., Limited) (the shares of which are listed on the Stock Exchange (Stock Code:169)), from September 2014 to May 2018;
- independent non-executive director of Sinopec Oilfield Service Corporation (formerly known as Sinopec Yizheng Chemical Fibre Company Limited) (the shares of which are listed on the Stock Exchange (Stock Code: 1033)), from February 2015 to June 2018;
- independent non-executive director of China Rapid Finance Ltd. (the shares of which are listed on the New York Stock Exchange (Stock Code: XRF)), from April 2017 to March 2019.
- non-executive director of Boer Power Holdings Limited (the shares of which are listed on the Stock Exchange (Stock Code: 1685)), from November 2011 to May 2019; and
- non-executive director, chairman of the board and executive director of China Smartpay Group Holdings Limited (the shares of which are listed on the Stock Exchange (Stock Code: 8325)), from September 2012 to January 2020, successively.

Mr. FENG Ke (馮科), aged 48, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Feng graduated from Guangdong University of Finance (廣東金融學院) majoring in international finance in July 1993; from Guangdong Academy of Social Sciences (廣東省社會科學院) with a master's degree in economics in July 1999; and from Peking University School of Economics (北京大學經濟學院) with a doctor's degree in political economics in July 2002. Mr. Feng has been an associate professor at School of Economics of Peking University from 2010. Mr. Feng was the assistant manager of Golden Eagle Asset Management Co., Ltd (金鷹基金管理有限公司) from November 2002 to January 2006.

Mr. Feng currently holds directorships as follows:

- independent non-executive director of Asian Capital Resources (Holdings) Limited (亞洲資產(控股)有限公司) (the shares of which are listed on the GEM of the Stock Exchange (Stock Code: 08025)), since October 2008, re-designated as executive director on 1 September 2013;

- independent non-executive director of Zhuguang Holdings Group Co. Ltd. (珠光控股集團有限公司) (the shares of which are listed on the main board of the Stock Exchange (Stock Code: 01176)), since June 2015;

- independent director of Shenzhen Yushun Electronic Limited (深圳市宇順電子股份有限公司) (the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 002289)), since December 2015; and

- independent director of Tianjin Guangyu Development Co., Ltd (天津廣宇發展股份有限公司) (the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 000537)), since June 2018.

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

- independent non-executive director of Yingde Gases Group Company Limited (the shares of which were listed on the main board of the Stock Exchange (Stock Code: 02168) and the listing of shares was withdrawn subsequently through the completion of compulsory acquisition on 21 August 2017), from November 2016 to March 2017; and

- independent director of China Greatwall Technology Group Co., Ltd. (中國長城科技集團股份有限公司) (formerly known as China Great Wall Computers Shenzhen Co. Ltd (中國長城計算機深圳股份有限公司)) (the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 000066)), from August 2010 to April 2018.

Mr. TSE Yat Hong (謝日康), aged 50, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Tse is a Fellow of the Hong Kong Institute of Certified Public Accountants and a FCPA of CPA Australia. Mr. Tse graduated from Monash University in Australia in April 1992 with a bachelor's degree in science. From June 2000 to May 2019, Mr. Tse served as the chief financial officer of Shenzhen International Holdings Limited (the shares of which are listed on the Stock Exchange (Stock code: 00152)). From August 2000 to March 2008, Mr. Tse was also the company secretary of Shenzhen International Holdings Limited. Mr. Tse served as the joint company secretary of Shenzhen Expressway Company Limited from September 2004 to September 2007. Prior to that, Mr. Tse worked in the audit profession in one of the international accounting firms for years.

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

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

Save as disclosed in the section headed "Directors' Report" of this annual report, as at 31 December 2019, (i) none of the above Directors had any interests in the shares of the Company within the meaning of Part XV of the SFO; and (ii) none of the Director is a director or employee of a company which had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Senior Management

Mr. YAO Wenjun (姚文軍), aged 50, is a vice president of the Group responsible for marketing. Mr. Yao graduated from Southwestern University of Finance and Economics with a bachelor's degree in accounting in July 2010. From August 1989 to November 2012, he worked successively as an account manager, director and assistant president at China Construction Bank (Wuzhong Branch) in Suzhou. Mr. Yao joined the Group as vice president in January 2016.

Ms. CAO Yu (曹瑜), aged 45, is the Chief Risk Officer of our Group. She is responsible for risk control, asset quality and legal issues. Ms. Cao obtained a bachelor's degree in international trading from Peking University in July 1999. From August 1994 to December 2012, she worked in China Industrial and Commercial Bank of China, Suzhou Wuzhong sub-branch as an employee of the credit management department, account manager, manager of the corporate department, manager and senior credit approver of the Head Office of Industrial and Commercial Bank of China successively. Ms. Cao joined the Group in January 2013 as the general manager of our branch company and an assistant to the President of the Group.

Mr. Zhou Jun (周俊), aged 47, is an assistant to the President of the Group. He is responsible for the insurance agency business. Mr. Zhou obtained a bachelor's degree in corporate management from the Management Engineering Department of Suzhou Silk Engineering Institute (currently known as the Business School of Soochow University) in July 1995 and a master's degree in business administration from the Business School of Soochow University in July 2008. From August 1995 to September 2001, he was the head of the delivery department of the Suzhou Commodity (Futures) Exchange (蘇州商品(期貨)交易所). From October 2001 to March 2006, he worked in Soochow Securities Co., Ltd. as a manager of the consulting center of the research institute and an assistant to general manager of the securities business department in Shishan Road successively. From April 2006 to January 2020, he worked in Jiangsu Wuzhong Group Co., Ltd. (江蘇吳中集團有限公司) as deputy director of the board office and general manager of Suzhou Jiadingsheng Asset Management Co., Ltd. (蘇州嘉鼎晟資產管理有限公司) successively. Mr. Zhou joined the Group in February 2020 as an assistant to the President of the Group.

Save as disclosed in this section, there is no financial business, family or other material relationship among the Directors and the senior management.

MANAGEMENT CONTINUITY

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

Mr. Wu Min is ultimately responsible for the management team, being Mr. Zhang Changsong (joined in January 2016), Ms. Cao Yu (joined in January 2013) , Mr. Yao Wenjun (joined in January 2016), and Mr. Zhou Jun (joined in February 2020), the majority of whom had been in place prior to the Track Record Period.

COMPANY SECRETARY

Miss LEUNG Ching Ching (梁晶晶), aged 39, was appointed as a company secretary of our Company on 6 October 2013 and serves as a senior manager of corporate services of Tricor Services Limited. Miss Leung has over 15 years of experience in the company secretarial industry, and provided services to clients ranging from private companies to public companies listed on the main board of the Stock Exchange. Miss Leung is a Chartered Secretary and an Fellow of both The Chartered Governance Institute and The Hong Kong Institute of Chartered Secretaries. She graduated from The Chinese University of Hong Kong and received a Master of Arts degree in Professional Accounting and Information System from City University of Hong Kong.

AUDIT COMMITTEE

Our Company established an audit committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee consists of three members, namely Mr. Tse Yat Hong and Mr. Feng Ke, our independent non-executive Directors and Ms. Zhang Shu, our non-executive Director. Mr. Tse Yat Hong has been appointed as the chairman of the audit committee, and is our independent non-executive Director who possesses the appropriate professional qualifications. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

REMUNERATION COMMITTEE

Our Company established a remuneration committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members, namely Mr. Zhang Huaqiao and Mr. Tse Yat Hong, our independent non-executive Directors and Mr. Wu Min, our executive Director. Mr. Zhang Huaqiao has been appointed as the chairman of the remuneration committee. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

NOMINATION COMMITTEE

Our Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely Mr. Feng Ke and Mr. Zhang Huaqiao, our independent non-executive Directors, and Mr. Wu Min, our executive Director. Mr. Wu Min has been appointed as the chairman of the nomination committee. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

TECHNOLOGY FINANCE BUSINESS COMMITTEE

The Company established the Technology Finance Business Committee with written terms of reference. The Technology Finance Business Committee consists of three members, namely Mr. Feng Ke, our independent non-executive Director and Mr. Wu Min and Mr. Zhang Changsong, our executive Directors. Mr. Feng Ke has been appointed as the chairman of the Technology Finance Business Committee. The main responsibilities of the Technology Finance Business Committee include formulating and developing strategies for the Group's financial technology issues ("technology finance business") such as supply chain financing, providing funding using financial technology, carrying out block chain and big data analysis, and make recommendations to the Board; overseeing the implementation of the Technology Finance Business of the Group, and evaluating the performance and efficiency of the Technology Finance Business; and considering other matters as defined by the Board.

CHANGE IN DIRECTORS' INFORMATION

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

Mr. Zhang Huaqiao ceased to be a non-executive director and the chairman of the board of China Smartpay Group Holdings Limited (the shares of which are listed on the Stock Exchange (Stock Code: 8325)) since January 2020.

Mr. Tse Yat Hong ceased to be the chief financial officer of Shenzhen International Holdings Limited (the shares of which are listed on the Stock Exchange (stock code: 00152)) since May 2019.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration for our Directors (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances, share option schemes and other benefits in kind) for the years ended 31 December 2018 and 2019 was approximately RMB5,299 thousand and RMB3,697 thousand, respectively.

During the years ended 31 December 2018 and 2019, five highest paid individuals of the Group included three executive Directors, whose emoluments were deducted from emoluments payable to the five highest paid individuals. Emoluments of the remaining highest paid individuals were RMB1,914 thousand and RMB2,722 thousand.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the year ended 31 December 2019.

Save as disclosed above, no other payments have been made or are payable in respect of each of the two years ended 31 December 2018 and 2019 by the Group to the Directors.

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

The Board of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The business review of the Group as at 31 December 2019 is set out in the section headed "Management Discussion and Analysis" from pages 7 to 11 of this annual report.

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

Description of possible risks and uncertainties facing the Company is set out in the paragraph headed "4 Financial Risk Management" in the section headed "Notes to the Consolidated Financial Statements" from pages 107 to 123 of this annual report.

EVENTS AFTER THE REPORTING YEAR

Save as disclosed in this annual report, there is no significant event after 31 December 2019.

FUTURE BUSINESS DEVELOPMENT

A discussion of the Group's future business development is set out in the "Chairman's Statement" on page 5 and "Management Discussion and Analysis" on page 20 of this annual report.

FINANCIAL KEY PERFORMANCE INDICATORS

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

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a comprehensive financing service provider in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Reporting Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. Details of the Group's environmental policies and performance and compliance with laws and regulations that have a significant impact on the Group are set out in the section headed "Environmental, Social and Governance Report" from pages 65 to 69 of this annual report.

RELATIONSHIP WITH STAKEHOLDERS

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

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2019 and the state of the Company's and the Group's financial affairs as at that date are set out on pages 76 to 77 of this annual report.

FINAL DIVIDEND

The Board has proposed to declare a final dividend of HK$0.0130 per Share in respect of the year ended 31 December 2019 (the "2019 Final Dividend") (2018: HK$0.0130 per Share). The 2019 Final Dividend will be paid to the Shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 4 June 2020. Based on the 1,086,787,000 Shares in issue as at 31 December 2019, the payment of the 2019 Final Dividend is expected to amount to approximately HK$14,128,231, which will be paid on or before Monday, 29 June 2020. The retained profit will be primarily used for the Group's business developments and/or acquisitions of suitable business opportunities in the PRC.

As at the date of this annual report, the Board was not aware that any shareholders of the Company had waived or agreed to any arrangement to waive dividends.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020 (both dates inclusive) and from Wednesday, 3 June 2020 to Thursday, 4 June 2020 (both dates inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on Friday, 22 May 2020. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the forthcoming annual general meeting), all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at the abovementioned address for registration by 4:30 p.m. on Tuesday, 2 June 2020.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2019 are set out in the consolidated statements of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2019 are set out in Note 31 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in Note 30 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2019 are set out in Note 17 to the consolidated financial statements.

FINANCIAL SUMMARY

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

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

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

EQUITY-LINKED AGREEMENT

Apart from the Share Option Scheme of the Company set forth from pages 35 to 37, the Company has not entered into any equity-linked agreement during the Reporting Year or there was not any subsisting equity-linked agreement entered into by the Company at the end of the Reporting Year.

DIRECTORS AND SENIOR MANAGEMENT

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

Directors

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

Senior Management

Name	Position
Mr. Yao Wenjun	Vice President
Ms. Cao Yu	Chief Risk Officer
Mr. Zhou Jun	Assistant to the President of the Group

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

DIRECTORS' INTERESTS IN CONTRACTS

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely, Mr. Zhang Huaqiao, Mr. Feng Ke and Mr. Tse Yat Hong, the annual confirmation letter of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that the independent non-executive Directors have been independent from their respective date of appointment to 31 December 2019 and remain independent as of the date of this annual report.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(1) Long positions in the shares of the Company

Name of Director	Nature of Interest	Type of Interest	Number of Shares or Underlying Shares	Percentage of the Total Issued Shares *(Note 4)*
Wu Min	Beneficial owner	Share Options	1,965,000 (L) *(Note 2)*	0.18%
	Beneficial owner	Ordinary Shares	1,840,000 (L)	0.17%
Zhang Changsong	Beneficial owner	Share Options	1,572,000 (L) *(Note 2)*	0.14%
	Beneficial owner	Ordinary Shares	1,510,000 (L)	0.14%
Zhuo You	Beneficial owner	Share Options	791,000 (L) *(Note 2)*	0.07%
	Interest in controlled corporation	Ordinary Shares	39,000,000 (L) *(Note 3)*	3.59%
Zhang Shu	Beneficial owner	Share Options	491,000 (L) *(Note 2)*	0.05%
	Beneficial owner	Ordinary Shares	600,000 (L)	0.06%
Zhang Cheng	Beneficial owner	Share Options	791,000 (L) *(Note 2)*	0.07%
Zhang Huaqiao	Beneficial owner	Share Options	982,000 (L) *(Note 2)*	0.09%
Feng Ke	Beneficial owner	Share Options	982,000 (L) *(Note 2)*	0.09%
Tse Yat Hong	Beneficial owner	Share Options	1,582,000 (L) *(Note 2)*	0.15%

Notes:

1. (L) represents long position.

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

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

4. Based on a total of 1,086,787,000 Shares in issue as at 31 December 2019.

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

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

Note:

1. (L) represents long position.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, the following parties (other than the Directors and chief executive of the Company) had interests and short positions of 5% or more of the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the shares of the Company

Name of Shareholder	Nature of Interest	Class of Shares	Number of Shares	Percentage of the Total Issued Shares *(Note 7)*
Xiaolai Investment Co., Ltd	Beneficial owner	Ordinary Shares	260,000,000 (L)	23.92%
Xilai Investment Co., Ltd	Beneficial owner	Ordinary Shares	65,000,000 (L)	5.98%
Zhu Tianxiao	Interest in controlled corporation	Ordinary Shares	325,000,000 (L) *(Note 2)*	29.90%
Baoxiang Investment Co., Ltd	Beneficial owner	Ordinary Shares	84,500,000 (L)	7.78%
Zhang Xiangrong	Interest in controlled corporation	Ordinary Shares	84,500,000 (L) *(Note 3)*	7.78%
Wonder Capital Co., Ltd	Beneficial owner	Ordinary Shares	71,500,000 (L)	6.58%
Ge Jian	Interest in controlled corporation	Ordinary Shares	71,500,000 (L) *(Note 4)*	6.58%
Southern Swan Investment Co., Ltd	Beneficial owner	Ordinary Shares	65,000,000 (L)	5.98%
Chen Yannan	Beneficial owner	Share Options	1,965,000 (L) *(Note 5)*	0.18%
	Beneficial owner	Ordinary Shares	1,200,000 (L)	0.11%
	Interest in controlled corporation	Ordinary Shares	65,000,000 (L) *(Note 6)*	5.98%

Notes:

1. (L) represents long position.

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

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

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

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

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

7. Based on a total of 1,086,787,000 Shares in issue as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, no person or corporation, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Save as disclosed above, as at 31 December 2019, none of the Director was a director or employee of a company which had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

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

Purpose

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

Eligible participants

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

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

As at 31 December 2019, a total of 50,000,000 share options were granted, of which 11,550,000 have been exercised. As at December 31, 2019, the number of remaining options is 27,238,000 shares,representing approximately 2.51% of the issued share capital of the Company as at the date of this annual report.

(a) 10% limit

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

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

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

(b) 30% limit

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

Maximum entitlement of each eligible person

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

Exercise price

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

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

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

(c) the nominal value of the Shares.

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

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

Amount payable upon acceptance of option

HK$1.00 is payable by each eligible person to the Company on acceptance of an offer of option.

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

Remaining life of the Share Option Scheme

The Share Option Scheme will expire on 25 May 2024 and no further share options may be granted but the provisions of the Share Option Scheme shall in all other respects remain in force and effect necessary to give effect to the exercise of any share options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

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

Name or category of participants	No. of Shares involved in the options outstanding as at 1 January 2019	Granted during 2019	Exercised during the year	Cancelled/ Lapsed/ Forfeited during the year	No. of Shares involved in the options outstanding as at 31 December 2019
Directors					
Wu Min	1,965,000	—	—	—	1,965,000
Zhang Changsong	1,572,000	—	—	—	1,572,000
Zhuo You	791,000	—	—	—	791,000
Zhang Cheng	791,000	—	—	—	791,000
Zhang Shu	491,000	—	—	—	491,000
Zhang Huaqiao	982,000	—	—	—	982,000
Feng Ke	982,000	—	—	—	982,000
Tse Yat Hong	1,582,000	—	—	—	1,582,000
Subtotal	9,156,000	—	—	—	9,156,000
Employees					
Employees	18,082,000	—	—	—	18,082,000
Total	27,238,000	—	—	—	27,238,000

Notes:

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

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

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

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

   In 2016, the Company granted 50,000 thousand share options to directors and selected employees with an exercise price of HK$0.62 as incentives or rewards for their contribution or potential contribution to the Group.

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

4. The date of grant of the above share options is 13 September 2016 and the exercise price of the above share options is HK$0.62 per Share.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS

For the year ended 31 December 2019, the largest customer contributed 6.0% of the Group's total interest income from loans to customers, and the five largest customers contributed, in aggregate, 19.1% of the Group's total interest income from loans to customers.

None of the Directors, any of their close associates or any Shareholders which, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest customers of the Group during the year ended 31 December 2019.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019.

EMOLUMENT POLICY

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

The details of the emoluments payable to the Directors during the year are set out in Note 41 to the consolidated financial statements.

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

Remuneration bands	**Number of individuals**
HK$0 to 1,000,000	2
HK$1,000,001 to 1,500,000	1

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 15 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium, other reserves and retained earnings amounted to approximately RMB1,023,808 thousand.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2019 are set out in Note 34 to the consolidated financial statements.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the year ended 31 December 2019, none of the Company, or any of its subsidiaries, was a party to any arrangement to enable the Directors to have any right to subscribe for securities of the Company or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKING

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

Each of the Covenantors has provided to the Company a written confirmation in respect of his/its compliance with the Deed of Non-Competition. The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2019.

TAX RELIEF AND EXEMPTION

The Board is not aware of any tax relief available to shareholders of the Company by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

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

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 38 to the financial statements. Some of these transactions also constituted fully exempted continuing connected transactions under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

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

Reference is made to the Prospectus. The short-term secured financing business in which the Group is engaging is a regulated business in the PRC and according to the relevant governmental policy. The Company, as a foreign investor, would not be granted the necessary approval to conduct and invest in the pawn loan business in the PRC. As a result, the Group, through an indirect wholly-owned subsidiary of the Company, Huifang Tongda, has entered into a series of contractual arrangements (the "Contractual Arrangements") with the PRC Operating Entity, which possess the necessary licences for the operation of the Group's short-term secured financing business in the PRC, such that the Group can conduct its business operations indirectly in the PRC through the PRC Operating Entity while complying with applicable PRC laws and regulations. The Contractual Arrangements are designed to provide the Group with effective control over the financial and operational policies of the PRC Operating Entity and, to the extent permitted by the PRC laws and regulations, the right to acquire the equity interests in and/or the assets of the PRC Operating Entity. Further, pursuant to the Contractual Arrangements, all economic benefits derived from the operation of the PRC Operating Entity are enjoyed by the Group and the financial results of the PRC Operating Entity are consolidated into the Group as if it were a wholly-owned subsidiary. For the year ended 31 December 2019, profit for the year totalling approximately RMB2.5 million and net assets totalling approximately RMB1,259.1 million of the PRC Operating Entity were consolidated into the consolidated financial statements of the Group via the Contractual Arrangements.

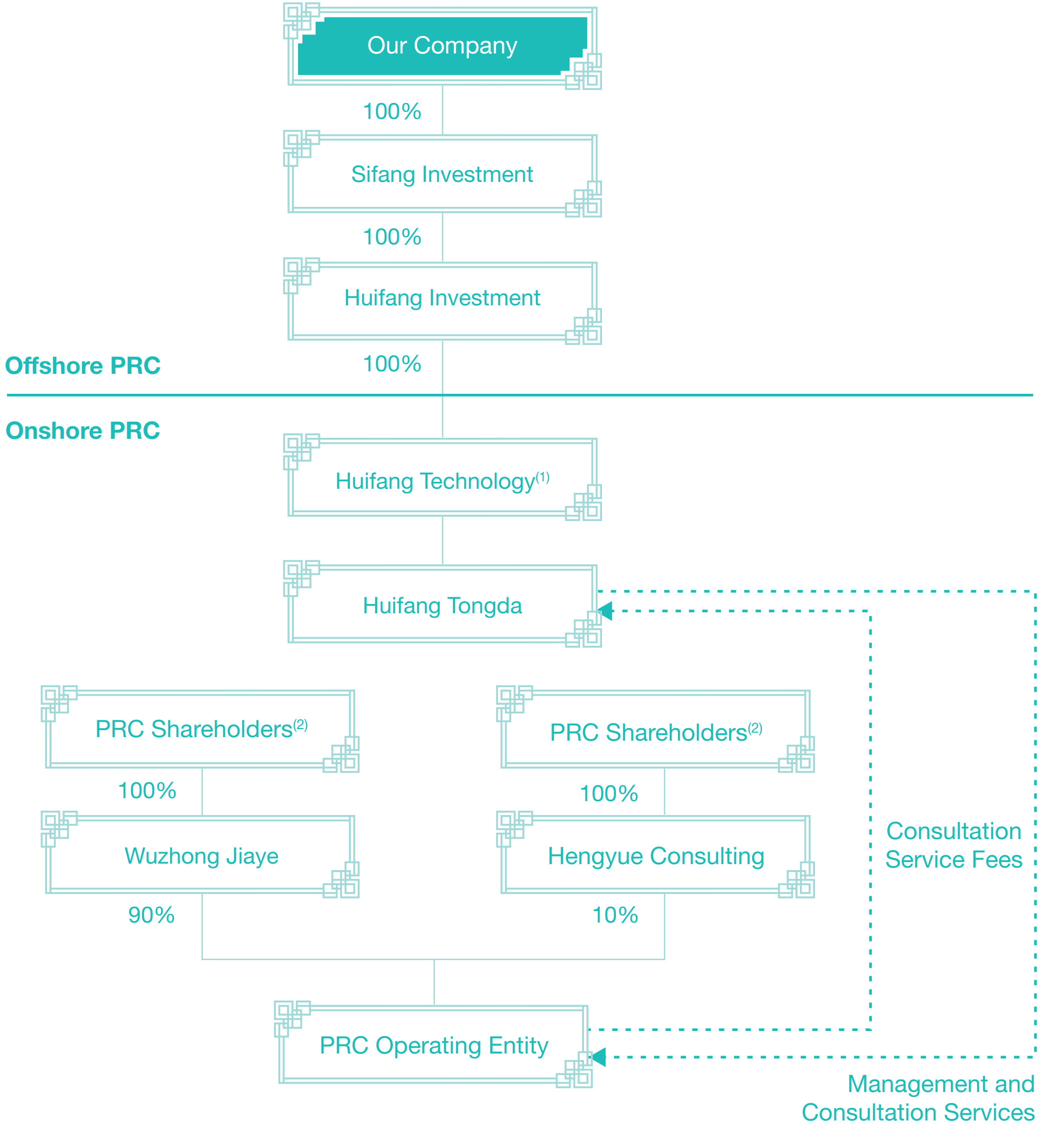
The Contractual Arrangements currently in effect comprise the following agreements, namely (a) the Exclusive Management and Consultation Service Agreement (as supplemented by the Supplemental Agreement to the Exclusive Management and Consultation Service Agreement), (b) the Exclusive Call Option Agreement,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

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

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

CONTRACTUAL ARRANGEMENTS

The following diagram sets out the simplified structure of the Group as of 31 December 2019 and illustrates the Contractual Arrangements between the PRC Operating Entity and Huifang Tongda:



Notes:

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

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

SUMMARY OF THE AGREEMENTS UNDER THE CONTRACTUAL ARRANGEMENTS

(a) Exclusive Management and Consultation Service Agreement

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

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

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

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

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

(b) Exclusive Call Option Agreement

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

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

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

(c) Proxy Agreement

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

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

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

(d) Equity Pledge Agreement

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

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

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

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

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

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

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

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

(e) VIE Transfer Agreement

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

(f) PRC Shareholders Loan Agreement

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

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS

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

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

MITIGATION ACTIONS TAKEN BY THE COMPANY

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

During the Reporting Year, there had been no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

The Group has not terminated the Contractual Arrangements as the foreign investment restrictions that led to the adoption of the Contractual Arrangements have not been removed in the PRC.

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

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

Further, the Board has engaged the auditor of the Company to report on the Group's continuing connected transaction. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Listing Rule 14A.56 of the Listing Rules and confirmed that nothing has come to their attention that causes them to believe that the continuing connected transactions carried out pursuant to the Contractual Arrangements during the year ended 31 December 2019 (a) have not received the approval of the Board and (b) were not entered into, in all material respects, in accordance with the relevant Contractual Arrangements.

A copy of the auditor's letter on the continuing connected transactions of the Group year ended 31 December 2019 has been provided by the Company to the Stock Exchange.

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

PUBLIC FLOAT

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

AUDITORS

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

By order of the Board

Wu Min
Chairman

Hong Kong, 26 March 2020

The Board hereby presents to the Shareholders the corporate governance report for the year ended 31 December 2019 (the "Reporting Year").

CORPORATE GOVERNANCE PRACTICES

The Board has committed to achieving high corporate governance standards.

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and take decisions objectively in the best interests of the Company.

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

Board Composition

The Board of the Company currently comprises the following Directors:

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

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

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

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 21 to 24 of this annual report.

None of the members of the Board has any relationship (including financial, business, family or other material/relevant relationship) among each other.

Chairman and Chief Executive Officer

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

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

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

Independent Non-executive Directors

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

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

Appointment and Re-election of Directors

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

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

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

In accordance with Article 84(1) and (2) of the Articles of Association, one-third of the Directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but no less than one-third) shall retire from office at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected as Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. In accordance with Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Zhuo You, Mr. Feng Ke and Mr. Tse Yat Hong will retire and they being eligible, will offer themselves for re-election at the forthcoming 2020 annual general meeting.

None of Mr. Zhuo You, Mr. Feng Ke and Mr. Tse Yat Hong has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

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

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

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

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

The records of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2019 are summarized as follows:

Name of Directors	Type of Training [Note]
Executive Directors	
Wu Min	B
Zhang Changsong	B
Non-Executive Directors	
Zhuo You	B
Zhang Cheng	B
Zhang Shu	B
Ling Xiaoming	B
Independent Non-Executive Directors	
Zhang Huaqiao	B
Feng Ke	B
Tse Yat Hong	A&B

Note:

Types of Training

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

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

BOARD COMMITTEES

During the Reporting Year, the Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Internet Finance Business Committee, for overseeing particular aspects of the Company's affairs. On 26 March 2019, the Broad established the Technology Finance Business Committee for replacing the Internet Finance Business Committee. All board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

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

Audit Committee

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

During the Reporting Year, the Audit Committee held two meetings for reviewing the annual report in respect of the year ended 31 December 2018 and the interim financial results and reports in respect of the period ended 30 June 2019 as well as the significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without during the Reporting Year.

The Audit Committee consists of three members, namely, Mr. Tse Yat Hong (chairman) and Mr. Feng Ke, our independent non-executive Directors, and Ms. Zhang Shu, our non-executive Director.

Remuneration Committee

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

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

The Remuneration Committee consists of three members, namely, Mr. Zhang Huaqiao (chairman) and Mr. Tse Yat Hong, our independent non-executive Directors, and Mr. Wu Min, our executive Director.

Nomination Committee

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

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

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

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

The nomination committee consists of three members, namely, Mr. Wu Min (chairman), our executive Director, and Mr. Feng Ke and Mr. Zhang Huaqiao, our independent non-executive Directors.

Board Diversity Policy

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

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

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

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

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

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

Director Nomination Policy

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

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

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

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

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

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

Internet Finance Business Committee

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

The Internet Finance Business Committee consisted of three members, namely, Mr. Zhang Huaqiao (chairman) and Mr. Feng Ke, our independent non-executive Directors, and Mr. Wu Min, our executive Director.

During the Reporting Year, no meeting was held by the Internet Finance Business Committee.

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

Technology Finance Business Committee

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

The Technology Finance Business Committee consists of three members, namely, Mr. Feng Ke (chairman), our independent non-executive Director, and Mr. Wu Min and Mr. Zhang Changsong, our executive Directors.

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

Corporate Governance Functions

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

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

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

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

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

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

	Attendance/Number of Meetings						
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Internet Finance Business Committee (Note 1)**	**Technology Finance Business Committee (Note 2)**	**Annual General Meeting**
Wu Min	4/4		1/1	1/1	0/0	1/1	1/1
Zhang Changsong	4/4				0/0	1/1	1/1
Zhuo You	3/4						0/1
Zhang Cheng *(Note 3)*	3/4	1/1					0/1
Zhang Shu *(Note 4)*	3/4	1/1 *(Note 5)*					0/1
Ling Xiaoming	4/4						0/1
Zhang Huaqiao	4/4		1/1	1/1			0/1
Feng Ke	3/4	1/2		1/1	0/0	1/1	0/1
Tse Yat Hong	4/4	1/2	1/1				1/1

Notes:

1. The Internet Finance Business Committee has been replaced by the Technology Finance Business Committee on 26 March 2019.

2. The Technology Finance Business Committee has established on 26 March 2019.

3. Mr. Zhang Cheng resigned as a member of the audit committee of the Company with effect from 26 March 2019.

4. Ms. Zhang Shu was appointed as a member of the audit committee of the Company with effect from 26 March 2019.

5. Mr. Zhuo You was authorized to represent Ms. Zhang Shu to attend the Audit Committee meeting held on 16 August 2019.

Apart from regular Board meetings, the Chairman also held one meeting with independent non-executive Directors without the presence of other Directors during the Reporting Year.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The management assesses the effectiveness of the risk management and internal control system annually and reports to the Audit Committee and the Board on any deficiency of internal control identified and propose solutions.

The management has reviewed and confirmed to the Board and the Audit Committee on the effectiveness and adequacy of the risk management and internal control systems for the year ended 31 December 2019. The Board believed that its risk management and internal control system was effective and adequate.

Details of the Company's risk management and internal control as at 31 December 2019 are set out in the section headed "Risk Management and Internal Control Report" on pages 60 to 64 of this annual report.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 70 to 74.

AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditors of the Company in respect of audit services for the year ended 31 December 2019 amounted to RMB2,900 thousand. No non-audit services has been provided by the Company's external auditors to the Company.

COMPANY SECRETARY

Miss Leung Ching Ching has been appointed as the Company's company secretary. Miss Leung Ching Ching is a senior manager of Tricor Services Limited, an Asia's leading business expansion specialist specializing in integrated business, corporate and investor services.

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

For the year ended 31 December 2019, Miss Leung Ching Ching has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting by Shareholders

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

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

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

POLICIES RELATING TO SHAREHOLDERS

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

The Company has adopted a Dividend Policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that has become effective from 1 January 2019. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The Company do not have any pre-determined dividend payout ratio.

The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Memorandum and Articles of the Association of the Company and all applicable laws and regulations and the factors set out below. The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends, including financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

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

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

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

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

1. RISK MANAGEMENT

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

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

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

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

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

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

(1) Credit Risk

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

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

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

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

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

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

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

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

— Actively manage and develop the credit system; and

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

Management and Collection of Impaired Loans

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

Collaterals and Other Loan Improvement Conditions

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

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

Concentration of Credit Risk

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

(2) Liquidity and Financing Risk

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

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

(3) Market Risk

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

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

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

(4) Operational Risk

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

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

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

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

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

2. INTERNAL CONTROL AND AUDIT

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

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

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

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

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

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

For the financial year ended 31 December 2019, the Board believed that its risk management and internal control system was effective and adequate.

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

1. ENVIRONMENTAL PROTECTION

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

Environmental Performance	Unit	2018	2019
Carbon dioxide emissions			
Total carbon dioxide emissions	ton	197.33	**198.34**
Energy	ton	133.95	**134.56**
Business	ton	61.95	**62.22**
Average total carbon dioxide emissions per a full-time employee	ton/full-time employee	1.17	**1.23**
Energy	ton/full-time employee	0.80	**0.84**
Business	ton/full-time employee	0.37	**0.39**
Total carbon dioxide emissions/m^2	ton/m^2	0.04	**0.04**
Energy consumption			
Total energy consumption	GJ	619.80	**589.80**
Electricity	GJ	619.80	**589.82**
Average total energy consumption per a full-time employee	GJ	3.69	**3.66**
Total energy consumption/m^2	GJ/m^2	0.23	**0.22**
Total water consumption	mt	678	**662**
Total water consumption per a full-time employee	mt/full-time employee	4.27	**4.11**
Total paper consumption	ton	1.54	**1.50**
Wastes			
General office wastes (recyclable)	ton	25.25	**24.82**
General office wastes (unrecyclable)	ton	11.54	**11.04**
Electronic products and devices	ton	0.46	**0.45**

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

1.1 Emissions

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

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

In 2019, the Company recorded a decrease of 4.17% in the number of employees. Its CO_2 emissions increased by 0.52% as compared to last year, which is mainly due to the expansion of new businesses. Meanwhile, the Company will continue to adopt a series of measures to reduce the total emissions.

1.2 Energy Consumption

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

The Company used paper passing the authentication of FSC and specified that only wood pulp and/or 100% recycled paper with clear sources and not from high risk countries can be used. It also promoted informationize office and paperless office, contributing to a reduction of 2.33% in total paper consumption.

1.3 Waste Management

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

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

As we do not run any factories, the environmental protection related law and regulations in China do not apply to our operations. During the Reporting Year, the Group did not involve in any matters that violate the environment-related laws and regulations.

2. SOCIETY

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

2.1 Employment and Labor Information

As at 31 December 2019, the Company has 161 employees, all of them are full-time employees.

2019 Employee Information

Age	Number	Gender	Number	Type	Number
20–35	84	Male	85	Full-time	161
36–45	51				
46–55	24	Female	76		
56 or over	2				
Total	161				

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

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

During the Reporting Year, there was no incident of non-compliance with the relevant laws and regulations relating to employment and labour practices that have a significant impact on the Group.

2.2 Health and Security

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

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

During the Reporting Year, the Group strictly complied with the aforementioned laws and regulations, and had no material violations of any health and safety laws and regulations.

2.3 Development and Training

The Company conducts regular and irregular learning and training for all or some employees to improve their knowledge and skills. In 2019, the training rate for all employees reached 100%.

Employee Training Information

Classification		Average training hours per employee
Gender	Male	12.30
	Female	12.12
Employee level	Senior management	17.61
	Middle management	15.20

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

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

2.4 Labor Standard

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

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

During the Reporting Year, the Group had no material non-compliance incidents in relation to the Labor Law of the PRC.

2.5 Supply Chain Management

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

2.6 Product Responsibility

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

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

During the Reporting Year, the Group complied with all relevant laws and regulations having significant impacts on the Group relating to product responsibility and did not involve in any non-compliance matters.

2.7 Anti-Corruption

In compliance with the *Criminal Law of the People's Republic of China* and relevant provisions, the Company has formed strict monitoring systems and reporting procedures to prevent bribery, extortion, fraud and money laundering and other criminal acts. As of 31 December 2019, there was no lawsuit regarding corruption against the Company or its employees.

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

2.8 Community Investment

The Company actively organizes and encourages employees to get involved in community activities. In 2019, it organized employees to give lectures about the prevention of financial risks on weekends for several times to cultivate the residents' awareness and discrimination on illegal finance; organized them to participate in community sports activities, such as marathon and badminton, for several times; stopped granting loans and providing financial services to enterprises that may endanger the community environment, which has forced them to improve their production process.

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

pwc

羅兵咸永道

To the Shareholders of China Huirong Financial Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Huirong Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 75 to 163, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of changes in equity for the year ended 31 December 2019;
- the consolidated statement of cash flows for the year ended 31 December 2019; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

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KEY AUDIT MATTERS

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

Key audit matter identified in our audit is related to Expected Credit Loss for loans to customers as at 31 December 2019.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of Expected Credit Loss ("ECL") for loans to customers	
Refer to Note 2.11, 3.1(a), 4.1, 26 to the consolidated financial statements. As at 31 December 2019, the Group's gross loans to customers amounted to RMB2,170 million, and ECL allowances of RMB466 million were recognized in the Group's consolidated statement of financial position. The ECLs on loans to customers recognized in the Group's consolidated statement of comprehensive income for the year ended 31 December 2019 amounted to RMB123 million. The balances of ECL allowances for loans to customers represented the management's best estimates at the balance sheet date of ECL under the Hong Kong Financial Reporting Standard 9: Financial Instruments ECL models. The Group assessed whether the credit risk of loans to customers had increased significantly since their initial recognition, and applied a three-stage impairment model to calculate their ECL allowances. For loans to customers classified into stages 1 and 2, the management assessed ECL allowances using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default and exposure at default. For impaired loans to customers in stage 3, the management assessed ECL allowances by estimating the future cash flows from the loans taking into consideration of forward-looking factors.	We evaluated and tested the internal controls relating to the measurement of ECLs for loans to customers which comprised: (1) controls over ECL models, including the selection, approval and application of modelling methodology; and the internal processes relating to the on-going monitoring and enhancements of the models; (2) review and approval of significant management judgments and assumptions, including parameters estimation, the criteria of significant increase in credit risk, the definition of default and credit-impairment, and use of economic variables and relative weightings for forward-looking scenarios; (3) internal controls over the accuracy and completeness of key inputs used by the models; (4) internal controls relating to estimated future cash flows and calculations of present values of such cash flows for loans to customers in stage 3, taking into consideration forward-looking factors. We performed substantive procedures relating to the measurement of ECLs for loans to customers which comprised: We reviewed the modelling methodology adopted by management for ECL measurement, and assessed the reasonableness of the key parameters, significant judgements and assumptions. We examined the calculation for model measurement on selected samples to test whether or not the model reflects the modelling methodology documented by management.

Key Audit Matter	How our audit addressed the Key Audit Matter
The measurement model of ECLs involved significant management judgments and assumptions, primarily including the following: (1) determination of relevant key models and parameters; (2) criteria for determining whether or not there was a significant increase in credit risk and definition of default or credit impairment; (3) estimated future cash flows for loans to customers in stage 3; (4) economic variables for forward-looking measurement, and the application of economic scenarios and relative weightings. The Group established related controls for the measurement of ECLs. Management applied significant judgments in measuring its ECL which involved models with a number of assumptions, parameters and data inputs; and the ECL amounts involved were significant. In view of these reasons, we included this as a key audit matter.	We examined major data inputs to the ECL models on selected samples, including historical data and data on the measurement date, to assess their completeness and accuracy. We selected samples, in consideration of the overdue status of the borrowers, relevant external evidence and other factors, to assess the appropriateness of management's identification of significant increase in credit risk, defaults and credit-impaired loans. In addition, we reviewed management's regression analysis on their selection of key economic indicators employed in the forward-looking scenarios and performed back testing on the economic indicators used. We also performed sensitivity testing of the significant increase in credit risk, economic indicators, and relative weightings of economic scenarios. For loans to customers in stage 3, we examined, on a sample basis, forecasted future cash flows taking into consideration of forward-looking factors prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information in supporting the computation of ECL allowances. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECLs for loans to customers, the models, key parameters, significant judgements, and assumptions adopted by the management and the measurement results were considered acceptable.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Kwok Wai, Jimmy.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2019	2018
Operating income		**344,134**	330,229
Interest income	6	**299,291**	305,194
Consultancy fee income	7	**14,567**	21,059
Commission fee income	8	**30,276**	3,976
Operating cost		**(80,130)**	(58,157)
Interest expense	9	**(54,045)**	(54,637)
Commission fee expense	8	**(26,085)**	(3,520)
Net investment gains/(losses)	10	**11,010**	(18,681)
Expected credit losses	11	**(124,088)**	(107,292)
Net gains/(losses) on derecognition of financial assets measured at amortized cost	12	**5,604**	(58)
Other operating income	13	**2,097**	710
Net operating income		**158,627**	146,751
General and administrative expenses	14	**(70,300)**	(73,721)
Other gains, net	16	**2,210**	37,765
Operating profit and profit before income tax		**90,537**	110,795
Income tax expense	18	**(25,644)**	(37,994)
Profit for the year		**64,893**	72,801
Profit is attributable to:			
— Owners of the Company		**50,429**	60,996
— Non-controlling interests		**14,464**	11,805
Earnings per share for profit attributable to the owners of the Company (expressed in RMB Yuan)			
— Basic earnings per share	19	**0.046**	0.056
— Diluted earnings per share	19	**0.046**	0.056
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**64,893**	72,801
Total comprehensive income for the year is attributable to:			
— Owners of the Company		**50,429**	60,996
— Non-controlling interests		**14,464**	11,805
		64,893	72,801

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2019	2018
ASSETS			
Non-current assets			
Property, plant and equipment		**1,649**	2,334
Right-of-use assets	*21*	**43,442**	—
Intangible assets	*22*	**4,001**	40,735
Deferred income tax assets	*23*	**76,438**	70,644
Investments accounted for using the equity method		**1,500**	1,500
Financial asset at fair value through profit or loss	*27*	**440**	440
Total non-current assets		**127,470**	115,653
Current assets			
Other current assets	*25*	**77,131**	98,868
Commission fee receivables		**1,795**	2,453
Consulting service fee receivables		**2,289**	3,504
Loans to customers	*26*	**1,703,704**	1,738,283
Financial assets at fair value through profit or loss	*27*	**33,432**	31,327
Derivative financial instruments	*28*	**7,952**	—
Cash at bank and cash on hand	*29*	**1,047,858**	810,138
Total current assets		**2,874,161**	2,684,573
Total assets		**3,001,631**	2,800,226
EQUITY			
Equity attributable to the owners of the Company			
Share capital	*30*	**8,632**	8,632
Share premium	*31*	**601,993**	601,993
Other reserves	*31*	**596,266**	596,266
Retained earnings	*32*	**586,212**	547,656
		1,793,103	1,754,547
Non-controlling interests	*17(i)*	**155,341**	142,481
Total equity		**1,948,444**	1,897,028

As at 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2019	2018
LIABILITIES			
Non-current liabilities			
Lease liabilities	*21*	**4,663**	—
Total non-current liabilities		**4,663**	—
Current liabilities			
Other current liabilities	*33*	**20,478**	21,778
Current income tax liabilities		**27,215**	29,455
Amounts due to related parties	*39(c)*	**633**	633
Dividends payable		**1,262**	1,256
Lease liabilities	*21*	**2,706**	—
Borrowings	*34*	**996,230**	850,076
Total current liabilities		**1,048,524**	903,198
Total liabilities		**1,053,187**	903,198
Total equity and liabilities		**3,001,631**	2,800,226

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

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on 26 March 2020.

Wu Min
Executive Director

Zhang Changsong
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

		Attributable to the owners of the Company						
	Note	Share Capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling Interests	Total equity
Balance at 1 January 2018		8,632	601,993	594,066	505,247	1,709,938	144,027	1,853,965
Changes on initial application of HKFRS 9		—	—	—	(6,891)	(6,891)	(3,657)	(10,548)
Restated balance at 1 January 2018		8,632	601,993	594,066	498,356	1,703,047	140,370	1,843,417
Profit for the year		—	—	—	60,996	60,996	11,805	72,801
Other comprehensive income		—	—	—	—	—	—	—
Total comprehensive income for the year		—	—	—	60,996	60,996	11,805	72,801
Transactions with owners in their capacity as owners								
Non-controlling interests on acquisition of subsidiary		—	—	—	—	—	1,106	1,106
Employee share option — value of employee services	*31b(i)*	—	—	2,200	—	2,200	—	2,200
Dividends provided for or paid	*17(i)*	—	—	—	(11,696)	(11,696)	(10,800)	(22,496)
Total transactions with owners in their capacity as owners		—	—	2,200	(11,696)	(9,496)	(9,694)	(19,190)
Balance at 31 December 2018		8,632	601,993	596,266	547,656	1,754,547	142,481	1,897,028

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to the owners of the Company					Non-controlling Interests	Total equity
		Share Capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2019		8,632	601,993	596,266	547,656	1,754,547	142,481	1,897,028
Changes on initial application of HKFRS 16	2.2	—	—	—	540	540	(7)	533
Restated balance at 1 January 2019		8,632	601,993	596,266	548,196	1,755,087	142,474	1,897,561
Profit for the year		—	—	—	50,429	50,429	14,464	64,893
Other comprehensive income		—	—	—	—	—	—	—
Total comprehensive income for the year		—	—	—	50,429	50,429	14,464	64,893
Transactions with owners in their capacity as owners								
Capital injection from non-controlling interests		—	—	—	—	—	11,003	11,003
Employee share option — value of employee services	31b(i)	—	—	—	—	—	—	—
Dividends provided for or paid	17(i)	—	—	—	(12,413)	(12,413)	(12,600)	(25,013)
Total transactions with owners in their capacity as owners		—	—	—	(12,413)	(12,413)	(1,597)	(14,010)
Balance at 31 December 2019		8,632	601,993	596,266	586,212	1,793,103	155,341	1,948,444

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2019	2018
Cash flows from operating activities			
Cash generated from operating activities	*35(a)*	**22,226**	306,918
Interest received from bank deposits		**12,174**	6,905
Interest paid		**(53,765)**	(63,778)
Income tax paid		**(33,678)**	(17,794)
Net cash (outflow)/inflow from operating activities		**(53,043)**	232,251
Cash flows from investing activities			
Payments for acquisition of a subsidiary, net of cash acquired		**(490)**	(3,102)
Payments for acquisition of an associate		**(19,964)**	(1,500)
Payment for financial assets at fair value through profit or loss		**—**	(440)
Payments for property, plant and equipment		**(470)**	(1,071)
Payments for intangible asset	*22*	**(513)**	(37,544)
Net cash outflow from investing activities		**(21,437)**	(43,657)
Cash flows from financing activities			
Proceeds from borrowings		**1,441,013**	1,093,218
Repayments of borrowings		**(1,301,540)**	(1,384,969)
Repayments of lease liabilities		**(4,028)**	—
Dividends paid to owners of the Company		**(12,416)**	(10,786)
Dividends paid to non-controlling interests	*17(i)*	**(12,600)**	(10,800)
Proceeds from capital injection from non-controlling interests		**11,003**	—
Net cash inflow/(outflow) from financing activities		**121,432**	(313,337)
Net increase/(decrease) in cash and cash equivalents		**46,952**	(124,743)
Cash and cash equivalents at beginning of year		**133,736**	257,917
Effects of exchange rate changes on cash and cash equivalents		**350**	562
Cash and cash equivalents at end of year	*29*	**181,038**	133,736

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

1 GENERAL INFORMATION

China Huirong Financial Holdings Limited (中國匯融金融控股有限公司) (the "Company") was incorporated in the Cayman Islands on 11 November 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands. The Company is ultimately controlled by Messrs Zhu Tianxiao (朱天曉), Zhang Xiangrong (張祥榮), Ge Jian (葛健), Chen Yannan (陳雁南), Wei Xingfa (魏興發), Yang Wuguan (楊伍官) and Zhuo You (卓有) (the "Ultimate Shareholders").

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

On 28 October 2013, the Company's shares were listed on The Stock Exchange of Hong Kong Limited.

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

The detailed information of the subsidiaries of the Company can be found in Note 17.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on 26 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

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

(ii) Historical cost convention

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting year commencing 1 January 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation — Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures — Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015 — 2017 Cycle
- Plan Amendment, Curtailment or Settlement — Amendments to HKAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognized the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. Most of the other amendments listed above did not have any significant impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2019 by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(v) Reclassification of comparative amounts

Following a change in the nature of the Group's operations, the Group reclassified comparative amounts according to the current presentation or classification, which would be more appropriate having regard to the criteria for the selection and application of accounting policies in HKAS 8.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies

2.2.1 HKFRS 16

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.23.

On adoption of HKFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.6%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a lease.

(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.1 HKFRS 16 (Continued)

(ii) Measurement of lease liabilities

	Year ended 31 December 2019
Operating lease commitments disclosed as at 31 December 2018	**9,967**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**8,922**
Less: short-term leases recognized on a straight-line basis as expense	**(17)**
Add: adjustments as a result of a different treatment of extension and termination options	**9,611**
Lease liability recognized as at 1 January 2019	**18,516**
Of which are:	
Current lease liabilities	**5,388**
Non-current lease liabilities	**13,128**
	18,516

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018.

(iv) Adjustments recognized in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- intangible assets — decrease by RMB36,482 thousand
- right-of-use assets — increase by RMB55,625 thousand
- deferred tax liabilities — increase by RMB94 thousand
- lease liabilities — increase by RMB18,516 thousand

The net impact on retained earnings on 1 January 2019 was an increase of RMB533 thousand.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.2 Segment analysis

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

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

In accordance with the Group's business transform and development plan, it has started to manage its business under four operating and reportable segments for the year ended 31 December 2019. Comparative segment analysis has been restated in accordance with the change.

(i) Business Segments

From business perspective, the Group provides services through four main business segments listed below:

Inclusive finance business division: The inclusive finance business division mainly refers to provision of lending services in the PRC and Hong Kong. From a product perspective, the inclusive finance business division principally engaged in lending services through granting collateral-backed loans, guaranteed loans and unsecured loans to customers.

Technology finance business division: The technology finance business division is a new business division established in 2019. The division mainly dedicates services to supply chain technology, loan facilitation technology and factoring technology.

Online lending intermediary business division: The online lending intermediary business division mainly includes Suzhou Qian Dai, an internet finance platform to provide service as an intermediary agent between the borrowers and lenders with a consultancy fee.

Insurance brokerage business division: The insurance brokerage business division mainly includes Huifang Anda that engages in insurance agency business.

(ii) Segment analysis for the current period and the last period

The profit or loss before income tax for each reportable segment including incomes and expenses from external transactions and from transactions with other segments, and other items in the consolidated statement of comprehensive income are allocated based on the operations of the segment.

(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.2 Segment analysis (Continued)

(ii) Segment analysis for the current period and the last period (Continued)

Segment assets and segment liabilities are measured in the same way as in the consolidated statement of financial position. These assets and liabilities are allocated based on the operations of the segment.

	For the year ended 31 December 2019						
Audited	Inclusive finance business division	Technology finance business division	Online lending intermediary business division	Insurance brokerage business division	Headquarter and others	Elimination	Total
External operating income	275,840	7,181	11,999	30,171	18,943	–	344,134
Internal operating income	349	7	–	–	2,635	(2,991)	–
External operating cost	(46,690)	(89)	(13)	(26,085)	(7,253)	–	(80,130)
Internal operating cost	(2,635)	–	–	(7)	–	2,642	–
Net trading gains/(losses)	8,777	(122)	124	–	(965)	–	7,814
Net investment gains	–	–	–	–	11,010	–	11,010
Other operating income	1,297	151	1	79	569	–	2,097
Expected credit losses	(124,720)	632	–	–	–	–	(124,088)
General and administrative expenses	(24,986)	(3,065)	(7,376)	(1,851)	(33,022)	–	(70,300)
Profit/(Loss) before income tax	87,232	4,695	4,735	2,307	(8,083)	(349)	90,537
Capital expenditure	(145)	(58)	(60)	(11)	(709)	–	(983)

	As at 31 December 2019						
Audited	Inclusive finance business division	Technology finance business division	Online lending intermediary business division	Insurance brokerage business division	Headquarter and others	Elimination	Total
Segment assets	1,946,897	73,645	19,845	5,755	3,001,594	(2,046,105)	3,001,631
Segment liabilities	250,709	363	761	246	911,402	(110,294)	1,053,187

(All amounts in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.2 Segment analysis (Continued)

(ii) Segment analysis for the current period and the last period (Continued)

	For the year ended 31 December 2018						
	Inclusive finance business division	Technology finance business division	Online lending intermediary business division	Insurance brokerage business division	Headquarter and others	Elimination	Total
External operating income	282,786	7,352	19,356	3,903	16,832	–	330,229
Internal operating income	738	5	–	–	1,097	(1,840)	–
External operating cost	(51,719)	–	–	(3,520)	(2,918)	–	(58,157)
Internal operating cost	(689)	–	–	(5)	–	694	–
Net trading gains	3,140	–	20	–	34,547	–	37,707
Net investment (losses)	–	–	–	–	(18,681)	–	(18,681)
Other operating income	919	129	–	–	807	(1,145)	710
Expected credit losses	(104,892)	(2,400)	–	–	–	–	(107,292)
General and administrative expenses	(23,384)	(2,041)	(10,975)	(656)	(38,919)	2,254	(73,721)
Profit/(Loss) before income tax	106,899	3,045	8,401	(278)	(7,235)	(37)	110,795
Capital expenditure	(518)	(23)	(46)	(8)	(38,020)	–	(38,615)

	As at 31 December 2018						
	Inclusive finance business division	Technology finance business division	Online lending intermediary business division	Insurance brokerage business division	Headquarter and others	Elimination	Total
Segment assets	1,917,857	56,580	18,327	3,272	3,037,323	(2,233,133)	2,800,226
Segment liabilities	280,899	814	2,758	1,434	1,354,540	(737,247)	903,198

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(i) Subsidiaries (Continued)

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

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

a. Subsidiary from contractual arrangements

In December 2011, the Group's wholly owned subsidiary, Suzhou Huifang Tongda Information Technology Company Limited (蘇州匯方同達信息科技有限公司) ("Huifang Tongda"), has entered a series of contractual agreements with Wuzhong Pawnshop, Wuzhong Pawnshop's direct owners namely Jiangsu Wuzhong Jiaye Group Co., Ltd. (江蘇吳中嘉業集團有限公司) ("Wuzhong Jiaye")and Suzhou New District Hengyue Management Consulting Co., Ltd. (蘇州新區恒悦管理諮詢有限公司) ("Hengyue Consulting"), and their respective owners, which enables the Group to:

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

Since both the Group and Wuzhong Pawnshop were then controlled by the same Ultimate Shareholders, the above reorganisation of Wuzhong Pawnshop (the "Reorganisation") was accounted for using the accounting principle similar to that of a reverse acquisition.

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

b. Other subsidiaries

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(ii) Associates

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

(iii) Equity method

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

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

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

(iv) Changes in ownership interests

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

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the:

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Separate financial statements

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

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

2.6 Segment reporting

As explained in Note 2.2.2, the Group has changed its accounting policy for segment reporting. The new policy and the impact of the change are described in Note 2.2.2.

2.7 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(iii) Group companies

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

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

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

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

2.8 Property, plant and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.14).

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible assets

(a) Computer Software

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

(b) License

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

(c) Amortisation methods and periods

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

Computer software	10 years
Licenses	5 years

2.10 Impairment of non-financial assets

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

2.11 Financial assets and liabilities

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

Measurement methods

Amortized cost and effective interest rate

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets and liabilities (Continued)

Measurement methods (Continued)

Amortized cost and effective interest rate (Continued)

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

Interest income

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

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

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

Initial recognition and measurement

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets and liabilities (Continued)

2.11.1 Financial assets

(i) Classification and subsequent measurement

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

- The Group's business model for managing the asset; and
- The cash flow characteristics of the asset.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets and liabilities (Continued)

2.11.1 Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

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

For the year ended 31 December 2019, the Group only holds debt instruments measured at amortized cost.

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets and liabilities (Continued)

2.11.1 Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Equity instruments

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

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

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

For the year ended 31 December 2019, the Group only holds equity instruments measured at fair value through profit or loss.

(ii) Impairment

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets and liabilities (Continued)

2.11.1 Financial assets (Continued)

(iii) Derecognition other than modification

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets and liabilities (Continued)

2.11.2 Financial liabilities

(i) Classification and subsequent measurement

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

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

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

(ii) Derecognition

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

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

(iii) Interest expenses

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Offsetting financial instruments

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

2.13 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained using valuation techniques, of which all significant inputs are observable. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of the Group's derivative instrument are recognized immediately in profit or loss and are included in net investment gains/(losses).

2.14 Repossessed collateral assets

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

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

2.15 Cash and cash equivalents

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

2.16 Share capital

Ordinary shares are classified as equity (Note 30).

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

2.17 Dividend distribution

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share, by taking into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.19 Current and deferred income tax

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

Current income tax

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

Deferred income tax

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits

(i) Short-term obligations

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

(ii) Pension obligations

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

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

(iii) Other social security obligations

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

2.21 Share-based payments

Employee Options

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Share-based payments (Continued)

Employee Options (Continued)

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

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

2.22 Provisions

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

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

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

2.23 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Leases (Continued)

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. The land use right that previously recognized as intangible assets is also considered as lease and reclassified as right-of-use asset.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and

- restoration costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Leases (Continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2.24 Revenue recognition

(i) Interest income

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

(ii) Consultancy and insurance agency commission fee income

The Group provides consultancy and insurance agency services to its clients.

The consultancy services include multiple performance obligations and the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Where the performance obligations are not directly observable, they are estimated based on expected cost plus margin.

The insurance agency services contain a series of distinct services that are substantially the same and have the same pattern of transfer. Therefore, the services are identified as one performance obligation.

Revenue from providing such services is recognized in the accounting period in which the services are rendered.

2.25 Government grants

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

3.1 Critical accounting estimates

(a) Measurement of ECL allowances

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

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

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

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

(b) Income taxes

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

3.2 Critical accounting judgements

Contractual Agreements

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

4 FINANCIAL RISK MANAGEMENT

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

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

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors

(a) Credit risk

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

(i) Credit risk measurement of loans to customers

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

(ii) ECL allowances measurement

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

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

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

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

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

a. **SICR**

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

Quantitative criteria:

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

Qualitative criteria:

- Default in other financial institutions; and
- Under-going law sue.

The assessment of SICR is performed on a half-year basis by the Group. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the central Risk Management Department.

b. **Definition of default and credit-impaired assets**

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

Quantitative criteria:

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

Qualitative criteria:

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

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

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

The ECL allowance is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL allowances are the discounted product of the PD, LGD, and EAD, defines as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above).

- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

- EAD is based on the amounts the Group expects to be owed at the time of default.

The ECL allowance is determined by projecting the PD, LGD and EAD for every six months and for each individual exposure or collective segment. These three components are multiplied together and adjusts their duration (if there is no early repayment or default). This effectively calculates an ECL allowance for every six months, which is then discounted back to the reporting date and summed. The discount rate used in the ECL allowance calculation is the original effective interest rate.

For loans to customers in stage 1, the Group first calculates the annual 12-month PD and then transfers it to monthly PD. For loans to customers in stage 2 and 3, the Lifetime PDs are developed by monitoring how defaults develop in a portfolio from the point of time when a loan experienced SICR to its lifetime. The lifetime PDs are based on historical observed data taking into consideration forward-looking factors and are assumed to be the same across all loans to customers within a portfolio. This is supported by historical analysis.

The lifetime LGDs are determined based on the factors that affect the recoverable amounts post default. These vary by product type.

- For secured loans to customers, this is primarily based on the projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured loans to customers, the Group will preserve the borrower's asset to mitigate the credit risk. Thus the LGDs are determined based on the factors similar to secured loans to customers.

Forward-looking economic information is also included in determining the 12-month and lifetime PDs and LGDs. These assumptions vary by product type. Refer to Note 4.1(a)(ii)(d) for an explanation of forward-looking information and its inclusion in ECL allowance calculations.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

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

For loans to customers classified into stages 1 and 2, the management assessed ECL allowances using the risk parameter modelling approach that incorporates key parameters, including PD, LGD and EAD. For impaired loans to customers in stage 3, the management assesses ECL allowances by estimating the cash flows from the loans taking into consideration of forward-looking factors.

The assumptions underlying the ECL allowance calculation, such as how the maturity profile of the PDs and how collateral values change, are monitored and reviewed on a half-year basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting year.

d. Forward-looking information incorporated in the ECL models

Both the assessment of SICR and the calculation of ECL allowances incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables regarding credit risk for each portfolio.

Based on analysis and assessment, the Group selects a series of economic variables (including Urban Per Capita Disposable Income (城鎮居民人均可支配收入), National Housing Sensitive index (國房景氣指數) and Business Climate Index (企業景氣指數), etc.) to establish statistical relationship between such economic variables and PDs, LGDs. A forward-looking result on PDs and LGDs is calculated based on forecasts of these economic variables.

The following table illustrates how economic variables apply to different portfolios.

	PDs	LGDs
Secured loans to customers	Urban Per Capita Disposable Income	National Housing Sensitive index
Unsecured loans to customers	Urban Per Capita Disposable Income	Business Climate Index

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

Economic variable assumptions

The most significant year-end assumptions used for the ECL allowances estimate as at 31 December 2019 are set out below. The scenarios “base”, “upside” and “downside” are used for all portfolios.

(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

d. Forward-looking information incorporated in the ECL models (Continued)

Economic variable assumptions (Continued)

		2020
Urban Per Capita Disposable Income	Base	7.23
	Upside	7.37
	Downside	7.09
National Housing Sensitive index	Base	96.02
	Upside	96.53
	Downside	95.50
Business Climate Index	Base	112.29
	Upside	113.70
	Downside	110.88

The weightings assigned to each economic scenario at 31 December 2019 are as follows:

	Base	Upside	Downside
All portfolios	80%	10%	10%

Other forward-looking considerations not incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL allowances for such factors. This is reviewed and monitored for appropriateness on a half-year basis.

The most significant assumptions affecting the ECL allowances are as follows:

(i) *Urban Per Capita Disposable Income*, given its impact on secured and unsecured borrowers' ability to meet their contractual payments; and

(ii) *National Housing Sensitive index*, given the significant impact it has on property collateral loans;

(iii) *Business Climate index*, given the significant impact on unsecured borrowers' performance.

(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) ECL allowances measurement (Continued)

d. Forward-looking information incorporated in the ECL models (Continued)

Sensitivity analysis

Set out below are the changes to the ECL allowances as at 31 December 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

Secured loans to customers		Urban Per Capita Disposable Income –1%	No change	+1%
National Housing Sensitive index	+1%	–0.13%	–0.17%	–0.21%
	No change	0.04%	—	–0.04%
	–1%	0.15%	0.11%	0.06%

Unsecured loans to customers		Urban Per Capita Disposable Income –1%	No change	+1%
Business Climate index	+1%	–0.89%	–1.11%	–1.34%
	No change	0.24%	—	–0.24%
	–1%	1.38%	1.13%	0.88%

As at 31 December 2019, weighted average ECL allowances for loans to customers under the three economic scenarios (upside, base and downside) will increase by less than 5% compared to ECL allowances for loans to customers under the base economic scenario.

Should the weighting assigned to the upside economic scenario increase by 10% and the weighting assigned to base economic scenario decrease by 10%, the ECL allowances for loans to customers would decrease by less than 5%. Should the weighting assigned to downside economic scenario increase by 10% and the weighting assigned to base economic scenario decrease by 10%, the ECL allowances for loans to customers would increase by less than 5%.

The Group performs a sensitivity analysis on the ECL allowances, assuming all past due loans to customers currently categorized at Stage 1 are moved down to Stage 2 after having experienced an SICR. The table below shows the change in ECL allowances:

Loans to customers	As at 31 December 2019
ECL allowances assuming past due loans to customers at Stage 1 move down to Stage 2	**481,702**
Current ECL allowances	**466,044**
Difference	**15,658**
Difference percentage	**3.36%**

(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(iii) Credit risk exposure

a. Maximum exposure to credit risk — Financial assets measured at amortized cost

The following table contains an analysis of the credit risk exposure of financial assets for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	As at 31 December				
	2019 ECL staging				2018
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans to customers					
Secured loans to customers (a)	362,602	11,922	797,433	1,171,957	1,277,155
Unsecured loans to customers (b)	750,158	—	247,633	997,791	792,729
Gross carrying amount	1,112,760	11,922	1,045,066	2,169,748	2,069,884
Loss allowances	(32,292)	(1,745)	(432,007)	(466,044)	(331,601)
Carrying amount	1,080,468	10,177	613,059	1,703,704	1,738,283
Term deposits with banks					
Credit grade					
AAA	847,725	—	—	847,725	663,439
AA+	—	—	—	—	—
A	—	—	—	—	—
Gross carrying amount	847,725	—	—	847,725	663,439
Loss allowances	(164)	—	—	(164)	(164)
Carrying amount	847,561	—	—	847,561	663,275
Other current assets (excluding repossessed assets)					
Gross carrying amount	40,797	—	20,468	61,265	83,324
Loss allowances	(55)	—	(3,265)	(3,320)	(2,352)
Carrying amount	40,742	—	17,203	57,945	80,972

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(iv) Concentration of risks of financial assets with credit risk exposure

The Group maintains a diversified client base. Loans from the top five customers accounted for 28.1% of the total loans to customers as at 31 December 2019 (31 December 2018: 30.4%). Interest income from the top five customers accounted for 19.1% of total interest income for the year ended 31 December 2019 (2018: 24.4%).

(v) Collateral and other credit enhancement

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for loans granted. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans to customers are:

- Real estate, including residential, commercial and industrial properties;
- Equity instruments, mainly equity interest in unlisted companies which are typically related to the borrowers; and
- Personal properties, including but not limited to inventory, vehicles, luxury bags, watches, precious metal and jewellery.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting year and there has been no significant change in the overall quality of the collateral held by the Group since the prior year.

The Group also focuses on ascertaining legal ownership and the valuation of the real estate collaterals. A loan granted is based on the value of the collaterals, which is generally lower than the estimated value of the real estate collaterals. The Group monitors the value of the real estate collaterals throughout the loan period.

Further to collateral held as security for loans, the Group introduces other credit enhancement measures for equity interest backed loans, primarily third party guarantee against the security of loan repayment, taking into consideration the borrower's repayment ability, repayment records, collateral status, business performance, leverage ratio, industry outlook and market competition, etc.

For guaranteed loans, the Group takes into consideration the third party guarantor's repayment ability, financial performance, leverage ratio and business performance, etc.

In addition to collateral-backed loans and guaranteed loans, the Group also grants unsecured loans to customers. The Group evaluates the credit status of individual customers, including the customers' business performance, financial information, repayment ability, as well as industrial outlook in which the customers operate.

(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(v) Collateral and credit enhancement (Continued)

a. Fair Value of collateral of credit-impaired loans

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

As at 31 December 2019, the gross amount of real estate backed loans that are credit-impaired and the fair value of collateral held in order to mitigate potential credit losses are shown below:

	Real estate backed loans
31 December 2019	
Gross exposure	797,433
Less: ECL allowances	(257,668)
Carrying amount	539,765
Fair Value of collateral held	1,033,276

(vi) Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 is RMB11 thousand. The Group still seeks to recover amounts it is legally owned in full, but which have been partially written off due to no reasonable expectation of full recovery.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, foreign currency and equity investments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's exposure to market risk is primarily attributable to interest rate risk arising from loans to customers, bank balances and borrowings. The Group has established policies and procedures for monitoring and managing market risk.

(i) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The most significant interest-bearing assets and liabilities are loans to customers and borrowings, which both bear fixed interest rates to generate cash flows independent from market interest rates. Contractual interest rate re-pricing is matched with maturity date of each loan granted to customer, or maturity date of borrowings. As at respective balance sheet dates, maturity dates of loans to customers are all within 12 months, whilst maturity dates of borrowings are within 12 months. The Group regularly calculates the impact on profit or loss of a possible interest rate shift on its portfolio of loans to customers, borrowings and interest bearing bank deposits.

Based on the simulations performed and with other variables held constant, should the benchmark interest rate had been 100 basis points higher/lower, the profit before income tax would have been decreased/increased by approximately RMB1.6 million for the year ended 31 December 2019 (2018: RMB1.3 million), mainly as a result of higher/lower interest income on term deposits with banks and interest expense on fixed-rate borrowings arising from interest rate repricing.

Interest rates on interest-bearing financial assets, mainly loans to customers, are not primarily affected by the changes in the benchmark rate in the market. Instead, they are much more influenced by demand and supply as well as bilateral negotiation, which makes a quantitative sensitivity analysis based on the benchmark rate unrepresentative.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) Market risk (Continued)

(ii) Foreign exchange risk

The Group operates principally in the PRC. The majority of recognized assets and liabilities are denominated in RMB and the majority of transactions are settled in RMB.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting year, expressed in RMB thousand, is as follows:

	As at 31 December			
	2019		2018	
	USD	**HKD**	USD	HKD
Cash at bank and cash on hand	**373,763**	**9,410**	599,215	9,833
Loans to customers	**—**	**20,745**	17,230	19,322
Derivative financial instruments	**7,952**	**—**	—	—
Borrowings	**(178,647)**	**—**	—	—
Net exposure	**203,068**	**30,155**	616,445	29,155

During the year, the following foreign-exchange related amounts were recognized in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2019	2018
Exchange (losses)/gains	**(1,115)**	34,397

Should US dollar and Hong Kong dollar weaken/strengthen by 1% against RMB with all other variables held constant, the profit before income tax would have been RMB4.1 million (2018: RMB6.5 million) lower/higher for the year ended 31 December 2019, mainly as a result of foreign exchange losses/gains on translation of US dollar and Hong Kong dollar denominated balances.

(iii) Price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position as at fair value through profit or loss (Note 27).

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's equity investment are publicly traded. If the stock price increase/decrease by 5%, the profit before income tax would have been RMB1.7 million (2018: RMB1.6 million) higher/lower for the year ended 31 December 2019.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of cash requirements from contractual commitments. Such outflows would deplete available cash resources for customer lending. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets.

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

(i) Financing arrangements

The Group has no undrawn borrowing facilities as at 31 December 2019 (31 December 2018: nil).

(ii) Maturities of financial assets and liabilities

The table below analyzes the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis.

(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(ii) Maturities of financial assets and liabilities (Continued)

	Repayable on demand or within 1 month	1–6 months	6–12 months	Over 12 months	Past due	Total
As at 31 December 2018						
Cash at bank and cash on hand	470,759	191,828	166,844	—	—	829,431
Financial assets at fair value through profit or loss	27,765	4,002	—	—	—	31,767
Loans to customers	115,662	663,469	251,207	—	758,713	1,789,051
Total financial assets	614,186	859,299	418,051	—	758,713	2,650,249
Borrowings	(275,023)	(423,527)	(166,795)	—	—	(865,345)
Amounts due to related parties	(633)	—	—	—	—	(633)
Other financial liabilities	(7,344)	—	—	—	—	(7,344)
Total financial liabilities	(283,000)	(423,527)	(166,795)	—	—	(873,322)
Net liquidity gap	331,186	435,772	251,256	—	758,713	1,776,927
As at 31 December 2019						
Cash at bank and cash on hand	**525,390**	**385,592**	**162,652**	**—**	**—**	**1,073,634**
Financial assets at fair value through profit or loss	**4,208**	**29,664**	**—**	**—**	**—**	**33,872**
Derivative financial instruments	**—**	**7,952**	**—**	**—**	**—**	**7,952**
Loans to customers	**102,804**	**621,563**	**343,259**	**—**	**691,249**	**1,758,875**
Total financial assets	**632,402**	**1,044,771**	**505,911**	**—**	**691,249**	**2,874,333**
Borrowings	**(307,690)**	**(577,043)**	**(122,207)**	**—**	**—**	**(1,006,940)**
Amounts due to related parties	**(633)**	**—**	**—**	**—**	**—**	**(633)**
Lease liabilities	**(460)**	**(809)**	**(1,802)**	**(4,663)**	**—**	**(7,734)**
Other financial liabilities	**(5,641)**	**—**	**—**	**—**	**—**	**(5,641)**
Total financial liabilities	**(314,424)**	**(577,852)**	**(124,009)**	**(4,663)**	**—**	**(1,020,948)**
Net liquidity gap	**317,978**	**466,919**	**381,902**	**(4,663)**	**691,249**	**1,853,385**

(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.2 Fair value of financial assets and liabilities

The Group's financial assets and liabilities are categorised as "cash at banks and cash on hand", "loans to customers", "financial assets at fair value through profit or loss", "derivative financial instruments", "other financial receivables", "borrowings", "amounts due to related parties" and "other financial liabilities" respectively.

"Cash at banks and cash on hand", "loans to customers", "other financial receivables", "borrowings", "amounts due to related parties" and "other financial liabilities" are stated at amortized cost. As these financial assets and liabilities mature within one year, the carrying amounts approximate to their fair value at each balance sheet date.

Financial assets at fair value through profit or loss are equity investments held by the Group as at 31 December 2019 (2018: same). Derivatives are foreign exchange swap entered by the Group as at 31 December 2019 (2018: none).

(a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Financial assets at fair value through profit or loss	—	31,767	—	31,767

	Level 1	**Level 2**	**Level 3**	**Total**
As at 31 December 2019				
Financial assets at fair value through profit or loss	**—**	**33,872**	**—**	**33,872**
Derivative financial instruments	**—**	**7,952**	**—**	**7,952**
	—	**41,824**	**—**	**41,824**

There were neither transfers between Levels 1 and 2 nor transfer between Levels 2 and 3 during the year.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting year.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2019.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.2 Fair value of financial assets and liabilities (Continued)

(a) Fair value hierarchy (Continued)

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the end of the reporting year. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(b) Valuation techniques used to determine fair value

The fair value of Level 2 equity instruments is based on the quoted market price considering the liquidity discount rate for the stock lockup period as at 31 December 2019 and 31 December 2018.

(c) Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's reporting years.

4.3 Capital risk management

(a) Risk management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and

- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The liquid capital is monitored regularly by the Finance Department. The Group monitors capital risk on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowing net of cash and cash equivalent. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position plus net debt.

(All amounts in RMB thousands unless otherwise stated)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.3 Capital risk management (Continued)

(a) Risk management (Continued)

During 2019, the Group's strategy, which was unchanged from 2018, was to maintain a gearing ratio below 50% and to meet the compliance requirements of Wuzhong Pawnshop on aggregate amount of loans to customers at all times. The gearing ratio as at 31 December 2019 and 31 December 2018 were as follows:

	As at 31 December	
	2019	2018
Borrowings *(Note 34)*	**996,230**	850,076
Less: Cash and cash equivalents *(Note 29)*	**(181,038)**	(133,736)
Net debt	**815,192**	716,340
Total equity	**1,948,444**	1,897,028
Total capital	**2,763,636**	2,613,368
Gearing ratio	**30%**	27%

(i) Loan covenants

Under the terms of the borrowing facility of Huifang Tongda, it is required to comply with the following financial covenants:

- the total amount of guarantee for third party liabilities must not be more than 4 times the net assets of Huifang Tongda.

Huifang Tongda does not provide any guarantee for third party liabilities as at 31 December 2019 (2018: nil).

The Group has no other financial covenants under the terms of the rest borrowing facilities for the year ended 31 December 2019 (2018: nil).

(All amounts in RMB thousands unless otherwise stated)

5 SEGMENT INFORMATION

The Company's Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

The Board of Directors primarily uses a measure of profit/(loss) before income tax to assess the performance of the business divisions. However, the Board also receives information about the divisions' revenue and assets on a monthly basis.

Segment information for the current period and the last period is presented in Note 2.2.2 (ii).

6 INTEREST INCOME

	Year ended 31 December	
	2019	2018
Interest income from loans to customers		
Secured loans to customers	**158,246**	173,939
Unsecured loans to customers	**116,693**	114,008
Interest income from bank deposits	**24,352**	17,247
	299,291	305,194

7 CONSULTANCY FEE INCOME

	Year ended 31 December	
	2019	2018
P2P platform consultancy fee income (a)	**11,965**	18,163
Loan consultancy fee income	**2,443**	2,896
Other consultancy fee income	**159**	—
	14,567	21,059

(a) In February 2015, the Group established Suzhou Qian Dai, an internet finance platform providing service to borrowers as an intermediate between the borrowers and lenders. The Group charges the borrowers with a consultancy fee. The Group charged fixed consultancy fees at rates ranging from 2.2% to 10.0% per annum to the borrowers for the year ended 31 December 2019 (2018: from 1.5% to 13.6%).

(All amounts in RMB thousands unless otherwise stated)

8 COMMISSION FEE INCOME AND EXPENSE

	Year ended 31 December	
	2019	2018
Commission fee income		
Insurance agency commission fee income	**30,166**	3,899
Other commission fee income	**110**	77
	30,276	3,976
Commission fee expense		
Insurance agency commission fee expense	**26,085**	3,520
	26,085	3,520

9 INTEREST EXPENSE

	Year ended 31 December	
	2019	2018
Interest expense on bank borrowings	**46,826**	44,994
Interest expense on micro-finance company borrowings	**4,765**	5,844
Other interest expenses	**2,454**	3,799
	54,045	54,637

10 NET INVESTMENT (LOSSES)/GAINS

	Year ended 31 December	
	2019	2018
Fair value gains/(losses) — financial assets at fair value through profit or loss	**2,105**	(19,634)
Fair value gains — derivative financial instruments	**7,952**	—
Cash dividend of listed equity securities	**953**	953
	11,010	(18,681)

(All amounts in RMB thousands unless otherwise stated)

11 EXPECTED CREDIT LOSSES

	Year ended 31 December	
	2019	2018
Expected credit losses on loans to customers *(Note 26(b))*	**123,120**	105,901
Expected credit losses on other current assets *(Note 25)*	**968**	1,399
Expected credit losses on term deposit with banks *(Note 29)*	**–**	(8)
	124,088	107,292

12 NET GAINS ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

On derecognition of a loan to customers in entirety, the difference between the asset's carrying amount and total consideration received and receivable is recognized in net gains on derecognition of financial assets measured at amortized cost.

13 OTHER OPERATING INCOME

	Year ended 31 December	
	2019	2018
Net gains from disposal of repossessed assets	**1,297**	452
Others	**800**	258
	2,097	710

(All amounts in RMB thousands unless otherwise stated)

14 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2019	2018
Employee benefit expenses *(Note 15)*	**38,851**	40,608
Professional and consultancy fees	**7,517**	5,808
Depreciation and amortisation	**6,457**	2,835
Transportation, meal and accommodation	**3,497**	4,363
Telephone, utilities and office expenses	**3,429**	3,276
Auditors' remuneration	**2,900**	2,900
Operating lease payments	**2,466**	6,009
Value-added tax surcharges	**1,766**	2,720
Advertising costs	**471**	2,724
Commission fee	**398**	288
Other expenses	**2,548**	2,190
	70,300	73,721

15 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
Wages and salaries	**14,469**	14,462
Discretionary bonuses	**17,074**	17,024
Pension	**1,978**	1,990
Other social security obligations	**5,330**	4,932
Share-based payments *(Note 31(b))*	**—**	2,200
	38,851	40,608

(All amounts in RMB thousands unless otherwise stated)

15 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments are the highest in the Group include two executive directors for the year ended 31 December 2019 (2018: The five individuals whose emoluments are the highest in the Group include three executive directors), whose emoluments are reflected in the analysis presented in Note 41. The emoluments payable to the remaining three individuals (2018: the emoluments payable to the remaining two individuals) for the year ended 31 December 2019 are as follows:

	Year ended 31 December	
	2019	2018
Basic salaries	**786**	535
Discretionary bonuses	**1,679**	1,007
Pension	**78**	70
Other social security obligations	**179**	141
Share-based payment	**—**	161
	2,722	1,914

The emoluments to the remaining three individuals (2018: the emoluments to the remaining two individuals) fell within the following bands:

	Number of individuals Year ended 31 December	
	2019	2018
Emoluments band		
Nil – HK$1,000,000	**2**	1
HK$1,000,001 – HK$1,500,000	**1**	1

For the years ended 31 December 2019 and 2018, no directors or any of the five highest paid individuals receive any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

16 OTHER GAINS, NET

	Year ended 31 December	
	2019	2018
Government grants	**3,360**	3,299
Net foreign currency (losses)/gains	**(1,115)**	34,397
Others	**(35)**	69
	2,210	37,765

(All amounts in RMB thousands unless otherwise stated)

17 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2019. Unless otherwise stated, the proportion of ownership interests held equals the voting rights held by the Group. The country/place of incorporation is also their principal place of business.

Name of subsidiary	Country/ place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of Issued and fully paid share capital/ registered capital	Interest directly held	Interest indirectly held	Principal activities
Sifang Investment Limited	BVI	22 November 2011	Limited company	1 share of US$1	100%	–	investment holding
Tongda Investment Limited	BVI	22 November 2011	Limited company	1 share of US$1	–	100%	investment holding
Rongda Investment Limited ("Rongda Investment")	Hong Kong	05 December 2011	Limited company	1 share of US$1	–	100%	investment holding
Huifang Investment Limited ("Huifang Investment")	Hong Kong	05 December 2011	Limited company	1 share of US$1	–	100%	investment holding
Suzhou Huifang Technology Company Limited ("Huifang Technology")	PRC	29 December 2011	Limited company	US$96,100,000/ US$98,100,000	–	100%	management and marketing consulting
Suzhou Huifang Tongda Information Technology Company Limited ("Huifang Tongda")	PRC	10 February 2012	Limited company	RMB105,000,000	–	100%	management and marketing consulting
Suzhou Huifang Rongda Internet Technology Company Limited ("Huifang Rongda")	PRC	8 May 2015	Limited company	RMB12,000,000/ RMB50,000,000	–	100%	management and marketing consulting
Suzhou Wuzhong Pawnshop Co., Ltd. ("Wuzhong Pawnshop")	PRC	21 December 1999	Limited company	RMB1,000,000,000	–	100%	pawnshop services
Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. ("Dongshan Micro-finance")	PRC	26 December 2012	Limited company	RMB300,000,000	–	60%	micro-financing
Suzhou Huida Commercial Factoring Company Limited ("Huida Factoring")	PRC	30 May 2016	Limited company	RMB50,000,000	–	100%	factoring services
Suzhou Huifang Jiada Information Technology Company Limited ("Huifang Jiada")	PRC	15 December 2016	Limited company	RMB50,000,000	–	100%	technology development and consulting services
Suzhou Huifang Rongtong SME Guided Turnover Loan Fund (Limited Partnership) ("Huifang Rongtong")	PRC	1 September 2017	Limited partnership	RMB100,000,000	–	80%	short-term turnover loans
Suzhou Huifang Anda Insurance Agency Company Limited ("Huifang Anda")	PRC	16 November 2004	Limited company	RMB2,400,000	–	65%	Insurance Agency
Sichuan Aomeishu Technology Company Limited ("Sichuan Aomeishu")	PRC	17 May 2015	Limited company	RMB2,000,000	–	100%	technology development
Qingdao Wanchen Buliang Property Company Limited ("Qingdao Wanchen")	PRC	31 October 2019	Limited company	RMB30,000/ RMB10,000,000	–	100%	purchase and dispose of non-performing assets

(All amounts in RMB thousands unless otherwise stated)

17 SUBSIDIARIES (Continued)

(i) Non-controlling interests (NCI)

The total non-controlling interest as at 31 December 2019 is RMB155.3 million (2018: RMB142.5 million), of which RMB129.7 million (2018: RMB129.8 million) is attributed to Dongshan Micro-finance, RMB22.8 million (2018: RMB11.5 million) is attributed to Huifang Rongtong and RMB2.8 thousand (2018: RMB1.1 thousand) is attributed to Huifang Anda.

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarised statement of financial position:

	Dongshan Micro-finance As at 31 December		Huifang Rongtong As at 31 December		Huifang Anda As at 31 December	
	2019	2018	**2019**	2018	**2019**	2018
Current						
Assets	**355,736**	377,556	**114,797**	58,301	**7,990**	6,174
Liabilities	**(48,267)**	(70,091)	**(943)**	(638)	**(246)**	(1,434)
Total current net assets	**307,469**	307,465	**113,854**	57,663	**7,744**	4,740
Non-current						
Assets	**15,773**	15,837	**17**	12	**16**	8
Liabilities	**—**	—	**—**	—	**—**	—
Total non-current net assets	**15,773**	15,837	**17**	12	**16**	8
Net assets	**323,242**	323,302	**113,871**	57,675	**7,760**	4,748
Accumulated NCI	**129,779**	133,926	**22,790**	11,549	**2,772**	1,129

(All amounts in RMB thousands unless otherwise stated)

17 SUBSIDIARIES (Continued)

(i) Non-controlling interests (NCI) (Continued)

Summarised statement of comprehensive income:

	Dongshan Micro-finance Year ended 31 December		Huifang Rongtong Year ended 31 December		Huifang Anda Year ended 31 December	
	2019	2018	**2019**	2018	**2019**	2018
Net operating income	**51,350**	51,940	**15,756**	9,032	**4,079**	4
Net other operating income	**(13,340)**	(17,461)	**(3,559)**	(1,484)	**(1,114)**	101
Profit for the year	**38,010**	34,479	**12,197**	7,548	**2,965**	105
Other comprehensive income	**(9,553)**	(8,644)	**–**	–	**(299)**	–
Total comprehensive income	**28,457**	25,835	**12,197**	7,548	**2,666**	105
Total comprehensive income allocated to NCI	**11,383**	10,334	**2,441**	1,448	**640**	23
Dividends paid to NCI(a)	**11,400**	10,800	**1,200**	–	**–**	–

(a) A total dividend of RMB28.5 million in respect of the year ended 31 December 2018 was approved by the Board of Directors of Dongshan Micro-finance on 18 January 2019 and the amount paid to non-controlling interests is RMB11.4 million.

A total dividend of RMB6.0 million in respect of the year ended 31 December 2018 was approved by the Board of Directors of Huifang Rongda on 21 December 2018 and the amount paid to non-controlling interests is RMB1.2 million.

A total dividend of RMB27.0 million in respect of the year ended 31 December 2017 was approved by the Board of Directors of Dongshan Micro-finance on 26 January 2018 and the amount paid to non-controlling interests is RMB10.8 million.

(All amounts in RMB thousands unless otherwise stated)

17 SUBSIDIARIES (Continued)

(i) Non-controlling interests (NCI) (Continued)

Summarised cash flows:

	Dongshan Micro-finance Year ended 31 December		Huifang Rongtong Year ended 31 December		Huifang Anda Year ended 31 December	
	2019	2018	**2019**	2018	**2019**	2018
Net cash from operating activities	**68,637**	44,495	**(30,621)**	8,136	**2,186**	305
Net cash from investing activities	**—**	(101)	**(15)**	(15)	**(11)**	(8)
Net cash from financing activities	**(50,000)**	(40,000)	**44,000**	—	**1,004**	—
Net increase in cash and cash equivalents	**18,637**	4,394	**13,364**	8,121	**3,179**	297

18 INCOME TAX EXPENSE

(a) Income tax expense

	Year ended 31 December	
	2019	2018
Current tax		
Current tax on profits for the year	**31,514**	32,559
Adjustments for current tax of prior years	**—**	—
Total current tax expense	**31,514**	32,559
Deferred income tax		
(Increase)/Decrease in deferred tax assets (Note 23)	**(5,870)**	5,435
Total deferred tax (benefit)/expense	**(5,870)**	5,435
Income tax expense	**25,644**	37,994

All income tax expense is attributable to profit from continuing operations in the year ended 31 December 2019 (2018: same).

(All amounts in RMB thousands unless otherwise stated)

18 INCOME TAX EXPENSE (Continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Year ended 31 December	
	2019	2018
Operating profit and profit before income tax	**90,537**	110,795
Tax calculated at domestic tax rates applicable to profits in the respective areas	**22,608**	28,225
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
— Entertainment expenses	**415**	495
— Investment income attributable to non-controlling interests	**(620)**	(362)
— Cash dividends of listed equity securities	**(238)**	(238)
— Share-based payments	**—**	165
— Sundry items	**170**	40
Subtotal	**22,335**	28,325
Reversal of previously recognized deferred tax assets	**—**	7,108
Adjustments for current tax of prior years	**653**	1,495
Unused tax losses for which no deferred tax asset has been recognized	**1,323**	1,066
PRC withholding tax	**1,333**	—
Income tax expense	**25,644**	37,994

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Enterprises incorporated in the British Virgin Islands are not subject to any income tax according to relevant rules and regulations.

The applicable Hong Kong profits tax rate is 16.5% on the assessable profits earned or derived in Hong Kong for the year ended 31 December 2019 (The applicable Hong Kong profits tax rate for Huifang Investment is 8.25% and for other entities incorporated in HK is 16.5% on the assessable profits earned or derived in Hong Kong for the year ended 31 December 2018).

According to the Corporate Income Tax Law of the PRC (the "CIT Law"), the income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable corporate tax rate of 25% on the estimated assessable profits based on existing legislations, interpretations and practices.

18 INCOME TAX EXPENSE (Continued)

(c) Tax losses

	Year ended 31 December	
	2019	2018
Unused tax losses for which no deferred tax asset has been recognized @ 16.5%	**4,920**	3,705
Unused tax losses for which no deferred tax asset has been recognized @ 8.25%	**–**	1,687
Unused tax losses for which no deferred tax asset has been recognized @ 25%	**2,044**	1,262
Unused tax losses for which no deferred tax asset has been recognized	**6,964**	6,654
Potential tax benefit @ 16.5%	**812**	611
Potential tax benefit @ 8.25%	**–**	139
Potential tax benefit @ 25%	**511**	316
Potential tax benefit	**1,323**	1,066

The unused tax losses are incurred by the Company, Huifang Investment, Sifang Investment, Rongda Investment and Huifang Supply China and those are not likely to generate taxable income in the foreseeable future. They can be carried forward indefinitely. See Note 23 for information about recognized tax losses and Note 2.19 for significant judgements made.

19 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	**50,429**	60,996
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,086,787
Basic earnings per share (RMB Yuan)	**0.046**	0.056

All profit attributable to owners of the Company is from continuing operations.

19 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share options under share-based payment (Note 31(b)). For the share options, the number of share issued for no consideration is equal to the number of shares that would have been issued assuming in the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same expected proceeds in the exercise of the share options. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	**50,429**	60,996
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,086,787
Adjustments for:		
— Share options (in thousands)	**10,699**	11,886
Dilutive earnings per share (RMB)	**0.046**	0.056

All profit attributable to owners of the Company is from continuing operations.

(c) Weighted average number of shares used as the denominator

	Year ended 31 December	
	2019	2018
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (in thousands)	**1,086,787**	1,086,787
Adjustments for calculation of diluted earnings per share:		
Options (in thousands)	**10,699**	11,886
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share (in thousands)	**1,097,486**	1,098,673

(All amounts in RMB thousands unless otherwise stated)

20 DIVIDENDS

A dividend in respect of the year ended 31 December 2019 of HK$0.0130 per share, amounting to a total dividend of HK$14.1 million (equivalent to approximately RMB12.7 million), is to be proposed at the annual general meeting on 28 May 2020 (2018: A dividend in respect of the year ended 31 December 2018 of HK$0.0130 per share, amounting to a total dividend of HK$14.1 million (equivalent to approximately RMB12.4 million), was proposed at the annual general meeting on 28 May 2019). These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2019	2018
Proposed final dividend of HK$ 0.0130 (2018: HK$0.0130) per ordinary share	**12,667**	12,379

21 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognized in the balance sheet

The balance sheet shows the following amounts relating to leases.

	As at 31 December 2019	**As at 1 January 2019**
Right-of-use assets		
Land-use rights	**35,551**	36,482
Property	**7,891**	19,143
	43,442	55,625
Lease liabilities		
Current	**2,706**	5,388
Non-current	**4,663**	13,128
	7,369	18,516

(All amounts in RMB thousands unless otherwise stated)

21 LEASES (Continued)

(i) Amounts recognized in the balance sheet (Continued)

The movement of right-of-use assets as follow.

	Land-use rights	Property	Total
Cost			
At 1 January 2019	37,235	29,943	67,178
Additions	—	356	356
Less	—	(13,348)	(13,348)
At 31 December 2019	37,235	16,951	54,186
Accumulated depreciation			
At 1 January 2019	(753)	(10,800)	(11,553)
Additions	(931)	(3,410)	(4,341)
Less	—	5,150	5,150
At 31 December 2019	(1,684)	(9,060)	(10,744)
Net book amount			
At 31 December 2019	35,551	7,891	43,442
At 1 January 2019	36,482	19,143	55,625

For short-term lease and low-value asset lease, the Group chooses not to recognize the right-of-use assets and lease liabilities.

(All amounts in RMB thousands unless otherwise stated)

21 LEASES (Continued)

(ii) Amounts recognized in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Year ended 31 December	
	2019	2018
Depreciation charge of right-of-use assets		
Land-use rights	**(931)**	NA
Properties	**(3,410)**	NA
	(4,341)	NA
Interest expense (included in finance cost)	**(533)**	NA
Expense relating to short-term leases (included in the administrative expenses)	**(2,466)**	NA

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices, retail stores. Rental contracts are typically made for fixed periods of 12 months to 12 years, but may have extension options as described in (iv) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(iv) Extension and termination options

Extension and termination options are included in a number of property across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

(All amounts in RMB thousands unless otherwise stated)

22 INTANGIBLE ASSETS

	Land use right	Computer software	Licenses	Total
At 31 December 2017				
Cost	—	1,595	—	1,595
Accumulated amortisation and impairment	—	(378)	—	(378)
Net book amount	—	1,217	—	1,217
Year ended 31 December 2018				
Opening net book amount	—	1,217	—	1,217
Additions	37,235	309	—	37,544
Acquisition of subsidiary	—	—	3,294	3,294
Amortisation charge	(753)	(183)	(384)	(1,320)
Closing net book amount	36,482	1,343	2,910	40,735
At 31 December 2018				
Cost	37,235	1,904	3,294	42,433
Accumulated amortisation and impairment	(753)	(561)	(384)	(1,698)
Net book amount	36,482	1,343	2,910	40,735
At 1 January 2019	36,482	1,343	2,910	40,735
Changes on initial application of HKFRS 16	(36,482)	—	—	(36,482)
Restated balance at 1 January 2019	—	1,343	2,910	4,253
Year ended 31 December 2019				
Additions	—	513	—	513
Acquisition of subsidiary	—	100	—	100
Amortisation charge		(206)	(659)	(865)
Closing net book amount	—	1,750	2,251	4,001
At 31 December 2019				
Cost	—	2,517	3,294	5,811
Accumulated amortisation and impairment	—	(767)	(1,043)	(1,810)
Net book amount	—	1,750	2,251	4,001

(All amounts in RMB thousands unless otherwise stated)

23 DEFERRED INCOME TAX

	Year ended 31 December	
	2019	2018
The balance comprises temporary differences attributable to:		
ECL allowances charge on financial assets	**68,961**	60,248
Net loss from financial instruments at fair value through profit or loss	**4,654**	7,168
Recoverable tax losses	**1,787**	2,192
Share-based payment expense	**1,036**	1,036
Total deferred tax assets	**76,438**	70,644
Off-setting of deferred tax liabilities pursuant to off-setting provisions	**–**	–
Net deferred tax assets	**76,438**	70,644

(All amounts in RMB thousands unless otherwise stated)

23 DEFERRED INCOME TAX (Continued)

The movement in deferred income tax assets during the year, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

	ECL allowances charge on financial assets	Net(gains)/loss from financial instruments at fair value through profit or loss and derivative financial instruments	Recoverable tax losses	Share-based payments	Total
Deferred income tax assets					
At 1 January 2018	60,382	2,260	9,184	736	72,562
Changes on initial application of HKFRS 9	3,517	—	—	—	3,517
Restated balance at 1 January 2018	63,899	2,260	9,184	736	76,079
(Charged)/credited to the consolidated statement of comprehensive income	(3,651)	4,908	(6,992)	300	(5,435)
At 31 December 2018	60,248	7,168	2,192	1,036	70,644
At 1 January 2019	60,248	7,168	2,192	1,036	70,644
Credited/(charged) to the consolidated statement of comprehensive income	8,713	(2,514)	(405)	—	5,794
At 31 December 2019	68,961	4,654	1,787	1,036	76,438

As at 31 December 2019, it is estimated that deferred income tax assets will be reversed over one year (31 December 2018: same).

(All amounts in RMB thousands unless otherwise stated)

24 FINANCIAL ASSETS BY CATEGORY

The Group holds the following financial assets:

Financial assets	Notes	As at 31 December 2018 Assets at FVPL	Financial assets at amortized cost	Total
Other current assets				
(excluding repossessed assets)	*25*	—	80,972	80,972
Financial assets at fair value through profit or loss	*27*	31,767	—	31,767
Loans to customers	*26*	—	1,738,283	1,738,283
Cash at bank and cash on hand	*29*	—	810,138	810,138
		31,767	2,629,393	2,661,160

Financial assets	Notes	**As at 31 December 2019** **Assets at FVPL**	**Financial assets at amortized cost**	**Total**
Other current assets				
(excluding repossessed assets)	*25*	**—**	**57,945**	**57,945**
Loans to customers	*26*	**—**	**1,703,704**	**1,703,704**
Financial assets at fair value through profit or loss	*27*	**33,872**	**—**	**33,872**
Derivative financial instruments	*28*	**7,952**	**—**	**7,952**
Cash at bank and cash on hand	*29*	**—**	**1,047,858**	**1,047,858**
		41,824	**2,809,507**	**2,851,331**

(All amounts in RMB thousands unless otherwise stated)

25 OTHER CURRENT ASSETS

	As at 31 December	
	2019	2018
Repossessed assets	**19,186**	17,896
Receivable from disposal of loans to customers, net	**24,116**	74,107
Receivable from disposal of loans to customers, gross	**25,201**	75,334
Less: ECL allowances	**(1,085)**	(1,227)
Other receivables, net	**33,829**	6,865
Other receivables, gross	**36,064**	7,990
Less: ECL allowances	**(2,235)**	(1,125)
	77,131	98,868

26 LOANS TO CUSTOMERS

	As at 31 December	
	2019	2018
Loans to customers, gross		
Secured loans	**1,171,957**	1,277,155
— *Real estate backed loans*	**1,137,217**	1,254,966
— *Personal property backed loans*	**34,740**	22,189
Unsecured loans	**997,791**	792,729
— *Equity interest backed loans*	**511,846**	388,844
— *Guaranteed loans*	**224,229**	199,926
— *Other unsecured loans*	**261,716**	203,959
	2,169,748	2,069,884
Less: ECL allowances	**(466,044)**	(331,601)
Loans to customers, net	**1,703,704**	1,738,283

Loans to customers arise from the Group's lending services. The loan periods granted to customers are within two years. The real estate backed and equity interest backed loans provided to customers bear fixed interest rates ranging from 10.00% to 25.00% per annum in the year ended 31 December 2019 (2018: from 12.00% to 25.00%).

Guaranteed loans granted to customers bear fixed interest rates from 6.00% to 25.16% per annum in the year ended 31 December 2019 (2018: from 6.00% to 25.20%).

Unsecured loans granted to customers bear fixed interest rates from 10.00% to 17.00% per annum in the year ended 31 December 2019 (2018: from 10.00% to 18.20%).

(All amounts in RMB thousands unless otherwise stated)

26 LOANS TO CUSTOMERS (Continued)

As at 31 December 2019, renewed loans amounted to RMB180.5 million (2018: RMB170.2 million), which are all real estate backed loans (2018: same).

(a) Aging analysis of loans to customers

The aging of the loans to customers is calculated starting from the original granting date without considering the subsequent renewal of the loans. The aging analysis of loans to customers net of ECL allowances are set out below:

	As at 31 December			
	2019			2018
	Secured loans	Unsecured loans	Total	Total
Within 3 months	91,906	525,794	617,700	441,660
3–6months	109,164	101,788	210,952	298,150
6–12 months	128,164	40,321	168,485	239,760
12–24 months	15,319	—	15,319	—
Past due (i)	563,620	127,628	691,248	758,713
	908,173	795,531	1,703,704	1,738,283

(i) Past due loans to customers net of ECL allowances

	As at 31 December			
	2019			2018
	Secured loans	Unsecured loans	Total	Total
Past due within one month	13,678	54,334	68,012	10,586
Past due between one and three months	10,177	—	10,177	7,868
Past due over three months	539,765	73,294	613,059	740,259
	563,620	127,628	691,248	758,713

(All amounts in RMB thousands unless otherwise stated)

26 LOANS TO CUSTOMERS (Continued)

(b) Movements on ECL allowances for loans to customers in 2019

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

Secured loans	Year ended 31 December 2019			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Loss allowances as at 31 December 2018	7,041	1,669	156,898	165,608
Transfers:				
Transfers from Stage 1 to Stage 2	(1,213)	10,086	—	8,873
Transfers from Stage 2 to Stage 3	—	(5,044)	5,390	346
New loans to customers originated	8,214	—	—	8,214
Changes in PDs/LGDs/EADs	462	699	97,806	98,967
Unwind of discount	—	—	12,173	12,173
Loans to customers derecognized during the year other than write-offs	(10,133)	(5,665)	(14,651)	(30,449)
Write-offs	—	—	(11)	(11)
Recovery of the loans written-off in previous years	—	—	63	63
Loss allowances as at 31 December 2019	4,371	1,745	257,668	263,784

Unsecured loans	Year ended 31 December 2019			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Loss allowances as at 31 December 2018	25,287	—	140,706	165,993
Transfers:				
Transfers from Stage 1 to Stage 2	(2,328)	9,639	—	7,311
Transfers from Stage 2 to Stage 3	—	(9,425)	10,025	600
New loans to customers originated	82,384	—	—	82,384
Changes in PDs/LGDs/EADs	38	—	11,261	11,299
Unwind of discount	—	—	20,609	20,609
Loans to customers derecognized during the year other than write-offs	(77,460)	(214)	(8,262)	(85,936)
Write-offs	—	—	—	—
Recovery of the loans written-off in previous years	—	—	—	—
Loss allowances as at 31 December 2019	27,921	—	174,339	202,260

(All amounts in RMB thousands unless otherwise stated)

26 LOANS TO CUSTOMERS (Continued)

(b) Movements on ECL allowances for loans to customers in 2019 (Continued)

Secured loans	**Year ended 31 December 2018**			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 1 January 2018	3,931	79	74,834	78,844
Changes on initial application of HKFRS 9	2,913	504	—	3,417
Restated loss allowances as at 1 January 2018	6,844	583	74,834	82,261
Transfers:				
Transfers from Stage 1 to Stage 2	(3,542)	11,602	—	8,060
Transfers from Stage 2 to Stage 3	—	(8,409)	40,370	31,961
New loans to customers originated	11,608	—	—	11,608
Changes in PDs/LGDs/EADs	—	—	70,466	70,466
Unwind of discount	—	—	5,373	5,373
Loans to customers derecognized during the year other than write-offs	(7,869)	(2,107)	(36,970)	(46,946)
Write-offs	—	—	(1,314)	(1,314)
Recovery of the loans written-off in previous years	—	—	4,139	4,139
Loss allowances as at 31 December 2018	7,041	1,669	156,898	165,608

Unsecured loans	**Year ended 31 December 2018**			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 1 January 2018	14,847	—	115,550	130,397
Changes on initial application of HKFRS 9	10,475	—	—	10,475
Restated loss allowances as at 1 January 2018	25,322	—	115,550	140,872
Transfers:				
Transfers from Stage 1 to Stage 2	(951)	8,706	—	7,755
Transfers from Stage 2 to Stage 3	—	(1,133)	2,094	961
New loans to customers originated	206,139	—	—	206,139
Changes in PDs/LGDs/EADs	—	—	28,313	28,313
Unwind of discount	—	—	21,069	21,069
Loans to customers derecognized during the year other than write-offs	(205,223)	(7,573)	(27,537)	(240,333)
Write-offs	—	—	(1,360)	(1,360)
Recovery of the loans written-off in previous years	—	—	2,577	2,577
Loss allowances as at 31 December 2018	25,287	—	140,706	165,993

(All amounts in RMB thousands unless otherwise stated)

26 LOANS TO CUSTOMERS (Continued)

(c) Significant changes in gross carrying amount of loans to customers that contributed to changes in the ECL allowances

The following table explains changes in the gross carrying amount of the loans to customers that help explain their significance to the changes in the ECL allowances for loans to customers:

Secured loans	Year ended 31 December 2019			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Gross carrying amount as at 31 December 2018	425,994	9,537	841,624	1,277,155
Transfers:				
Transfers from Stage 1 to Stage 2	(76,838)	76,838	—	—
Transfers from Stage 2 to Stage 3	—	(56,638)	56,638	—
Loans to customers derecognized during the year other than write-offs	(543,977)	(17,900)	(156,131)	(718,008)
New loans to customers originated	558,313	—	—	558,313
Changes in interest accrual	(890)	85	55,313	54,508
Write-offs	—	—	(11)	(11)
Gross carrying amount as at 31 December 2019	362,602	11,922	797,433	1,171,957

Unsecured loans	Year ended 31 December 2019			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Gross carrying amount as at 31 December 2018	596,490	—	196,239	792,729
Transfers:				
Transfers from Stage 1 to Stage 2	(65,344)	65,344	—	—
Transfers from Stage 2 to Stage 3	—	(37,604)	37,604	—
Loans to customers derecognized during the year other than write-offs	(4,373,095)	(27,740)	(27,524)	(4,428,359)
New loans to customers originated	4,595,537	—	—	4,595,537
Changes in interest accrual	(3,760)	—	41,314	37,554
Write-offs	—	—	—	—
FX and other movements	330	—	—	330
Gross carrying amount as at 31 December 2019	750,158	—	247,633	997,791

(All amounts in RMB thousands unless otherwise stated)

26 LOANS TO CUSTOMERS (Continued)

(c) Significant changes in gross carrying amount of loans to customers that contributed to changes in the ECL allowances (Continued)

Secured loans	Year ended 31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Gross carrying amount as at 1 January 2018	344,838	6,115	860,134	1,211,087
Transfers:				
Transfers from Stage 1 to Stage 2	(123,505)	123,505	—	—
Transfers from Stage 2 to Stage 3	—	(93,434)	93,434	—
Loans to customers derecognized during the year other than write-offs	(425,832)	(26,649)	(188,509)	(640,990)
New loans to customers originated	629,324	—	—	629,324
Changes in interest accrual	1,169	—	77,879	79,048
Write-offs	—	—	(1,314)	(1,314)
Gross carrying amount as at 31 December 2018	425,994	9,537	841,624	1,277,155

Unsecured loans	Year ended 31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Gross carrying amount as at 1 January 2018	717,314	—	226,492	943,806
Transfers:				
Transfers from Stage 1 to Stage 2	(93,108)	93,108	—	—
Transfers from Stage 2 to Stage 3	—	(11,568)	11,568	—
Loans to customers derecognized during the year other than write-offs	(4,299,402)	(81,540)	(71,383)	(4,452,325)
New loans to customers originated	4,264,586	—	—	4,264,586
Changes in interest accrual	7,100	—	30,922	38,022
Write-offs	—	—	(1,360)	(1,360)
Gross carrying amount as at 31 December 2018	596,490	—	196,239	792,729

(All amounts in RMB thousands unless otherwise stated)

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group classifies the following financial assets at fair value through profit or loss (FVPL):

- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognize fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December	
	2019	2018
Non-current assets		
Equity securities	**440**	440
Current assets		
Equity securities	**33,432**	31,327
	33,872	31,767

Equity securities with fair value of RMB29.2 million (31 December 2018: RMB31.3 million) have been pledged with a securities company to secure borrowings with principal amount of RMB10 million (31 December 2018: RMB15.5 million) from the securities company (Note 34(c)).

28 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2019		
	Notional amount	**Fair value**	
		Assets	**Liabilities**
Current			
Foreign exchange swap	180,352	7,952	—

29 CASH AT BANK AND CASH ON HAND

	As at 31 December	
	2019	2018
Cash on hand	**1,859**	1,444
Demand deposits with banks	**179,179**	132,292
Deposits with securities company	**1,907**	953
Interest receivable from bank deposits	**17,352**	12,174
Term deposits with banks with original maturities over 3 months, net	**847,561**	663,275
Term deposits with banks with original maturities over 3 months, gross	**847,725**	663,439
Less: ECL allowances	**(164)**	(164)
	1,047,858	810,138

Cash at bank and cash on hand were denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
RMB	**664,685**	201,090
US dollar	**373,763**	599,215
Hong Kong dollar	**9,410**	9,833
	1,047,858	810,138

(All amounts in RMB thousands unless otherwise stated)

29 CASH AT BANK AND CASH ON HAND (Continued)

Cash and cash equivalents of the Group were determined as follows:

	As at 31 December	
	2019	2018
Cash at bank and cash on hand	**1,047,858**	810,138
Less: Unrestricted term deposits with banks with original maturities over 3 months	**(41,300)**	(126)
Restricted deposits with securities company	**(1,907)**	(953)
Interest receivable from bank deposits	**(17,352)**	(12,174)
Restricted term deposits pledged with banks with original maturities over 3 months	**(806,261)**	(663,149)
	181,038	133,736

As at 31 December 2019, restricted deposits with securities company of RMB1,907 thousand (2018: RMB953 thousand) are cash dividends received from listed equity securities and pledged with a securities company to secure borrowings with principle amount of RMB10.0 million (2018: RMB15.5 million) (Note 34(c)).

As at 31 December 2019, restricted term deposits of US$50.2 million (2018: US$85.2 million), which is equivalent to RMB350.2 million (2018: RMB584.6 million), are pledged with banks to secure bank borrowings with principal amount of RMB315.0 million (2018: RMB491.0 million) (Note 34).

As at 31 December 2019, restricted term deposits of RMB275.9 million (2018: RMB78.7 million) are pledged with banks to secure bank borrowings with principal amount of RMB261.5 million (2018: RMB74.0 million) (Note 34).

As at 31 December 2019, restricted term deposits of RMB180.2 million (2018: nil) are pledged with banks to secure bank borrowings of USD 25.6 million (2018: nil), which is equivalent to RMB178.6 million (2018: nil) (Note 34).

30 SHARE CAPITAL

	Number of shares	**Ordinary shares** HK$	**Ordinary shares** RMB
Issued and fully paid			
As at 31 December 2019 and 31 December 2018	1,086,787,000	10,867,870	8,631,935

(All amounts in RMB thousands unless otherwise stated)

31 SHARE PREMIUM AND OTHER RESERVES

		Other reserves				
	Share premium	Capital reserve	Statutory reserve	General reserve	Share-based payments reserve	Total
At 1 January 2018	601,993	506,963	77,715	4,417	4,971	1,196,059
Share-based payments						
— Value of employee services (b)(i)	—	—	—	—	2,200	2,200
At 31 December 2018	601,993	506,963	77,715	4,417	7,171	1,198,259
At 1 January 2019	601,993	506,963	77,715	4,417	7,171	1,198,259
Share-based payments						
— Value of employee services (b)(i)	—	—	—	—	—	—
At 31 December 2019	601,993	506,963	77,715	4,417	7,171	1,198,259

(a) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

31 SHARE PREMIUM AND OTHER RESERVES (Continued)

(b) Share-based payments

The grant of share options to enable eligible participants as incentives or rewards for their contribution or potential contribution to the Group was approved on 13 September 2016. The options have a contractual option term of five years and have become partially exercisable after the employees completed the vesting period. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Set below are summaries of options granted and forfeited under the plan:

	Year ended 31 December 2018	
	Average exercise price in HK$ per share option	Number of share options (thousands)
As at 1 January	0.62	28,007
Granted	—	—
Exercised	—	—
Forfeited	0.62	(769)
Aa at 31 December	0.62	27,238
Vested and exercisable at 31 December 2018	0.62	27,238

	Year ended 31 December 2019	
	Average exercise price in HK$ per share option	**Number of share options (thousands)**
As at 1 January	**0.62**	**27,238**
Granted	**—**	**—**
Exercised	**—**	**—**
Forfeited	**—**	**—**
Aa at 31 December	**0.62**	**27,238**
Vested and exercisable at 31 December 2019	**0.62**	**27,238**

(i) Share-based payments — value of employee services

Share options outstanding at the end of the year will expire on 12 September 2021.

None of employee benefit expense was recognized for share options granted to directors and employees for the year ended 31 December 2019 (2018: RMB2.2 million).

(All amounts in RMB thousands unless otherwise stated)

32 RETAINED EARNINGS

Movements in retained earnings were as follows:

	As at 31 December	
	2019	2018
Balance 1 January	**547,656**	505,247
Change in accounting policy	**540**	(6,891)
Net profit attributable to the owners of the Company for the year	**50,429**	60,996
Dividends provided for or paid	**(12,413)**	(11,696)
Balance 31 December	**586,212**	547,656

33 OTHER CURRENT LIABILITIES

	As at 31 December	
	2019	2018
Accrued employee benefits	**9,101**	11,034
Turnover tax and other tax payable	**1,623**	3,010
Advance from transferee of financial assets	**4,113**	—
Investment payable	**—**	390
Other financial liabilities	**5,641**	7,344
	20,478	21,778

As at 31 December 2019, the Group's other financial liabilities were non-interest bearing. The fair value approximates their carrying amounts due to their short maturities (2018: same).

(All amounts in RMB thousands unless otherwise stated)

34 BORROWINGS

	As at 31 December	
	2019	2018
Bank borrowings (a)	**936,400**	766,286
Borrowings from microfinance companies (b)	**33,500**	55,000
Borrowings from securities company (c)	**10,000**	15,540
Borrowings from other company	**13,530**	—
SME private placement bond issued (d)	**2,800**	—
Private placement note	**—**	13,250
	996,230	850,076

(a) Bank borrowings are all with maturity within one year and bear fixed interest rates ranging from 3.45% to 5.87% per annum in the year ended 31 December 2019 (2018: fixed rate from 4.35% to 6.09%).

As at 31 December 2019, bank borrowings with principal amount of RMB315.0 million (2018: RMB491.0 million) are secured by restricted term deposits of US$50.2 million (2018: US$85.2 million) (Note 29).

As at 31 December 2019, bank borrowings with principal amount of RMB261.5 million (2018: RMB74.0 million) are secured by restricted term deposits of RMB275.9 million (2018: RMB78.7 million) (Note 29).

As at 31 December 2019, bank borrowings with principal amount of RMB180.0 million (31 December 2018: RMB200.0 million) are guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (Note 38(b)).

As at 31 December 2019, bank borrowings with principal amount of USD 25.6 million (31 December 2018: nil) are secured by restricted term deposits of RMB180.2 million and are guaranteed by Bank of Jiangsu (Note 29).

The fair values of bank borrowings approximate their carrying amounts as the discounting impact is not significant.

As at 31 December 2019, the Group has no undrawn bank borrowing facilities (31 December 2018: nil).

(b) As at 31 December 2019, borrowings from microfinance companies with principal amount of RMB33.5 million are guaranteed by Jiangsu Wuzhong Group Co., Ltd. ("Wuzhong Group") (31 December 2018: RMB55.0 million) (Note 38(b)).

(c) As at 31 December 2019, borrowings from a securities company with principal amount of RMB10.0 million are pledged by equity investment and cash dividends held by the Group (2018: RMB15.5 million) (Note 27 and Note 29).

(d) As at 31 December 2019, SME private placement bond is issued to fund the lending business to small and micro enterprises in the Jiangsu Province. The bond has a maturity within one year and bears fixed interest rate of 7.3% per annum (2018: nil). The bond is guaranteed by Jiang Su Jin Chuang Credit Re-guarantee Company ("江蘇金創信用再擔保") (2018: nil).

(All amounts in RMB thousands unless otherwise stated)

35 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2019	2018
Profit before income tax from		
Continuing operations	**90,537**	110,795
Discontinued operations	**—**	—
Profit before income tax including discontinued operations	**90,537**	110,795
Adjustments for		
Depreciation and amortisation	**6,457**	2,835
Employee benefits expenses — share based payments	**—**	2,200
Net (gains)/losses on derecognition of financial assets measured at amortized cost	**(5,604)**	58
Interest expense	**54,045**	54,637
Net investment gain of disposal of subsidiaries	**—**	—
Net exchange differences	**(350)**	(562)
Change in operating assets and liabilities, net of effects from purchase of controlled entity:		
(Increase)/Decrease in term deposit with banks	**(188,598)**	12,431
(Increase)/Decrease in financial assets at fair value through profit or loss	**(2,105)**	19,634
Increase in derivatives financial instruments	**(7,952)**	—
Decrease/(increase) in other current assets	**35,555**	(97,634)
Decrease in loans to customers	**41,151**	194,810
(Decrease)/Increase in other current liabilities	**(910)**	7,714
Cash generated from operations	**22,226**	306,918

(All amounts in RMB thousands unless otherwise stated)

35 CASH FLOW INFORMATION (Continued)

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Net debt	As at 31 December 2019	2018
Cash and cash equivalents	**181,038**	133,736
Borrowings — repayable within one year	**(996,230)**	(850,076)
Net debt	**(815,192)**	(716,340)
Cash and liquid investments	**181,038**	133,736
Gross debt — fixed interest rates	**(996,230)**	(850,076)
Net debt	**(815,192)**	(716,340)

	Other current assets/ Cash bank overdraft	Liabilities from financing activities Borrow due within 1 year	Total
Net debt as at 1 January 2018	257,917	(1,150,968)	(893,051)
Cash flows	(124,743)	300,892	176,149
Foreign exchange adjustments	562	—	562
Net debt as at 31 December 2018	133,736	(850,076)	(716,340)
Net debt as at 1 January 2019	**133,736**	**(850,076)**	**(716,340)**
Cash flows	**46,952**	**(146,154)**	**(99,202)**
Foreign exchange adjustments	**350**	**—**	**350**
Net debt as at 31 December 2019	**181,038**	**(996,230)**	**(815,192)**

36 CONTINGENCIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: nil).

(All amounts in RMB thousands unless otherwise stated)

37 COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2019	2018
Hillcrest Associated Limited (i)	**438**	438

(i) The purchase consideration of Hillcrest Associated Limited is HKD 1 million, of which HKD 0.5 million (equivalent to RMB0.4 million) has not been paid by the Group as at 31 December 2019 (31 December 2018: HKD 0.5 million (equivalent to RMB0.4 million)).

38 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or excise significant influence over the other party in making financial and operating decisions of the Group. Parties are also considered to be related if they are subject to common control. Members of directors, key management and their close family member are also considered as related parties.

Names of related parties	Nature of relationship
Wuzhong Jiaye	Direct equity holder of Wuzhong Pawnshop
Wuzhong Group	Controlling shareholder of Wuzhong Jiaye before Reorganisation
Jiangsu Wuzhong Real Estate Group Co., Ltd. (江蘇吳中地產集團有限公司) ("Wuzhong Real Estate")	A related party controlled by Wuzhong Group
Wuzhong America Services for Cultural Education and Communication Ltd ("Wuzhong America")	A related party controlled by Wuzhong Group
BVI companies wholly owned by each of the Ultimate Shareholders ("BVI entities owned by the Ultimate Shareholders")	Related parties controlled by each of the Ultimate shareholders
Tricor Services Limited ("卓佳專業商務有限公司") ("Tricor")	Company Secretary
Shenzhen Zuanying Internet Co., Ltd. (深圳鑽盈互聯網有限公司) ("Shenzhen Zuanying")	Associate of Huifang Tongda
Suzhou Huiying Precious Metals Co., Ltd. ("蘇州匯盈貴金屬有限公司")	Related parties controlled by the ultimate shareholders

(All amounts in RMB thousands unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties

The Group had the following significant transactions with related parties:

	Year ended 31 December	
	2019	2018
Other operating income from Shenzhen Zuanying	**–**	4,931
Interest expenses paid to Wuzhong Group	**1,041**	476
Bank borrowings guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (in principal amount at year-end) *(Note 34(a))*	**180,000**	200,000
Borrowings from microfinance companies guaranteed by Wuzhong Group (in principal amount at year-end) *(Note 34(b))*	**33,500**	55,000
Private placement note guaranteed by Wuzhong Group (in principal amount at year-end) *(Note 34(e))*	**–**	12,540

(c) Balances with related parties

	As at 31 December	
	2019	2018
Amounts due to related parties		
Due to BVI entities owned by the Ultimate Shareholders	**633**	633

As at 31 December 2019, there is no balance of loan to customer or borrowings held by directors or key management (31 December 2018: nil).

(d) Key management personnel compensation

Key management comprises six members including the executive directors, the vice president, the assistant to the president and the risk control director. The compensation paid or payable to key management for employee services is shown below:

	As at 31 December	
	2019	2018
Basic salaries	**2,431**	2,383
Discretionary bonuses	**2,535**	2,969
Pension and other social security obligations	**538**	575
Share based payments	**–**	716
	5,504	6,643

(e) Key management personnel services provided by management entity

For the year ended 31 December 2019, the Group paid RMB73 thousand to Tricor Services Limited for the company secretary services (2018: RMB71 thousand).

39 SUBSEQUENT EVENT

(i) Dividend

A dividend in respect of the year ended 31 December 2019 of HK$ 0.0130 per share, amounting to a total dividend of HK$ 14.1 million (equivalent to approximately RMB12.7 million), is to be proposed at the annual general meeting on 28 May 2020 (2018: A dividend in respect of the year ended 31 December 2018 of HK$0.0130 per share, amounting to a total dividend of HK$14.1 million (equivalent to approximately RMB12.4 million), is to be proposed at the annual general meeting on 28 May 2019). These financial statements do not reflect this dividend payable.

(ii) Acquisition of equity interests in Dongshan Micro-finance

On 13 January 2020, the Group further purchases 10% of the equity interests in Dongshan Micro-finance for a cash consideration of RMB30 million from an individual shareholder. After the acquisition, the Group owns 70% of the equity interests in Dongshan Micro-finance.

(iii) Outbreak of Coronavirus Disease 2019

Since early 2020, the epidemic of Coronavirus Disease 2019 ("the COVID-19 outbreak") has spread across China and other countries, and it has affected business and economic activities to some extent. Up to the date on which this set of financial statements are authorized for issue, the impacts of the COVID-19 outbreak on the Group's financial positions and the macro-economic conditions as a whole are still uncertain, the Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group in the future.

(All amounts in RMB thousands unless otherwise stated)

40 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2019	2018
ASSETS		
Non-current assets		
Investments in subsidiaries	**362,718**	362,718
Current assets		
Amounts due from related parties	**616,528**	625,167
Dividends receivable	**51,530**	50,170
Cash at bank and cash on hand	**4,756**	6,832
Total current assets	**672,814**	682,169
Total assets	**1,035,532**	1,044,887
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the Company		
Share capital	**8,632**	8,632
Share premium	**1,003,966**	1,003,966
Other reserves	**7,171**	7,171
Accumulated gains	**12,671**	13,397
Total equity	**1,032,440**	1,033,166
Liabilities		
Current liabilities		
Amounts due to related parties	**633**	9,272
Dividends payable	**1,262**	1,256
Other current liabilities	**1,197**	1,193
Total liabilities	**3,092**	11,721
Total equity and liabilities	**1,035,532**	1,044,887

The balance sheet of the Company was approved by the Board of Directors on 26 March 2020 and was signed on its behalf

Wu Min	**Zhang Changsong**
Executive Director	*Executive Director*

(All amounts in RMB thousands unless otherwise stated)

40 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

	Share Premium	Other Reserve	Retained earnings
At 1 January 2018	1,003,966	4,971	12,096
Profit for the year	—	—	12,997
Private placement of new shares	—	—	(11,696)
Share-based payments- Issue of shares	—	—	—
Share-based payments- Value of employee services	—	2,200	—
At 31 December 2018	1,003,966	7,171	13,397
At 1 January 2019	**1,003,966**	**7,171**	**13,397**
Profit for the year	**—**	**—**	**11,693**
Dividends provided for or paid	**—**	**—**	**(12,419)**
Share-based payments — Value of employee services	**—**	**—**	**—**
At 31 December 2019	**1,003,966**	**7,171**	**12,671**

41 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2018:

	Salaries	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Estimated monetary value of other benefits *(Note (a))*	Fees	Total
Year ended 31 December 2018						
Executive directors:						
WU Min (吳敏) (b)	746	660	49	266	—	1,721
ZHANG Chang'song (張長松)	600	660	49	243	—	1,552
CHEN Yan'nan (陳雁南) (b)	292	300	—	198	—	790
Independent non-executive directors:						
ZHANG Hua'qiao (張化橋)	—	—	—	99	263	362
TSE Yat Hong (謝日康)	—	—	—	99	263	362
FENG Ke (馮科)	—	—	—	99	263	362
Non-executive directors:						
ZHUO You	—	—	—	50	—	50
ZHANG Shu	—	—	—	50	—	50
ZHANG Cheng	—	—	—	50	—	50
LING Xiao'ming (凌曉明) (c)	—	—	—	—	—	—
	1,638	1,620	98	1,154	789	5,299

(All amounts in RMB thousands unless otherwise stated)

41 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2019:

	Salaries	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Estimated monetary value of other benefits *(Note (a))*	Fees	Total
Year ended 31 December 2019						
Executive directors:						
WU Min (吳敏) (b)	761	667	40	68	–	1,536
ZHANG Chang'song (張長松)	650	609	30	80	–	1,369
Independent non-executive directors:						
ZHANG Hua'qiao (張化橋)	–	–	–	–	264	264
TSE Yat Hong (謝日康)	–	–	–	–	264	264
FENG Ke (馮科)	–	–	–	–	264	264
Non-executive directors:						
ZHUO You	–	–	–	–	–	–
ZHANG Shu	–	–	–	–	–	–
ZHANG Cheng	–	–	–	–	–	–
LING Xiao'ming (凌曉明) (c)	–	–	–	–	–	–
	1,411	1,276	70	148	792	3,697

(a) Other benefits include share-based payment and insurance premium.

(b) WU Min was appointed as the Chairman of the Group effective from 1 June 2017. CHEN Yan'nan ceased to be the Executive director of the Group from 28 May 2018.

(c) LING Xiao'ming was appointed as a non-executive director of the Group effective from 28 May 2018.

DEFINITIONS

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

"Articles" or "Articles of Association"	the articles of association of our Company (as amended from time to time)
"Board" or "Board of Directors"	the board of directors of our Company
"China" or "the PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company" or "our Company"	China Huirong Financial Holdings Limited, a company incorporated in the Cayman Islands with limited liability on 11 November 2011, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
"Contractual Arrangements"	a series of contracts entered into by Huifang Tongda, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders (as the case may be), details of which are described in the section headed "Our History and Reorganisation — Contractual Arrangements" in the Prospectus
"Director(s)"	the director(s) of our Company
"Dongshan Micro-finance"	Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.* (蘇州市吳中區東山農村小額貸款有限公司), a limited liability company established in the PRC on 26 December 2012, which is an indirect holding subsidiary of our Company
"EIT Law"	the Enterprise Income Tax Law of the People's Republic of China
"Global Offering" or "IPO"	the Hong Kong public offering and the international offering of Shares
"Greater Suzhou Area"	Suzhou city and the four county-level cities that are governed by the Suzhou city government, namely, Changshu, Kunshan,Taicang and Zhangjiagang
"Group", "our Group", "we", "our" or "us"	our Company, its subsidiaries and the PRC Operating Entity (the financial results of which have been consolidated and accounted for as the subsidiary of our Company by virtue of the Contractual Arrangements) or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries (or before such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be)

"Hengyue Consulting"	Suzhou Xinqu Hengyue Management Consulting Co., Ltd.* (蘇州新區恒悦管理諮詢有限公司), a limited liability company established under the laws of the PRC on 22 October 2007, one of the direct shareholders of the PRC Operating Entity
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huida Factoring"	Suzhou Huida Commercial Factoring Company Limited* (蘇州匯達商業保理有限公司), a limited liability company established in the PRC on 30 May 2016, which is an indirect wholly-owned subsidiary of our Company
"Huifang Jiada"	Suzhou Huifang Jiada Information Technology Company Limited* (蘇州匯方嘉達資訊科技有限公司), a limited liability company established in the PRC on 15 December 2016, which is an indirect wholly-owned subsidiary of our Company
"Huifang Rongda"	Suzhou Huifang Rongda Internet Technology Company Limited* (蘇州匯方融達網路科技有限公司), a limited liability company established in the PRC on 8 May 2015, which is an indirect wholly-owned subsidiary of our Company
"Huifang Rongtong"	Suzhou Huifang Rongtong SME Guided Turnover Loan Fund (Limited Partnership)* (蘇州匯方融通中小微企業轉貸引導基金合夥企業(有限合夥)), a limited partnership company established in the PRC on 1 September 2017, which is an indirect holding subsidiary of our Company
"Huifang Technology"	Suzhou Huifang Management Consulting Co., Ltd.* (蘇州匯方管理諮詢有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on 29 December 2011, which is an indirect wholly owned subsidiary of our Company. On 12 December 2013, the name of Suzhou Huifang Management Consulting Co. Ltd.* (蘇州匯方管理諮詢有限公司) was changed to Suzhou Huifang Technology Co. Ltd.* (蘇州匯方科技有限公司) upon the approval from Administration for Industry and Commercial of Suzhou, Jiangsu
"Huifang Investment"	Huifang Investment Limited* (匯方投資有限公司), a limited liability company incorporated under the laws of Hong Kong on 5 December 2011 and a wholly-owned subsidiary of our Company
"Huifang Tongda"	Suzhou Huifang Tongda Management Consulting Co., Ltd* (蘇州匯方同達管理諮詢有限公司), a limited liability company established in the PRC on 10 February 2012 which is an indirect wholly-owned subsidiary of our Company. On 11 December 2013, the name of Suzhou Huifang Tongda Management Consulting Co., Ltd* (蘇州匯方同達管理諮詢有限公司) was changed to Suzhou Huifang Tongda Information Technology Co., Ltd* (蘇州匯方同達信息科技有限公司) upon the approval from Administration for Industry and Commercial of Wuzhong, Suzhou

"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	28 October 2013 on which the Shares are listed on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC Operating Entity" or "Wuzhong Pawnshop"	Suzhou Wuzhong Pawnshop Co., Ltd.* (蘇州市吳中典當有限責任公司), a limited liability company established under the laws of the PRC on 21 December 1999, formerly known as 吳縣市吳中典當行有限公司 (Wuxian Wuzhong Pawnshop Co., Ltd.), a company which we do not own but the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements
"PRC Shareholders"	Mr. Zhu Tianxiao, Mr. Zhang Xiangrong, Mr. Ge Jian, Mr. Chen Yannan, Mr. Wei Xingfa, Mr. Yang Wuguan and Mr. Zhuo You, who are the ultimate and indirect shareholders of the Company. Except for Mr. Zhuo You, who is a non-executive Director of the Company, none of the other PRC Shareholders is a director or chief executive member of the Company
"Prospectus"	prospectus of the Company dated 16 October 2013 in relation to the Global Offering
"Reorganisation"	the reorganisation of the Group in preparation of the Listing, details of which are set out in the section headed "Our History and Reorganisation — Reorganisation" in the Prospectus
"Reporting Year"	the year ended 31 December 2019
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share(s)"	ordinary shares(s) in the capital of the Company with normal value of HK$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Sifang Investment"	Sifang Investment Limited* (四方投資有限公司), a limited liability company incorporated under the laws of the British Virgin Islands on 22 November 2011 and a wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Tongda Investment"	Tongda Investment Limited* (同達投資有限公司), a limited liability company incorporated under the laws of the British Virgin Islands on 22 November 2011 and a wholly-owned subsidiary of the Company with no substantial business activity
"Track Record Period"	the four fiscal years of our Company ended 31 December 2011, 2012, 2013 and 2014
"Wuzhong Group"	Jiangsu Wuzhong Group Co., Ltd.* (江蘇吳中集團有限公司), a limited liability company established under the laws of the PRC on 26 May 1992, formerly known as Jiangsu Wuzhong Group Co.* (江蘇吳中集團公司)
"Wuzhong Jiaye"	Jiangsu Wuzhong Jiaye Group Co., Ltd.* (江蘇吳中嘉業集團有限公司), a limited liability company established under the laws of the PRC on 25 April 2005, formerly known as Jiangsu Wuzhong Jiaye Investment Co., Ltd.* (江蘇吳中嘉業投資有限公司), one of the direct shareholders of the PRC Operating Entity
"Wuzhong Real Estate"	Jiangsu Wuzhong Real Estate Group Co., Ltd.* (江蘇吳中地產集團有限公司), a limited liability company established under the laws of the PRC on 13 August 1992, formerly known as Jiangsu Wuzhong Dongwu Property Development Co.* (江蘇吳中東吳產業開發公司), Wuxian Dongwu Property Development Co.* (吳縣市東吳產業開發公司), and Jiangsu Wuzhong Dongwu Property Development Co., Ltd.* (江蘇吳中東吳產業開發有限公司)

* For identification purpose only

In this annual report, the terms "associate", "close associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

GLOSSARY

The glossary contains explanations of certain terms and definitions used in this annual report in connection with us and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"average loan amount"	the aggregate outstanding loan amount of a certain type of loans divided by the number of outstanding loans of that type as of an indicate date
"CAGR"	compound annual growth rate
"charge-off ratio"	impairment charge for an indicated period divided by ending balance of the gross amount of loans to customers of the same period and multiplied by 100%
"cost to income ratio"	administrative expenses of an indicated period divided by net revenue of the same period and multiplied by 100%
"gross loan yield"	interest income from loans to customers of an indicated period divided by the average of the beginning and the ending balances of gross loan amount multiplied by 100%
"impaired loan ratio"	the aggregate amount of individually impaired loans as of an indicated date divided by the gross amount of loans to customers as of the same date and multiplied by 100%
"appraised loan-to-value ratio"	the outstanding principal amount of a loan as of the calculation date divided by the appraised value of the underlying collateral securing such loan as decided in the loan application review process and multiplied by 100%
"net interest margin"	net interest income for an indicated period divided by the average of the beginning and the ending balance of interest earning assets of the same period, which equals the sum of the ending balances of (i) loans to customers and (ii) deposit with banks and multiplied by 100%
"return on average assets"	profit attributable to equity holders for an indicated period divided by the average of the beginning and the ending balances of total assets of the same period and multiplied by 100%
"return on average equity"	profit attributable to equity holders for an indicated period divided by the average of the beginning and the ending balances of total equity of the same period and multiplied by 100%

CHINA HUIRONG FINANCIAL HOLDINGS LIMITED
中國匯融金融控股有限公司