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

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

Stock Code: 1577

Annual Report
2019

* for identification purpose only

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Jiang Haiying
Mr. Cai Rongjun

Independent Non-executive Directors

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

SUPERVISORS

Ms. Hong Lijun (*Chairwoman)*
Mr. Li Jiancheng
Ms. Ruan Cen
Mr. Chen Jinzhu
Mr. Wu Lindi

AUDIT COMMITTEE

Mr. Zhang Lihe (*Chairman)*
Mr. Lin Jianguo
Mr. Cai Rongjun

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

Mr. Wu Zhirui
Mr. Yan Zhijiang

REGISTERED ADDRESS

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

HEADQUARTERS/PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

Corporate Information (continued)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.qzhuixin.net

STOCK CODE

1577

AUDITOR AND REPORTING ACCOUNTANT

Ernst & Young
Certified Public Accountants

LEGAL ADVISER

Akin Gump Strauss Hauer & Feld
(as to Hong Kong laws)

H SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

China Minsheng Bank
Quanzhou Branch
No. 689 Citong Street
Fengze District
Quanzhou
Fujian
PRC

Xiamen Bank
Yinlong Sub-Branch
No. 857 Xiahe Street
Huli District
Xiamen
Fujian
PRC

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

Chairman's Statement

On behalf of the Board, I am pleased to present to the Shareholders our Group's operating results in 2019.

For the year ended 31 December 2019, our net interest income amounted to RMB161.8 million, our net profit amounted to RMB74.5 million and our outstanding loans amounted to RMB1,108.7 million.

The macroeconomic uncertainties increased in 2019. The global economy was characterized by insufficient social demand, rising macro leverage ratio and the ebbing of globalization. The volume of global trade restrictions was still at its historic high, while the number of trade promotion measures implemented was the lowest ever recorded since 2012. The domestic macroeconomic environment in China was mainly characterized by the imbalance of economic structure, high macro leverage, excess production capacity coupled with an increasing downward pressure on the economy, tightened financial regulation, prolonged conflicts between China and the United States, and the declining business of mainstream financial institutions.

We have adopted the following strategies to cope with the increasingly complex situation at home and abroad:

In terms of business strategy, we took a more cautious and prudent approach, which includes controlling the amount of credit granted to single customer, narrowing the scale of our credit guarantee business, as well as paying more attention to the liquidity of our customers' cash flow and assets. At the same time, we further differentiate our customers to improve our differentiated service capabilities. For example, we designed a new product called "Easy Loan for High-quality House" (優房好貸), and enhanced our approval efficiency for high-quality customers.

In terms of financing strategy, the purpose of our Listing is to achieve a sustainable development of the Company's business model through the ongoing financing function of the capital markets. Therefore, in spite of the uncertainties in the external environment, we continued to promote asset securitization measures. In December 2019, the Company received the "No Objection Letter for Conditions of Listing on the Shenzhen Stock Exchange" (深交所掛牌條件的無異議函) issued by the Shenzhen Stock Exchange, pursuant to which asset-backed securities under special program with a total amount not exceeding RMB300 million may be issued.

In terms of building our organizational system, we focused on strengthening the function of our human resources strategies and development. We have designed a personnel training system after streamlining the abilities and capability profile required for key positions. We conducted special training sessions on topics such as macroeconomic analysis, industry analysis, credit project management and housing market, construction industry and new economic environment. At the same time, on the basis of our original information system for a single line of business product, we have developed a system that supports multiple types of business products, including "B-end" system that can develop new products and "C-end" system designed for end customer installment.

In terms of corporate culture, after sufficient internal discussions, we finally selected "assisting in adding value to customers with professional and efficient services and good credit" as our core mission, and took "integrity, professionalism, responsibility, innovation, cooperation" as our core values, which lead us to select and obtain customers from the perspective of whether the customer has the ability to maintain its operation and to improve the quality of our customer service. We constantly implement our mission and our core values through our daily management activities, including review of work versus value created as well as annual survey on employees and customers.

Looking ahead to the new year, the macroeconomic uncertainties may further increase, as the country is still in the period of transition between the old and new cycles and is undergoing structural adjustments, and although the tension in the Sino-US relations has eased in this phase, conflicts and variables will still exist. To cope with the complex and changing external environment, we will continue to strengthen our organizational system and cultural construction. As a regional microfinance service supplier, we will strive to offer both value and quality to customers in our services to support the development of the real economy and fulfill the responsibility of corporate citizenship.

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

26 March 2020

Management Discussion and Analysis

INDUSTRY OVERVIEW

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

China's finance leasing industry has developed rapidly since 2012. With China's industrial reform and equipment upgrades, the steady growth of China's fixed asset investment has created greater potential for the development of the finance leasing industry. In 2016, Fujian provincial government promulgated the *Opinions on Promoting the Development of the Finance Leasing Industry* (關於促進融資租賃業發展的意見), which has implemented effective measures in taxation and development environment to support the finance leasing industry in Fujian Province.

BUSINESS OVERVIEW

Our Group is principally engaged in loan business and finance lease business. We conduct our loan business primarily through the Company and JJHX which was consolidated into our Group's consolidated financial statements from April 2019. Based in Quanzhou City, we are the largest licensed microfinance company in Fujian Province in terms of revenue in 2019, according to the statistics of the Fujian Financial Supervision Bureau (福建省地方金融監督管理局). We are primarily dedicated to providing local entrepreneurial individuals, SMEs and microenterprises with practical and flexible short-term financing solutions to support their continued development and address their ongoing liquidity needs. Since October 2018, we commenced our finance leasing business principally engaged in the provision of automobile finance leasing services for SMEs and individuals in the PRC.

Management Discussion and Analysis (continued)

We generate substantially all of our income by charging interest on the loans and finance leases extended to our customers. For the years ended 31 December 2019, the total loans and finance leases granted to our customers amounted to RMB2,936.0 million. Our interest income from loans receivable was RMB165.4 million for the year ended 31 December 2019. Our interest income from finance lease receivables was RMB5.4 million for the year ended 31 December 2019.

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

	As of 31 December	
	2019	2018
Share capital (RMB in millions)	**680.0**	680.0
Net capital (RMB in millions)(1)	**1,228.9**	1,066.2
Principal amount of outstanding loans (RMB in millions)	**1,108.7**	1,000.3
Lease receivables (RMB in millions)	**39.2**	56.8
Loan and finance lease/Net capital ratio(2)	**0.93 Times**	0.99 Times

Notes:

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

(2) Represents the principal amount of our outstanding loans and the total amount of our lease receivables divided by our net capital.

Our Loan Business

Loan Portfolio

The principal amount of our outstanding loans increased steadily from RMB1,000.3 million as of 31 December 2018 to RMB1,108.7 million as of 31 December 2019, primarily due to the consolidation of JJHX.

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

	As of 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Manufacturing	**358,926**	**32.4**	342,251	34.2
Wholesale and retail	**349,104**	**31.5**	362,785	36.3
Financial	**46,380**	**4.2**	26,910	2.7
Construction	**189,728**	**17.1**	70,073	7.0
Public facilities and commercial service	**131,444**	**11.9**	159,800	16.0
Agriculture	**1,500**	**0.1**	14,070	1.4
Transportation, warehousing and post	**2,050**	**0.2**	3,010	0.3
Mining	**—**	**—**	600	0.1
Others	**29,543**	**2.7**	20,819	2.0
Total	**1,108,675**	**100.0**	1,000,318	100.0

Management Discussion and Analysis (continued)

Revolving Loans and Term Loans

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

	As of 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Principal amount of outstanding loans:				
Revolving loans	**785,082**	**70.8**	622,120	62.2
Term loans	**323,593**	**29.2**	378,198	37.8
Total	**1,108,675**	**100.0**	1,000,318	100.0

Loan Portfolio by Security

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

	As of 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Principal amount of outstanding loans:				
Credit loans	**6,000**	**0.5**	46,431	4.6
Guaranteed loans	**425,777**	**38.4**	421,324	42.1
Collateral-backed loans				
— with guarantee	**452,356**	**40.8**	355,808	35.6
— without guarantee	**224,542**	**20.3**	176,755	17.7
Total	**1,108,675**	**100.0**	1,000,318	100.0

Our credit loans significantly decreased from RMB46.4 million as of 31 December 2018 to RMB6.0 million as of 31 December 2019 mainly because (i) we collected the credit loans granted in 2018; and (ii) no new credit loans were granted in 2019.

Management Discussion and Analysis (continued)

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

	As of 31 December			
	2019		2018	
	% (lowest)	**% (highest)**	% (lowest)	% (highest)
Credit loans	**12.0**	**19.9**	12.0	19.9
Guaranteed loans	**8.4**	**24.0**	8.4	24.0
Collateral-backed loans				
— with guarantee	**12.0**	**24.0**	15.6	24.0
— without guarantee	**13.6**	**24.0**	13.6	23.4

Collateral-backed Loans

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

	As of 31 December	
	2019	2018
	RMB'000	RMB'000
Building ownership rights	**460,807**	301,563
Building and land use rights	**65,800**	16,000
Shares	**144,000**	205,000
Equipment and share pledge	**6,291**	10,000

Maturity Profile of Loan Portfolio

As of 31 December 2019, our maturity profiles within one year and over one year accounted for 72.7% and 20.1% of the total principal amount of outstanding loans, respectively. The following table sets forth the maturity profile of our loans based on the contractual maturity date of the principal amount as of the dates indicated:

	As of 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Principal amount of outstanding loans:				
Past due	**80,156**	**7.2**[(1)]	76,851	7.7[(1)]
Due within three months	**207,318**	**18.8**	313,562	31.3
Due between three months and one year	**597,946**	**53.9**	604,861	60.5
Due over one year	**223,255**	**20.1**	5,044	0.5
Total	**1,108,675**	**100.0**	1,000,318	100.0

Note:

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

Management Discussion and Analysis (continued)

Past Due Loans

The principal amount of our past due loans was RMB76.9 million and RMB80.2 million as of 31 December 2018 and 2019, respectively, accounting for 7.7% and 7.2% of the total principal amount of our outstanding loans as of the same dates.

We had 21 past due loans with an aggregate amount of RMB76.9 million as of 31 December 2018. As of 31 December 2019, RMB14.0 million of the principal amount of these past due loans as of 31 December 2018 had been settled and RMB9.9 million of the principal amount of these past due loans as of 31 December 2018 had been written off. As of 31 December 2019, the remaining portion of principal amount of past due loans as of 31 December 2018 was RMB53.0 million and the allowance for impairment losses for these loans was RMB25.8 million.

As of 31 December 2019, we had 23 past due loans with an aggregate principal amount of RMB80.2 million, and our allowance for impairment losses for these past due loans as of the same date was RMB42.8 million.

The principal amount of our past due loans increased from RMB76.9 million as of 31 December 2018 to RMB80.2 million as of 31 December 2019, mainly due to (i) the addition of 7 past due loans of JJHX with an aggregate amount of RMB22.8 million resulting from the consolidation of JJHX; and (ii) the increase of 5 past due loans of the Company with an aggregate amount of RMB4.4 million, which is partly offset by the collection of 9 past due loans of the Company with an aggregate amount of RMB15.0 million.

Loan Portfolio by Exposure Size

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

	As of 31 December					
	2019			2018		
	Number of borrower(1)	**RMB'000**	**%(2)**	Number of borrower(1)	RMB'000	%(2)
Principal amount of outstanding loans:						
Up to RMB1.0 million	**3,088**	**134,420**	**12.1**	3,558	152,116	15.2
Over RMB1.0 million to RMB3.0 million (inclusive)	**108**	**203,801**	**18.4**	103	196,232	19.6
Over RMB3.0 million to RMB5.0 million (inclusive)	**101**	**476,474**	**43.0**	101	446,145	44.6
Over RMB5.0 million to RMB10.0 million (inclusive)	**21**	**160,980**	**14.5**	8	55,275	5.5
Over RMB10.0 million	**9**	**133,000**	**12.0**	9	150,550	15.1
Total	**3,327**	**1,108,675**	**100.0**	3,779	1,000,318	100.0

Notes:

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

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

Management Discussion and Analysis (continued)

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

	As of 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Normal	**730,870**	**65.9**	896,886	89.7
Special-mention	**304,499**	**27.5**	48,481	4.8
Substandard	**13,333**	**1.2**	41,970	4.2
Doubtful	**46,723**	**4.2**	12,072	1.2
Loss	**13,250**	**1.2**	909	0.1
Total	**1,108,675**	**100.0**	1,000,318	100.0

We assess impairment either collectively or individually as appropriate. We assess our loans for impairment at the end of each relevant period, determine a level of allowance, and recognize any related provisions using the concept of impairment under HKFRS 9. For "normal" and "special-mention" loans, given that they are not impaired, we make collective assessment based primarily on factors including prevailing general market and industry conditions and historical impaired ratio. For "substandard", "doubtful" and "loss" loans, the impairment losses are assessed individually by evaluating the loss that we expect to incur on the balance sheet date.

Our "doubtful" loans increased from RMB12.1 million as of 31 December 2018 to RMB46.7 million as of 31 December 2019 mainly because (i) part of the past due loans of the Company categorized as "substandard" in 2018 with an aggregate amount of RMB30.2 million were downgraded to "doubtful"; and (ii) RMB12.8 million of past due loans of JJHX were categorized as "doubtful".

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

	As of/For the year ended 31 December	
	2019 (RMB'000, except for percentage)	2018 (RMB'000, except for percentage)
Impaired loan ratio[(1)]	**6.5%**	5.4%
Balance of impaired loans receivable	**73,306**	54,951
Balance of gross loans receivable	**1,129,136**	1,023,706
Allowance coverage ratio[(2)]	**89.0%**	64.9%
Allowance for impairment losses[(3)]	**65,262**	35,651
Balance of impaired loans receivable	**73,306**	54,951
Provision for impairment losses ratio[(4)]	**5.8%**	3.5%
Loss ratio[(5)]	**23.0%**	11.7%
Net charge of impairment allowance on loans receivable	**38,042**	18,235
Interest income	**165,400**	155,941

Notes:

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

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

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

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

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

Our impaired loans receivable increased from RMB55.0 million as of 31 December 2018 to RMB73.3 million as of 31 December 2019. Our impaired loan ratio increased from 5.4% as of 31 December 2018 to 6.5% as of 31 December 2019. Such increases were primarily due to the consolidation of JJHX and 3 loans of the Company being recognized as impaired loans during the Reporting Period.

Our Finance Leasing Business

Finance Lease Receivables by Security

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

	As of 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Collateral-backed leases:				
— with guarantee	**21,899**	**55.8**	29,802	52.0
— without guarantee	**17,330**	**44.2**	26,996	48.0
Total	**39,229**	**100.0**	56,798	100.0

Management Discussion and Analysis (continued)

Gross and Net Amounts of Lease Receivables

The following table sets forth the expected gross and net amounts of lease receivables as of the date indicated:

	As of 31 December	
	2019	2018
	RMB'000	RMB'000
Lease receivables	**39,229**	56,798
— Due within one year	**26,466**	25,303
— Due in one year to two years	**11,914**	23,097
— Due in two years to three years	**849**	8,398
Net lease receivables	**35,482**	49,675
— Due within one year	**23,469**	20,714
— Due in one year to two years	**11,194**	20,908
— Due in two years to three years	**819**	8,053

We categorize our lease receivables according to our "Five-Tier Principle". As of 31 December 2019, the past due portion of our lease receivables was categorized as "substandard", and the remaining lease receivables were categorized as "normal".

Both the lease receivables due in one year to two years and due in two years to three years decreased from RMB23.1 million and RMB8.4 million as of 31 December 2018 to RMB11.9 million and RMB0.8 as of 31 December 2019, mainly because the repayments of the previously issued financial leases have been gradually received.

Compliance with Key Regulatory Requirements

The following table summarizes the key statutory capital requirements and lending restrictions applicable to us and our compliance status for the year ended 31 December 2019:

Key requirements	Compliance status
The registered capital of a microfinance company in Fujian Province shall not be lower than RMB100 million.	Our Group complied with such requirement for the year ended 31 December 2019.
The debt to net capital ratio of a microfinance company in Quanzhou City is capped at 100%.	Our Group complied with such requirement for the year ended 31 December 2019.
The interest rates charged by microfinance companies may not exceed the maximum loan interest rate specified by judicial departments, or lower than 0.9 times of the prevailing PBOC benchmark lending rate, pursuant to the *Interim Measures of Fujian Province for the Administration of Microfinance Companies* (福建省小額貸款公司暫行管理辦法). *The Provision on Issues Concerning Applicable Legal Norms for the Court's Trial of Lending Cases* (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) promulgated by the Supreme People's Court (最高人民法院) on 1 September 2015 provide that: (i) the interest on the loans with interest rates up to 24% per annum is valid and enforceable; (ii) as to the loans with interest rates per annum ranging from 24% (exclusive) and 36% (inclusive), if the interest on the loans has already been paid to the lender, and so long as such payment has not damaged the interest of the state, the community and any third parties, the courts will turn down the borrower's request to demand the return of the excess interest payment; and (iii) if the annual interest rate of a private loan is higher than 36%, the excess will not be enforced by the courts.	Our Group complied with such applicable requirement for the year ended 31 December 2019.
A microfinance company shall not grant loans to its own shareholders, directors, senior management and their related parties.	Our Group complied with such requirement for the year ended 31 December 2019.
The outstanding amount of loan made to the same borrower by a microfinance company cannot exceed 5% of the net capital of such microfinance company.	Our Group complied with such requirement for the year ended 31 December 2019.

Management Discussion and Analysis (continued)

Key requirements	Compliance status
Upon the listing of the H Shares on the main board (the "**Main Board**") of the Stock Exchange on the Listing Date, the ratio of the balance of outstanding loans of up to a maximum of RMB5.0 million to a single borrower to the total balance of outstanding loans that is applicable to the Company shall not be lower than 70% (the "**Amended 70% Requirement**").	Our Group complied with the Amended 70% Requirement for the year ended 31 December 2019.
Risk assets of a finance leasing company shall not exceed ten times of its total net assets.	Our Group complied with such requirement for the year ended 31 December 2019.

FINANCIAL OVERVIEW

Interest Income, Net

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

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Interest income on:		
Loans receivable	**165,400**	155,941
Finance lease receivables	**5,414**	848
Interest expense on:		
Bank loans	**(8,892)**	(10,618)
Lease Liabilities	**(161)**	—
Interest income, net	**161,761**	146,171

Interest Income

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

Management Discussion and Analysis (continued)

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

	Year ended 31 December	
	2019	2018
Average balance:		
— outstanding performing loans[1] (RMB'000)	**1,097,755**	952,610
— interest-generating finance lease receivables (RMB'000)	**49,332**	47,632
Average effective interest rate per annum:		
— performing loans[2]	**15.07%**	16.37%
— interest-generating finance lease receivables[3]	**10.97%**	10.69%

Notes:

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

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

(3) Calculated by dividing the annualised interest income derived from our interest-generating finance lease receivables for the period by the average balance of our finance lease receivables not impaired for the relevant period.

Our loan business and finance leasing business are primarily funded by our share capital as well as our bank borrowings. Our interest income increased by 8.9% from RMB156.8 million for the year ended 31 December 2018 to RMB170.8 million for the year ended 31 December 2019. The average balance of our outstanding performing loans increased by 15.2% from RMB952.6 million in 2018 to RMB1,097.8 million in 2019. Such increases were primarily attributable to the consolidation of JJHX. The average balance of our finance lease receivables was RMB49.3 million for the year ended 31 December 2019 mainly because we commenced our finance leasing business since October 2018. For the year ended 31 December 2018 and 2019, our average effective interest rate per annum on our performing loans decreased from 16.37% to 15.07%. Such decrease was primarily due to (i) the increase of the proportion of collateral-backed loans with lower interest rates; and (ii) the charging of lower interest rates to our high-quality customers.

Interest Expense

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

	Year ended 31 December	
	2019	2018
Average balance of bank borrowings[1] (RMB'000)	**150,194**	185,361
Effective interest rate per annum[2]	**5.92%**	5.73%

Notes:

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

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

Management Discussion and Analysis (continued)

Our average balance of bank borrowing slightly decreased from RMB185.4 million as of 31 December 2018, to RMB150.2 million as of 31 December 2019, which was generally in line with our business development.

Net Charge of Impairment Allowance on Loans and Accounts Receivable

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

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

Our net charge of impairment allowance on loans and accounts receivable for the year ended 31 December 2018 and 2019 were RMB18.3 million and RMB37.8 million, respectively. Such increase was primarily because (i) the consolidation of JJHX; and (ii) the increase in the impairment allowance on loans receivable in relation to the existing impaired loans.

Operating and Administrative Expenses

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Tax and surcharges	**1,783**	1,282
Staff costs:		
Salaries, bonuses and allowances	**13,650**	10,250
Other social welfare	**2,342**	1,661
Depreciation and amortization	**4,366**	645
Leasing expenses	**—**	1,571
Auditor's remuneration	**1,367**	1,244
Others	**9,690**	8,508
Total operating and administrative expenses	**33,198**	25,161

Our tax and surcharges primarily comprise city maintenance and construction tax and additional education fees, accounting for 5.1% and 5.4% of our operating and administrative expenses for the years ended 31 December 2018 and 2019, respectively. Staff costs, including salaries, bonuses and allowances paid to employees, other social welfare insurance and benefits, accounted for 47.3% and 48.2% of our operating and administrative expenses for the years ended 31 December 2018 and 2019, respectively.

Our operating and administrative expenses increased from RMB25.2 million for the years ended 31 December 2018 to RMB33.2 million for the year ended 31 December 2019 mainly because (i) JJHX was consolidated into our Group's consolidated financial statements; (ii) the staff costs increased; and (iii) the new intangible assets were amortized since 2019.

Management Discussion and Analysis (continued)

Other Income and Gains, Net

Our net other income and gains consist of gains from financial assets at fair value through profit or loss, government grants, interest from bank deposits, gains/losses on disposal of items of property and equipment and other gains and losses. Our net other income and gains increased from RMB3.1 million for the year ended 31 December 2018 to RMB6.6 million for the year ended 31 December 2019 mainly due to the consolidation of JJHX.

The following table sets forth the details of our net other income and gains for the years indicated:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Gains from financial assets at fair value through profit or loss	**3,505**	921
Government grants	**1,260**	2,000
Interest from bank deposits	**152**	198
Gains/(losses) on disposal of items of property and equipment	**22**	(2)
Others	**1,621**	(3)
Total	**6,560**	3,114

Income Tax Expense

During the years ended 31 December 2018 and 2019, we were subject to the general tax rate of 25% pursuant to the *Enterprise Income Tax Law* (企業所得稅法) which became effective from 1 January 2008, and was amended on 24 February 2017 and 29 December 2018. Our income tax expense for the years ended 31 December 2018 and 2019 was RMB26.3 million and RMB23.6 million, respectively, and our effective tax rate for the same years was 23.0% and 24.1%.

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

Net Profit and Total Comprehensive Income for the Year

As a result of the foregoing, we recorded net profit, defined as net profit and total comprehensive income, of RMB88.0 million and RMB74.5 million for the years ended 31 December 2018 and 2019, respectively.

Liquidity and Capital Resources

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

Our gearing ratio which presented the percentage of our net debt divided by the aggregate of our capital and net debt, decreased from 12.4% as of 31 December 2018 to 3.2% as of 31 December 2019, mainly because of the decrease in bank borrowings.

Management Discussion and Analysis (continued)

Cash Flows

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net cash flows from operating activities	**140,665**	3,258
Net cash flows from investing activities	**19,275**	21,361
Net cash flows (used in)/from financing activities	**(175,652)**	15,537
Net (decrease)/increase in cash and cash equivalents	**(15,712)**	40,156
Cash and cash equivalents at beginning of year	**51,718**	12,291
Effect of foreign exchange rate changes, net	**113**	(729)
Cash and cash equivalents at end of year	**36,119**	51,718

Net cash flows from operating activities

Our business involves a substantial amount of operating cash turnover as well as ongoing funding in the ordinary course of business undertaking, given the capital-intensive nature of short-term microfinance business.

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

Net cash flows from operating activities for the year ended 31 December 2019 was RMB140.7 million. Net cash flows generated from operating activities before working capital adjustment was RMB139.9 million. Cash outflows arising from changes in working capital primarily consisted of: (i) a decrease in loans and accounts receivable of RMB103.2 million as a result of the decline of the Company's loan business; (ii) an increase in financial assets at fair value through profit or loss of RMB38.4 million; (iii) an increase in the purchases of financial assets held under resale agreements of RMB29.9 million; (iv) a decrease in other assets of RMB0.5 million; and (v) a decrease in other payables of RMB3.7 million mainly attributable to the decrease in taxes payable, performance deposit, etc.

Net cash flows from investing activities

For the year ended 31 December 2019, our net cash flows from investing activities was RMB19.3 million, which was mainly due to (i) the dividends received from JJHX of RMB7.2 million in January 2019; and (ii) the net increase in cash of RMB12.5 million as a result of the consolidation of JJHX and Anshenghe.

Management Discussion and Analysis (continued)

Net cash flows used in financing activities

For the year ended 31 December 2019, our net cash flows used in financing activities was RMB175.7 million, which is mainly due to (i) the repayment of bank borrowing of RMB200.0 million; (ii) payments of interest of RMB9.1 million; (iii) payments of the principal of the office building lease of RMB2.2 million; and (iv) payment of dividend of RMB34.0 million. Such cashflows were partly offset by (i) the capital injection by non-controlling Shareholders of RMB20.0 million; and (ii) the proceeds from bank borrowings of RMB70.0 million.

Cash management

We have established certain management measures to manage our liquidity. As our business relies primarily on its available cash, we normally set aside a sufficient amount of cash for general working capital needs, such as administrative expenses and payment of interests on bank borrowings, and use substantially all of the remainder for granting loans to our customers. As of 31 December 2018 and 2019, the total cash and cash equivalents amounted to RMB51.7 million and RMB36.1 million, respectively, which we consider to be adequate based on our actual working capital needs.

Selected Items of the Statements of Financial Position

	As of 31 December	
	2019 **RMB'000**	2018 RMB'000
Assets		
Cash and cash equivalents	**36,119**	51,718
Securities purchased under agreements to re-sell	**29,900**	—
Financial assets at fair value through profit or loss	**118,279**	53,000
Loans and accounts receivable	**1,098,824**	1,036,985
Investment in an associate	**—**	131,533
Property and equipment	**921**	1,549
Right-of-use assets[(1)]	**1,930**	—
Goodwill	**14,729**	2,221
Other Intangible assets	**1,583**	140
Deferred tax assets	**3,182**	2,116
Other assets	**15,321**	13,072
Total assets	**1,320,788**	1,292,334
Liabilities		
Interest-bearing bank borrowings	**70,108**	200,337
Lease liabilities	**1,647**	—
Income tax payable	**7,441**	11,585
Deferred tax liabilities	**116**	—
Other payables	**12,610**	14,185
Total liabilities	**91,922**	226,107
Net assets	**1,228,866**	1,066,227

Note:

(1) The right-of-use assets mainly consist of the leases of properties.

Management Discussion and Analysis (continued)

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of our cash on hand and cash at banks. As of 31 December 2018 and 2019, we had cash and cash equivalents of RMB51.7 million and RMB36.1 million, respectively. Such decrease in our cash and cash equivalents was primarily due to the decrease in our interest-bearing bank borrowings of RMB130.2 million, and an increase in financial assets at fair value through profit or loss of RMB65.3 million.

Loans and Accounts Receivable

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

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

	As of 31 December	
	2019 RMB'000	2018 RMB'000
Net lease receivables:		
— Performing	**35,298**	49,675
— Non-performing	**184**	—
Loans receivable:		
— Performing(1)	**1,055,830**	968,755
— Non-performing(2)	**73,306**	54,951
Total loans and accounts receivable	**1,164,618**	1,073,381
Less: Allowance for impairment losses		
— Individual assessed	**(43,439)**	(18,961)
— Collective assessed	**(22,355)**	(17,435)
Total allowance for impairment losses	**(65,794)**	(36,396)
Net loans and accounts receivable	**1,098,824**	1,036,985

Notes:

(1) Performing loans are collectively assessed for impairment.

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

Our net loans receivable increased from RMB1,037.0 million as of 31 December 2018 to RMB1,098.8 million as of 31 December 2019 due to the consolidation of JJHX.

Management Discussion and Analysis (continued)

As of 31 December 2019, our maturity profiles within one year and over one year accounted for 73.1% and 19.8% of the total loans respectively. The following table sets forth a maturity portfolio of our gross loans receivable as of the dates indicated:

	As of 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Past due	**80,156**	**7.1**	76,851	7.5
Due within three months	**227,779**	**20.1**	336,950	32.9
Due between three months and six months	**311,509**	**27.6**	357,093	34.9
Due between six months and one year	**286,437**	**25.4**	247,768	24.2
Due over one year	**223,255**	**19.8**	5,044	0.5
Total	**1,129,136**	**100.0**	1,023,706	100.0

The majority of our loans during the years ended 31 December 2018 and 2019 were guaranteed loans and collateral-backed loans, which accounted for 41.7% and 53.7% of our loans receivables as of 31 December 2018 and 38.8% and 60.7% of our loans receivables as of 31 December 2019, respectively. The following table sets forth the balance of our gross loans receivable as of the dates indicated:

	As of 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Credit loans	**6,094**	**0.5**	47,141	4.6
Guaranteed loans	**437,676**	**38.8**	427,198	41.7
Collateral-backed loans				
— with guarantee	**461,062**	**40.8**	368,725	36.0
— without guarantee	**224,304**	**19.9**	180,642	17.7
Total	**1,129,136**	**100.0**	1,023,706	100.0

Goodwill

Our goodwill increased from RMB2.2 million as of 31 December 2018 to RMB14.7 million as of 31 December 2019 mainly because we deemed to be interested in Quanzhou Yuanpeng's equity interest in JJHX through the acting in concert agreement with Quanzhou Yuanpeng on 18 April 2019, which resulted in JJHX being accounted for a subsidiary of the Company. For details, please refer to the announcement of discloseable transaction relating to the acting in concert agreement dated 18 April 2019.

Other Intangible Assets

Other intangible assets increased from RMB0.1 million as of 31 December 2018 to RMB1.6 million as of 31 December 2019, mainly due to the purchase of a financial software by the Company, and this software has been put into use in 2019.

Management Discussion and Analysis (continued)

Deferred Tax Assets

The deferred tax assets increased from RMB2.1 million as of 31 December 2018 to RMB3.2 million as of 31 December 2019, mainly due to the consolidation of JJHX.

Other Assets

Our other assets primarily consist of repossessed assets, deferred and prepaid expenses and other receivables.

Our other assets increased from RMB13.1 million as 31 December 2018 to RMB15.3 million as of 31 December 2019 mainly due to the consolidation of JJHX. The following table sets forth a breakdown of our other assets as of the dates indicated:

	As of 31 December	
	2019	2018
	RMB'000	RMB'000
Repossessed assets	**12,856**	8,060
Deferred and prepaid expenses	**773**	3,563
Other receivables	**1,692**	1,449
Total other assets	**15,321**	13,072

Income tax payable

Our income tax payable, which represents our current income tax liabilities, was RMB11.6 million and RMB7.4 million, respectively, as of 31 December 2018 and 2019.

Other payables

Our other payables mainly include payrolls payable, value-added tax and surcharges payable, deposits and others. As of 31 December 2018 and 2019, our other payables were RMB14.2 million and RMB12.6 million, respectively.

Indebtedness

Interest-bearing bank borrowings

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

	As of 31 December	
	2019	2018
	RMB'000	RMB'000
Guaranteed bank loans:		
— repayable within one year	**70,108**	200,337
Total	**70,108**	200,337

Contingent Liabilities

As of 31 December 2019, we had no material contingent liabilities or guarantees.

Asset-backed Securities

On 3 April 2019, a proposed issue of asset-backed securities in the PRC with an aggregate principal amount of not more than RMB500.0 million had been approved by the Board and the Shareholders at the annual general meeting of the Company on 12 June 2019.

On 30 December 2019, the Shenzhen Stock Exchange approved the Company's proposed issue of asset-backed securities in relation to the securitisation of credit assets of the Company, in the aggregate principal amount of not more than RMB300.0 million. The approval is valid for 12 months. As at the date of this annual report, no such asset-backed securities have been issued by the Company.

For more details, please refer to the announcement of the Company dated 3 April 2019, the circular of the Company dated 24 April 2019 and the poll results announcement of the Company dated 12 June 2019.

Capital Expenditures

Our capital expenditures consist primarily of expenditures for (i) fixtures and the purchase of office furniture and equipment; and (ii) intangible assets. The following table sets forth our capital expenditures for the years indicated:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Capital expenditures		
— Micro-credit business	**2,926**	390
— Finance lease	**—**	41
Total	**2,926**	431

Related Party Transactions

None of the related party transactions set out in note 29 to the financial statements of this annual report constitutes connected transactions or continuing connected transactions which are subject to the reporting, annual review, announcement and/or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Commitment and Contractual Obligations

Capital Commitments

We had a capital commitment of approximately RMB556,553 and RMB767,000, contracted but not provided for in the financial statements, in respect of a software as of 31 December 2018 and 31 December 2019.

Management Discussion and Analysis (continued)

Key Financial Ratios

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

	As of/For the year ended 31 December	
	2019	2018
Return on equity[(1)]	**6.0%**	8.4%
Return on assets[(2)]	**5.6%**	6.8%
Gross loans to total assets[(3)]	**88.2%**	83.1%
Gearing ratio[(4)]	**3.2%**	12.4%

Notes:

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

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

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

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

Our return on equity reflecting our financial performance decreased from 8.4% for the year ended 31 December 2018 to 6.0% for the year ended 31 December 2019 primarily due to the slight decrease of the net profit as a result of the increase in provision for loan impairment loss in 2019. Our return on assets reflecting our profitability decreased from 6.8% for the year ended 31 December 2018 to 5.6% for the year ended 31 December 2019 primarily due to the decrease of the average effective interest rate per annum. Our gross loans to total assets remained at a high level with an increase from 83.1% as of 31 December 2018 to 88.2% as of 31 December 2019, which reflects our high capital utilization ratio. Our gearing ratios reflecting our financial leverage decreased from 12.4% as of 31 December 2018 to 3.2% as of 31 December 2019, mainly due to the decrease in the amount of outstanding bank borrowings.

Off-balance Sheet Arrangements

As of 31 December 2019, we did not have any off-balance sheet arrangements.

Foreign Currency Exposure

Our Group did not use any derivative financial instruments to hedge the risk of exchange rate changes since almost all of our revenue was from mainland China for the year ended 31 December 2019.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no material investments or acquisitions by our Group for the year ended 31 December 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

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

Save as disclosed above, our Group had no future plans for material investments or external financing as of 31 December 2019.

CHARGE ON OUR GROUP'S ASSETS

As of 31 December 2019, we did not have any charges on our assets.

EMPLOYMENT AND EMOLUMENTS

As of 31 December 2019, our Group had 85 employees, all of whom were based in Fujian Province. Our employees' remuneration has been paid in accordance with relevant laws and regulations in the PRC. Appropriate salaries and bonuses were paid with reference to the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance.

CONTINUING DISCLOSURE REQUIREMENTS UNDER THE LISTING RULES

As of 31 December 2019, our Group was not involved in any circumstances that would give rise to a disclosure requirement under Rules 13.12 to 13.19 of the Listing Rules.

PROSPECTS

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

During the Reporting Period, we applied to Quanzhou Market Supervision and Administration Bureau (泉州市市場監督管理局) for the change of our business scope to "conducting microfinance business in Quanzhou City" and obtained its approval on 25 June 2019. This allows us to further expand our customer base.

While the expansion of our business scope brought both opportunities and challenges to the Company, the outbreak of novel coronavirus in 2020 has adversely affected China's economy. In order to equip ourselves against risks in our business operation, we have taken certain measures as described below.

Enhancing our employees' service capabilities. Based on our understanding of our employees' projected career path and capability profile, we have streamlined our personnel training system and mentor system, and introduced customized courses developed by external professionals as well as internal sessions on business practices sharing for our employees, with a view to enhancing the quality of our employees and their service capabilities.

Optimizing our asset structure. From a macro-economic perspective, we see both complexity and uncertainty in traditional businesses as well as opportunities in other areas of businesses. As such, we have made certain adjustments to our plan for future asset structure and have started to increase the proportion of our non-credit assets.

Adopting new operation model. On-site operation model does not suit our needs during the period of the novel coronavirus outbreak. As such, we have been actively developing our business on-line with the use of our online information system, which we have been developing all along, in order to build up an online operation model and approval system to gradually replace the traditional operation model.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Zhou Yongwei (周永偉) (formerly known as Mr. Zhou Lianqi (周連期)), aged 57, has been the Chairman and our executive Director since 8 January 2010. He is primarily responsible for corporate strategic planning and overall business development and management of our Group. Mr. Zhou has approximately 32 years of experience in finance and investment industry and has extensive experience in corporate management and business operation. Mr. Zhou joined our Group in 8 January 2010 as a Director. Mr. Zhou worked as a salesperson and deputy branch director in the Jinjing office, Jinjiang branch of the Bank of China from January 1981 to June 1987 and July 1987 to May 1993 respectively. He was responsible for the daily business operation management during the relevant period. He has worked as a director of Fujian Septwolves Industry (formerly known as Fujian Septwolves Clothing Industry Company Limited* (福建七匹狼製衣實業有限公司), a company principally engaged in design, manufacturing and sales of clothing product and clothing raw materials since May 1993, which is listed on the Shenzhen Stock Exchange (stock code: 002029). He was responsible for strategic planning and overall management during the relevant period. Mr. Zhou has been a director and chairman of Fujian Septwolves Group (a company principally engaged in project investment and asset management business) since January 1997 and October 2008 respectively. He was responsible for strategic planning and overall management during the relevant period. He worked as a director of Septwolves Group Holding Co., Ltd.* (七匹狼控股集團股份有限公司) ("**Septwolves Group Holding**") (a company principally engaged in project investment and asset management business) since February 2000 and he is responsible for strategic planning but does not participate in its daily management. In addition, he has also served as a director of various companies invested or controlled by Fujian Septwolves Group, including Fujian Baiying Financing Guarantee Co., Ltd.* (福建百應融資擔保股份有限公司) (formerly known as Jinjiang Financing Guarantee Co., Ltd.* (晉江融資擔保有限責任公司)).

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

Mr. Wu Zhirui (吳智銳), aged 43, has joined our Group and has been our executive Director since 1 January 2011 and 20 November 2012, respectively. Mr. Wu was our non-executive Director between January 2010 and April 2010. He resigned in April 2010 and rejoined our Group on 1 January 2011 as a deputy general manager of the Company, responsible for participating in the day-to-day management of our business operations. He was subsequently promoted to the general manager of the Company on 20 November 2012. He is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations. Currently, Mr. Wu also served as a legal representative of Huixinxing. Mr. Wu has approximately 17 years of experience in enterprise management. Prior to joining our Group, he worked as the branch representative of Zhengzhou branch of Xiahua Monitor System Co., Ltd.* (廈華顯示系統有限公司) (being principally engaged in selling colorful monitors), being a subsidiary of Xiamen Overseas Chinese Electronic Co., Ltd.* (廈門華僑電子股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600870) (being principally engaged in the development, production and manufacturing of the components of electronic devises and hardware fittings) from September 2000 to March 2004. He was responsible for marketing management during the relevant period. From July 2006 to December 2007, Mr. Wu worked as a strategy consultant of Guangzhou Zhenglue Junce Management Consultancy Company Limited* (廣州正略均策管理諮詢有限公司) which was principally engaged in management consultancy. He was responsible for providing strategic and key steps planning during the relevant period. He worked as the general manager of the operation and management department of Septwolves Group Holding (being principally engaged in project investment and asset management business) from December 2007 to December 2010 and was responsible for participating in project investment and branch management and control.

Directors, Supervisors and Senior Management (continued)

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

Mr. Yan Zhijiang (顏志江), aged 38, has been our executive Director, secretary to the Board and deputy general manager/joint company secretary since 11 November 2013, 10 July 2014 and 3 September 2014, respectively. He resigned as a secretary to the Board in March 2017 and was re-appointed as the secretary to the Board since 1 November 2019. He is primarily responsible for formulating and implementing our corporate governance measures and risk management policy, and implementing operation plans and participating in the day-to-day management of our business operations. Mr. Yan has approximately 16 years of experience in legal matter management/risk management. Mr. Yan joined our Group on 11 November 2013 as an executive Director. Prior to joining our Group, he worked as a legal executive of Xiamen Xintaiyang Import and Export Trading Company Limited* (廈門新泰陽進出口貿易有限公司) (a company principally engaged in exporting, importing, processing and trading business) from July 2003 to January 2005 and was responsible for corporate legal matters. From February 2005 to February 2006, he worked as a clerk of Dehua County People's Court* (德化縣人民法院) and was responsible for assisting the judge and records keeping. Mr. Yan worked as a trainee lawyer and lawyer in Xiamen Jianchang Law Office* (廈門建昌律師事務所) from February 2006 to May 2008. From June 2008 to July 2010, Mr. Yan worked as the head of legal department of Septwolves Group Holding and was responsible for corporate legal matters. From August 2010 and March 2014, he worked as the general manager of the risk management department of Septwolves Group Holding. He was responsible for corporate legal matters and risk management matters during the relevant period. Mr. Yan received the Legal Professional Qualification Certificate issued by the Ministry of Justice of the PRC in February 2006, and has been a qualified Secretary to the Board as accredited by the Shanghai Stock Exchange since 9 August 2013.

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

Ms. Liu Aiqin (劉愛琴), aged 43, has been re-designated as our executive Director since 25 August 2017. Ms. Liu was a non-executive Director prior to her re-designation as an executive Director. Ms. Liu currently serves as the head of our financial department and is primarily responsible for the financial management and providing strategy advice to the business and operation of our Group. She has been the senior manager of the budget management department of Septwolves Group Holding from June 2015 to June 2017. She was a financial manager of Xiamen Septwolves Venture Capital Co., Ltd.* (廈門七匹狼創業投資有限公司) from September 2011 to June 2015. Ms. Liu worked as a remuneration and project accountant in Xiamen Broadcast and Television Group* (廈門廣播電視集團) from July 2008 to August 2011. From July 2000 to September 2004, she was employed by Xiamen Jinyang Harness Industry Company Limited* (廈門金洋馬具工業有限公司) and had served as a deputy general manager during the period.

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

Non-executive Directors

Mr. Jiang Haiying (蔣海鷹), aged 44, has been our non-executive Director since 12 June 2015. He is primarily responsible for providing strategic advice to the business and operation of our Group. Mr. Jiang has over 26 years of experience in enterprise management. Mr. Jiang worked as the business manager of Fujian Huian Haoda from 1994 to 1997. Since October 2003, Mr. Jiang has worked as the general manager of Quanzhou Haoxiang.

Directors, Supervisors and Senior Management (continued)

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

Mr. Cai Rongjun (蔡鎔駿), aged 33, has been our non-executive Director since 12 June 2018. He is primarily responsible for providing strategic advice to the business and operation of our Group. From January 2017 to present, Mr. Cai works as general manager of Fujian Panpan Investment LLC* (福建盼盼投資有限公司). From September 2009 to present, Mr. Cai works as general manager of Anhui Junan Real Estate Development LLC* (安徽君安房地產開發有限公司). Mr. Cai worked as general manager of Jinyuan Real Estate Development LLC* (金源房地產發展有限公司) of Longyan City from September 2006 to September 2009.

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

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

Independent non-executive Directors

Mr. Zhang Lihe (張立賀), aged 43, has been our independent non-executive Director since 10 July 2014. He is primarily responsible for providing independent opinion and judgment to our Board, particularly with regard to the financial aspects of our Group. Mr. Zhang joined our Group on 10 July 2014 as a Director. Mr. Zhang worked successively as the project manager, senior manager and partner of Xiamen Tianjian Huatian Accounting Firm* (廈門天健華天會計師事務所), Tianjian Huazheng Zhongzhou (Beijing) Accounting Firm (Xiamen Branch)* (天健華證中洲(北京)會計師事務所(廈門分所)), Tianjian Guanghua Accounting Firm (Xiamen Branch)* (天健光華會計師事務所(廈門分所)) and Tianjian Zhengxin Accounting Firm* (Xiamen Branch)* (天健正信會計師事務所(廈門分所)) respectively from December 1999 to May 2012. Mr. Zhang worked as the partner of Grant Thornton Accounting Firm (Xiamen Branch)* (致同會計師事務所(廈門分所)) from June 2012 to October 2019, and has been working as the partner of Rongcheng Accounting Firm* (容誠會計師事務所) (formerly Huapu Tianjian Accounting Firm* (華普天健會計師事務所)) from November 2019 up to present.

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

Mr. Lin Jianguo (林建國), aged 68, has been our independent non-executive Director since 12 June 2017. He is primarily responsible for providing independent opinion and judgment to our Board. Mr. Lin served in the Chinese People's Liberation Army from January 1969 to December 1987. After his military career, he worked in the Bank of China (中國銀行), successively as the vice president of Shishi Sub-branch, vice president of Jinjiang Sub-branch, president of Jinjiang Sub-branch, president of Shishi Sub-branch, vice president of Zhangzhou Branch, president of Fuqing Sub-branch and the investigator of Quanzhou Branch from February 1988 to October 2011.

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

Directors, Supervisors and Senior Management (continued)

Mr. Sun Leland Li Hsun (孫立勳), aged 58, has been our independent non-executive Director since 12 June 2017. He is primarily responsible for providing independent opinion and judgment to our Board. Mr. Sun has been an independent non-executive director of Chongqing Rural Commercial Bank Co., Ltd. (重慶農村商業銀行) (Stock code: 3618) since 2011. He is also an independent non-executive director and chairman of the audit committee of Mizuho Securities Asia Limited (瑞穗證券亞洲有限公司) and member of remuneration committee since 2014. Mr. Sun founded Pan Asian Mortgage Company Limited* (宏亞按揭證券有限公司), an innovative non-banking financial services company specializing in residential mortgage financing in Hong Kong in 2001. He was appointed as the chief operating officer of the Hong Kong Mortgage Corporation (香港按揭證券有限公司) by the Financial Secretary of Hong Kong SAR Government in 1997. Previously, he was a senior managing director of Bear Stearns Asia Limited (美國貝爾斯登亞洲有限公司), and an executive director of Goldman Sachs (Asia) L.L.C. (高盛(亞洲)有限公司).

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

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

SUPERVISORS

Ms. Hong Lijun (洪麗君), aged 33, has been an employee representative Supervisor and the chairperson of the Supervisory Committee since 10 July 2014 and 15 December 2015, respectively. Ms. Hong joined our Group on 18 July 2011 as a business manager of the Company. She has been promoted as a senior manager of the Company since April 2013. She is primarily responsible for project due diligence and relationship maintaining. Prior to joining our Group, she worked as a client manager of the Quanzhou Tian'an Road sales office of Haitong Securities Co., Ltd.* (海通證券股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600837) and the Stock Exchange (stock code: 6837) which was principally engaged in securities brokerage, operation, underwriting, sponsorship, investment consultancy and financial advisory in securities trading and investment from September 2009 to May 2011. She was responsible for securities brokerage and securities investment consultancy during the relevant period.

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

Mr. Li Jiancheng (李建成), aged 32, has joined our Group as a Shareholder representative Supervisor since 4 February 2016. He resigned as a Shareholder representative Supervisor on 22 August 2017 and rejoined on 12 June 2018. Mr. Li worked as an office secretary of Septwolves Group Holding since April 2012.

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

Directors, Supervisors and Senior Management (continued)

Ms. Ruan Cen (阮岑), aged 39, has been an employee representative Supervisor since 10 July 2014. Ms. Ruan joined our Group in 1 March 2010 as an administration manager of the Company. She is primarily responsible for administrative work and team building. Prior to joining our Group, she worked as a salesperson of Quanzhou Qinggong Gongyi Importing and Exporting (Group) Co., Ltd.* (泉州輕工工藝進出口(集團)公司) (a company principally engaged in operating and agency in exporting and importing products and technology apart from the 16 kinds of export products organized uniformly by the government and 14 kinds of import products approved to be traded by the government) from July 2004 to June 2006 when she was responsible for assisting in the business of the company. She worked as a salesperson of Quanzhou Qingyi Co., Ltd.* (泉州輕藝股份有限公司) (a company principally engaged in operating and acting as agent in exporting and importing products and technology) from July 2006 to February 2010 when she was responsible for assisting in the business of the company.

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

Mr. Chen Jinzhu (陳金助), aged 43, has been an independent Supervisor since 15 December 2015. From October 2000 to April 2002, Mr. Chen worked as a legal executive of Xiamen Xinhua Borui Productivity Development Company Limited* (廈門新華博瑞生產力發展有限公司). He worked as a trainee lawyer and lawyer in Fujian Jianchang Law Office* (福建建昌律師事務所) from May 2002 to October 2011. From November 2011 to January 2017, he worked as a lawyer of the Yingke (Xiamen) Law Firm* (北京盈科(廈門)律師事務所). Since January 2017, he has been a lawyer of Shanghai Co-effort (Xiamen) Law Firm* (上海協力(廈門)律師事務所). Mr. Chen received the Legal Professional Qualification Certificate issued by the Ministry of Justice of the PRC in March 2001.

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

Mr. Wu Lindi (吳麟弟), aged 42, has been an independent Supervisor since 15 December 2015. Mr. Wu worked as a marketing engineer in China Unicom Zhangzhou Branch* (中國聯通漳州分公司) from July 2001 to September 2003. From October 2005 to December 2009, he worked as the project investment director in Xiamen International Trade Corporation* (廈門國貿集團股份有限公司). He was the general manager assistant of Xiamen Chuangyi Venture Investment Company Limited* (廈門創翼創業投資有限公司) from December 2009 to September 2015. Since October 2015, he worked as the senior manager of New Times Securities Co., Ltd* (新時代證券股份有限公司).

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

Directors, Supervisors and Senior Management (continued)

SENIOR MANAGEMENT

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

Mr. Jiang Bin (蔣斌), aged 43, has been our deputy general manager since April 2015. He is primarily responsible for formulating and implementing our corporate governance measures, corporate strategies, and implementing operation plans and participating in the day-to-day management of our business operations. Mr. Jiang has approximately 12 years of experience in enterprise management. Prior to joining our Group, Mr. Jiang worked as vice president and executive director of Fujian Wonders Group LLC* (福建萬道集團有限公司) from July 2013 to April 2015. He participated in incorporation and operation of the company and was mainly responsible for formulating operation strategies, team development, development of financial system, and fund raising of the company. From August 2010 to July 2013, Mr. Jiang worked as president of Donghu sub-branch of Quanzhou Branch of CITIC Bank* (中信銀行(泉州東湖支行)). From January 2010 to July 2010, Mr. Jiang worked as deputy general manager of retail banking department of Quanzhou Branch of CITIC Bank* (中信銀行(泉州分行)). From June 2007 to January 2010, Mr. Jiang worked as deputy president of Donghu sub-branch of Quanzhou Branch of CITIC Bank* (中信銀行(泉州東湖支行)). He was responsible for retail banking business during the relevant period. From March 2004 to June 2007, Mr. Jiang worked as the manager of the wealth management department of Quanzhou Branch of CITIC Bank* (中信銀行(泉州分行)). He was responsible for the development of wealth management and new products, and marketing management during the relevant period. From September 2003 to March 2004, Mr. Jiang worked as a clerk of Quanzhou Branch of CITIC Bank* (中信銀行(泉州分行)). From September 1999 to September 2003, Mr. Jiang worked at credit card department and personal banking business department of Fujian Branch of Construction Bank of China* (中國建設銀行(福建省分行)).

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

Report of the Directors

The Directors are pleased to present the annual report together with the audited financial statements of our Group for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

A review of our Group's business for the year ended 31 December 2019 and a discussion on our Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. Certain financial key performance indicators are provided in the section headed "Financial Summary" of this annual report.

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

SUBSIDIARIES

Details of the subsidiaries of the Company at 31 December 2019 are set out in note 1 to the financial statements of this annual report.

Save as disclosed above, Ms. Hong Lijun (洪麗君) has been the director of Hong Kong Huixinhang Co., Limited, an indirect wholly owned subsidiary of the Company, since the incorporation of this subsidiary in June 2019.

ENVIRONMENT, SOCIAL AND GOVERNANCE

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

KEY RELATIONSHIPS

Our Group endeavors to maintain sustainable development in the long run and to continuously create value for our employees and customers. Our Group understands that employees are our valuable assets and the realization and enhancement of employees' interests will facilitate the achievement of our Group's overall goals. We provide comprehensive benefit package and professional training programs for our employees.

Our Group also understands the importance of maintaining good relationships with our customers. We provide our customers with efficient and diversified financial solutions, including loans and finance leasing services, to meet their needs in this complex economic environment. Our Group also continuously improves the quality of customer service by conducting annual survey on customers and employees to review our working behaviors.

During the year ended 31 December 2019, we considered that we maintained a good relationship with our employees and had no significant and substantial disputes with our customers.

KEY RISK FACTORS

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

Risks relating to our business

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

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

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

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

Risks relating to customers, employees and senior managements

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

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

Our Group's normal course of business is also exposed to a variety of key risks including credit risk, foreign currency risk, interest rate risk, price risk and liquidity risk. Details of the aforesaid risks are set out in note 33 to the financial statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

Interest income from our top five customers combined accounted for less than 30% of our total interest income for the year ended 31 December 2019.

During the year ended 31 December 2019, all of our top five customers were Independent Third Parties and none of our Directors, their close associates or our Shareholders holding more than 5% of our issued share capital, to the knowledge of our Directors, had any interest in any of our top five customers.

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

FINANCIAL SUMMARY

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

FINANCIAL STATEMENTS

The profits of our Group for the year ended 31 December 2019 and the state of our Group's affairs as of the date are set out in the section headed "Financial Statements" of this annual report.

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

RESERVES

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

DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.05 per Share for the year ended 31 December 2019 (the "**Proposed Final Dividend**") to Shareholders whose names appear on the Company's register of members on Friday, 26 June 2020. Subject to the approval of the Shareholders at the Company's forthcoming AGM to be held on Friday, 12 June 2020, the Proposed Final Dividend is expected to be paid on or around Monday, 17 August 2020.

DIVIDEND POLICY

Subject to the applicable laws, rules, regulations and the Articles and Association, the holders of both Domestic Shares and H Shares shall be entitled to the dividend distribution or any other forms of distribution.

The Company may distribute dividend by way of cash or any other form to the Shareholders. Declaration of dividends is subject to the discretion of the Board, depending on the financial results, cash flows, financial conditions, development stages and capital needs in the current period. The proposed distribution plan will be submitted by the Board for the Shareholders' consideration and approval at the general meeting by way of resolution. The distribution of dividend will be completed within 3 months upon the approval at the general meeting by the Shareholders.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholder's entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 13 May 2020 to Friday, 12 June 2020, both days inclusive, during which period no share transfers will be registered. In order to qualify for attending and voting at the AGM, holders of H Shares shall lodge transfer documents accompanied by the relevant share certificates with the Company's H Share Registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, or to the Company's registered office in the PRC at 12/F, Former Finance Building, No. 361 Feng Ze Street, Quanzhou City, Fujian Province, the PRC (for holders of Domestic Shares), for registration, no later than 4:30 p.m. on Tuesday, 12 May 2020.

The payment of the Proposed Final Dividend is subject to the approval of the Shareholders at the AGM. For the purpose of determining the entitlement to the Proposed Final Dividend, the H Share register of members of the Company will be closed from Sunday, 21 June 2020 to Friday, 26 June 2020 (both days inclusive), during which period no transfer of H Shares will be registered. In order to be entitled to the Proposed Final Dividend, unregistered holders of H Shares of the Company should ensure that all Share transfer documents accompanied by the relevant share certificates must be lodged with the Company H Share Registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration, no later than 4:30 p.m. on Friday, 19 June 2020.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank and other borrowings as of 31 December 2019 are set out in note 24 to the financial statements of this annual report.

SHARE CAPITAL

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

USE OF PROCEEDS FROM GLOBAL OFFERING

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

As of 31 December 2019, the net proceeds from global offering, which were applied in the manners as set out in the announcement of change in use of proceeds of the Company dated 29 August 2017, has been used up in the manner as set out below:

Item No.	Purposes	Revised allocation (amounts adjusted on a pro-rata basis)(1)	The remaining balance as of 31 December 2018(1)	Amount utilized during the Reporting Period(1)	The remaining balance as of 31 December 2019
(i)	To enlarge the capital base of our loan business and to develop new products and services in order to satisfy the diverse financing and business needs from entrepreneurial individuals, SMEs and microenterprises	Approximately HK$219.2 million (approximately 75%)	—	—	–
(ii)	For strategic acquisitions and investments in financial services providers	Approximately HK$43.8 million (approximately 15%)	—	—	–
(iii)	To strengthen our sales network and marketing activities, upgrade IT system, develop innovative mobile clients, as well as to enhance our employees' training programs and human resources	Approximately HK$7.3 million (approximately 2.5%)	—	—	–
(iv)	To strengthen our internal control and risk management systems and establish long-term cooperation with third party credit information service providers	Approximately HK$4.4 million (approximately 1.5%)	Approximately HK$0.4 million	Approximately HK$0.4 million	–
(v)	For working capital and general corporate purpose	Approximately HK$17.5 million (approximately 6%)	Approximately HK$0.1 million	Approximately HK$0.1 million	–
	Total	Approximately HK$292.3 million	Approximately HK$0.5 million	Approximately HK$0.5 million	–

Note:

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

Report of the Directors (continued)

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

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

Our Group has not purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

EQUITY-LINKED AGREEMENTS

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

DIRECTORS AND SUPERVISORS

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

Directors

Name	Age	Position	Appointment Date
Mr. Zhou Yongwei (周永偉)	57	Chairman and executive Director	8 January 2010
Mr. Wu Zhirui (吳智鋭)	43	Executive Director	20 November 2012
Mr. Yan Zhijiang (顏志江)	38	Executive Director	11 November 2013
Ms. Liu Aiqin (劉愛琴)	43	Executive Director	25 August 2017
Mr. Jiang Haiying (蔣海鷹)	44	Non-executive Director	12 June 2015
Mr. Cai Rongjun (蔡鎔駿)	33	Non-executive Director	12 June 2018
Mr. Zhang Lihe (張立賀)	43	Independent Non-executive Director	10 July 2014
Mr. Lin Jianguo (林建國)	68	Independent Non-executive Director	12 June 2017
Mr. Sun Leland Li Hsun (孫立勳)	58	Independent Non-executive Director	12 June 2017

Supervisors

Name	Age	Position	Appointment Date
Ms. Hong Lijun (洪麗君)	33	Chairwoman of the Supervisory Committee and employee representative Supervisor	10 July 2014
Ms. Ruan Cen (阮岑)	39	Employee representative Supervisor	10 July 2014
Mr. Chen Jinzhu (陳金助)	43	Independent Supervisor	15 December 2015
Mr. Wu Lindi (吳麟弟)	42	Independent Supervisor	15 December 2015
Mr. Li Jiancheng (李建成)	32	Shareholder representative Supervisor	4 February 2016 (resigned on 22 August 2017 due to the change in the number of supervisors for the Supervisory Committee under the Articles of Association and re-appointed on 12 June 2018)

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

BIOGRAPHIES OF DIRECTORS, SUPERVISIONS AND SENIOR MANAGEMENT

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

INDEMNITY OF DIRECTORS

The Company has maintained appropriate Directors and officers liability insurance and the permitted indemnity provision defined in section 469 of *the Companies Ordinance (Chapter 622, Laws of Hong Kong)* for the benefit of the Directors is currently in force and was in force throughout the year.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

Remuneration paid to one member of the senior management of the Company (not being the four executive Directors) for the year ended 31 December 2019 is less than RMB1,000,000.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of our Group were entered into or in existence during the year ended 31 December 2019.

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

As of 31 December 2019, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

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

Notes:

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

(2) The calculation is based on the percentage of shareholding in Domestic Shares as of 31 December 2019.

(3) The calculation is based on the total number of 680,000,000 Shares in issue which comprised of 180,000,000 H Shares and 500,000,000 Domestic Shares as of 31 December 2019.

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

(5) Quanzhou Haoxiang is directly interested in approximately 10.00% of the issued Domestic Shares of the Company. The disclosed interest represents the interest in the Company held by Quanzhou Haoxiang, which is in turn approximately 61.08% owned by Fujian Haoxiang Gardening (a company owned as to 63.33% by Mr. Jiang Haiying), approximately 34.05% owned by Mr. Jiang Haiying and approximately 4.87% owned by Fujian Huian Haoda. Therefore, Mr. Jiang Haiying is deemed to be interested in Quanzhou Haoxiang's interest in the Company by virtue of the SFO.

Save as disclosed above, as of 31 December 2019, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As of 31 December 2019, the persons or corporations (other than a Director, Supervisor or the chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Shareholders	Nature of interest	Number of Shares[1]	Percentage in the relevant class of share capital[2]	Percentage in the total issued share capital[3]
Fujian Septwolves Group	Beneficial owner	203,932,000 Domestic Shares (L)	40.79%	29.99%
Xiamen Gaoxinhong	Beneficial owner	67,932,000 Domestic Shares (L)	13.59%	9.99%
Xiamen Sifang[4]	Interest in controlled corporation	67,932,000 Domestic Shares (L)	13.59%	9.99%
Ms. Zhou Zehui[4]	Interest in controlled corporation	67,932,000 Domestic Shares (L)	13.59%	9.99%
Quanzhou Yuanpeng	Beneficial owner	57,248,000 Domestic Shares (L)	11.45%	8.42%
Wealth Success[5]	Interest in controlled corporation	57,248,000 Domestic Shares (L)	11.45%	8.42%

Report of the Directors (continued)

Shareholders	Nature of interest	Number of Shares[1]	Percentage in the relevant class of share capital[2]	Percentage in the total issued share capital[3]
Ms. Hong Jingxiao[5]	Interest in controlled corporation	57,248,000 Domestic Shares (L)	11.45%	8.42%
Fujian Panpan	Beneficial owner	54,458,000 Domestic Shares (L)	10.89%	8.01%
Mr. Cai Jinan[6]	Interest in controlled corporation	54,458,000 Domestic Shares (L)	10.89%	8.01%
Quanzhou Haoxiang	Beneficial owner	50,000,000 Domestic Shares (L)	10.00%	7.35%
Fujian Haoxiang Gardening[7]	Interest in controlled corporation	50,000,000 Domestic Shares (L)	10.00%	7.35%
Mr. Cai Jianchu	Beneficial owner	30,954,000 H Shares (L)	17.20%	4.55%
Ms. Hong Erguan	Beneficial owner	29,416,000 H Shares (L)	16.34%	4.33%
Good Rising Investments Limited	Beneficial owner	29,444,361 H Shares (L)	16.36%	4.33%
Pleasant Advent Limited[8]	Interest in controlled corporation	29,444,361 H Shares (L)	16.36%	4.33%
Ms. Wong Sze Ying Chloe[8]	Interest in controlled corporation	29,444,361 H Shares (L)	16.36%	4.33%
Mr. Wu Weiqi[9]	Interest in controlled corporation	20,554,000 H Shares (L)		
	Beneficial owner	8,516,000 H Shares (L)		
		29,070,000 H Shares (L)	16.15%	4.28%
Ms. Cheng Chau Yuet[10]	Beneficial owner	330,000 H Shares (L)		
	Interest of spouse	20,634,000 H Shares (L)		
		20,964,000 H Shares (L)	11.65%	3.08%

Shareholders	Nature of interest	Number of Shares[(1)]	Percentage in the relevant class of share capital[(2)]	Percentage in the total issued share capital[(3)]
Mr. Chong Ming Ting[(11)]	Interest in controlled corporation	20,514,000 H Shares (L)		
	Beneficial owner	120,000 H Shares (L)		
	Interest of spouse	330,000 H Shares (L)		
		20,964,000 H Shares (L)	11.65%	3.08%
Yue Tai Investment Limited	Beneficial owner	20,554,000 H Shares (L)	11.42%	3.02%
Grand Wealth (HK) Investment Limited	Beneficial owner	20,514,000 H Shares (L)	11.40%	3.02%
Mr. Xu Yingyi	Beneficial owner	11,508,000 H Shares (L)	6.39%	1.69%

Notes:

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

(2) The calculation is based on the percentage of shareholding in the Domestic Shares or H Shares (as the case may be) as of 31 December 2019.

(3) The calculation is based on the total number of 680,000,000 Shares in issue which comprised of 180,000,000 H Shares and 500,000,000 Domestic Shares as of 31 December 2019.

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

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

(6) The disclosed interest represents the interest in the Company held by Fujian Panpan, which is in turn approximately 80% owned by Mr. Cai Jinan. Therefore, Mr. Cai Jinan is deemed to be interested in Fujian Panpan's interest in the Company by virtue of the SFO.

(7) The disclosed interest represents the interest in the Company held by Quanzhou Haoxiang, which is in turn approximately 51% owned by Fujian Haoxiang Gardening, approximately 39% owned by Mr. Jiang Haiying and approximately 10% owned by Fujian Huian Haoda. Therefore, Fujian Haoxiang Gardening is deemed to be interested in Quanzhou Haoxiang's interest in the Company by virtue of the SFO.

(8) Good Rising Investments Limited is directly interested in approximately 16.36% of the issued H Shares. The disclosed interest represents the interest in the Company held by Good Rising Investments Limited, which is wholly owned by Pleasant Advent Limited, a company 100% owned by Ms. Wong Sze Ying Chloe. Therefore, each of Pleasant Advent Limited and Ms. Wong Sze Ying Chloe is deemed to be interested in Good Rising Investments Limited's interest in the Company by virtue of the SFO.

(9) Yue Tai Investment Limited is directly interested in approximately 11.42% of the issued H Shares. The disclosed interest represents the interest in the Company held by Yue Tai Investment Limited, a company 100% owned by Mr. Wu Weiqi. Therefore, Mr. Wu Weiqi is deemed to be interested in Yue Tai Investment Limited's interest in the Company by virtue of the SFO.

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

(11) The disclosed interest represents the interest in the Company held by Grand Wealth (HK) Investment Limited, a company 100% owned by Mr. Chong Ming Ting. Therefore, Mr. Chong Ming Ting is deemed to be interested in Grand Wealth (HK) Investment Limited's interest in the Company by virtue of the SFO. In addition, Mr. Chong Ming Ting is deemed to be interested in the 330,000 H Shares held by his spouse Ms. Cheng Chau Yuet by virtue of the SFO.

Save as disclosed above, as of 31 December 2019, the Directors were not aware of any other person or corporation having an interest or short position in Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

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

Save as disclosed in the sub-section headed "Connected Transaction" in this report, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or Supervisor or an entity connected with a Director or Supervisor had a material interest, either directly or indirectly subsisted as of 31 December 2019 or at any time during the year ended 31 December 2019.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the sub-section headed "Connected Transaction" in this report, there had been no contract of significance between the Company and a controlling Shareholder (as defined in the Listing Rules) of the Company during the year ended 31 December 2019.

COMPETING BUSINESS

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

COMPLIANCE WITH NON-COMPETITION UNDERTAKING

Each of our Substantial Shareholders has confirmed to the Company that he/she/it has complied with the non-competition undertakings given by them to the Company during the year ended 31 December 2019. Pursuant to the non-competition agreement, the Substantial Shareholders agreed not to, and to procure their subsidiaries (other than the Company) and their close associates not to compete, either directly or indirectly, with the principal business of the Company and granted to the Company the option for new business opportunities, the option for acquisitions and the pre-emptive rights.

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

The foregoing restrictions do not apply to (1) the Finance Businesses; (2) the purchase by Fujian Septwolves Group, its subsidiaries or close associates for investment purpose of not more than 10.00% equity interest in other listed companies whose business competes or is likely to compete with our principal business; or (3) the holding by Fujian Septwolves Group, its subsidiaries or close associates of not more than 10% equity interest in other companies whose business competes or is likely to compete with our principal business, as a result of a debt restructuring of such companies (collectively referred to as "**Investment Companies**" for scenarios (2) and (3)). For the avoidance of doubt, the exceptions above do not apply to such Investment Companies which Fujian Septwolves Group, its subsidiaries or close associates are able to control their respective board of directors notwithstanding the fact that not more than 10% of the equity interests of such Investment Companies are being held by Fujian Septwolves Group, its subsidiaries or close associates. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-competition undertakings and confirmed that all the undertakings thereunder have been complied with by each of the Substantial Shareholders.

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

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

CONTINUING DISCLOSURE REQUIREMENTS UNDER THE LISTING RULES

As of 31 December 2019, the Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

PENSION SCHEME

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the year ended 31 December 2019, the Company complied with all code provisions (the "**Code Provisions**") as set out in the Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules.

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

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2019, the Company initiated 11 new legal proceedings to recover overdue payments from our customers. We were not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against our Group for the year ended 31 December 2019.

EVENTS AFTER THE REPORTING PERIOD

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

CONNECTED TRANSACTION

On 31 January 2019, after trading hours, Huixinxing, a wholly-owned subsidiary of the Company, entered into a promoters agreement with Quanzhou Baiying Finance Holdings Limited* (泉州市百應金融控股有限公司) ("**Baiying Finance Holdings**"), pursuant to which the parties agreed to establish a joint venture company in the PRC. The joint venture company is principally engaged in non-financing guaranty business.

Pursuant to the promoters agreement, the parties agreed to invest a total of RMB50.0 million in the joint venture company by contributing to its registered capital. Huixinxing agreed to contribute RMB30,000,000, being 60% of the registered capital of the joint venture company, and Baiying Finance Holdings agreed to contribute RMB20,000,000, being 40% of the registered capital of the joint venture company.

On 11 February 2019, the formation of joint venture company, namely Fujian Huixinxing Bidding Guarantee Co., Ltd.* (福建匯鑫行投標擔保有限公司) ("**HXXBG**"), was completed.

As a non-financing guarantee company, HXXBG is able to cooperate with the bank to provide non-financing guarantee service in order to enrich our Group's category of products and promote our business.

Baiying Finance Holdings is a non-wholly owned subsidiary of Fujian Septwolves Group, a Substantial Shareholder of the Company, and hence a connected person of the Company pursuant to the Listing Rules. As such, the formation of HXXBG constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios for the promoters agreement exceeds 0.1% but is less than 5%, this connected transaction is subject to the reporting and announcement requirements but is exempt from the shareholders' approval requirement under Chapter 14A of the Listing Rules. For more details, pease refer to the announcement of the Company dated 31 January 2019.

On 30 December 2019, pursuant to the decision of HXXBG's shareholders, HXXBG terminated its operations and have the business license revoked.

Save as disclosed above, the Company had no connected transactions that are required to be disclosed in compliance with the requirements under Chapter 14A of the Listing Rules.

DONATIONS

No charitable and other donations were made by our Group during the year ended 31 December 2019.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed and discussed with the management and the external auditors, Ernst & Young, the accounting principles and practices adopted by our Group, the auditing, risk management and internal control systems and the audited financial report matters including the review of our Group's annual results for the year ended 31 December 2019.

AUDITOR

The financial statements for the year ended 31 December 2019 have been audited by Ernst & Young, who shall retire and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of Ernst & Young as an auditor of the Company is to be proposed at the AGM.

By order of the Board
Zhou Yongwei
Chairman and executive Director

26 March 2020

Report of the Supervisory Committee

The Supervisory Committee consists of five Supervisors, comprising one representative of Shareholders, namely Mr. Li Jiancheng; two representatives of employees, namely Ms. Hong Lijun (Chairwoman of the Supervisory Committee) and Ms. Ruan Cen; and two independent Supervisors, namely Mr. Chen Jinzhu and Mr. Wu Lindi.

ELECTION AND SERVICE CONTRACTS

Except for the employee representative Supervisors elected by employees, the Supervisors were elected by our Shareholders for a term of three years, which is renewable upon re-election and re-appointment at general meeting. Each of the Supervisors has entered into a service contract with the Company for the year ended 31 December 2019.

MEETING CONDUCTED BY SUPERVISORY COMMITTEE

The Supervisory Committee convened 2 meetings for the year ended 31 December 2019. Such meetings were held in compliance with the requirements of relevant regulations and the Articles of Association.

WORK OF THE SUPERVISORY COMMITTEE

During the year ended 31 December 2019, for our Group's long term interests and Shareholders' interests, the Supervisory Committee acted in strict compliance with the relevant laws, regulations, rules, regulatory documents, the Articles of Association and the Listing Rules and earnestly performed their duties of supervision as to the acts of the Directors and senior management of the Company as follows:

Financial information of our Group

The Supervisory Committee has verified our Group's 2019 financial statements, supervised and inspected our Group's implementation of the relevant financial policies and legislations as well as the details on our Group's assets, financial income and expenditure. It is of the opinion that the financial report for 2019 fairly reflected our Group's financial position and operating results.

Operation and internal control of our Group

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

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

Report of the Supervisory Committee (continued)

Performance and violations of the Directors and other senior management members

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

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

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

Hong Lijun
Chairwoman of the Supervisory Committee

26 March 2020

Corporate Governance Report

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

COMPOSITION OF THE BOARD OF DIRECTORS

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

As of 31 December 2019, the Board comprised four executive Directors, namely Mr. Zhou Yongwei, Mr. Wu Zhirui, Mr. Yan Zhijiang and Ms. Liu Aiqin, two non-executive Directors, namely, Mr. Jiang Haiying and Mr. Cai Rongjun and three independent non-executive Directors, namely, Mr. Zhang Lihe, Mr. Lin Jianguo and Mr. Sun Leland Li Hsun.

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

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

DUTIES OF THE BOARD OF DIRECTORS AND THE SENIOR MANAGEMENT

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

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

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

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

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

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

During the year, the Board held 6 meetings to develop, review and monitor the policies and practices on corporate governance and legal and regulatory compliance of the Company. The senior management supervised the daily operations of the Company, identified and reported the potential risks to the Board.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

The Company's Hong Kong legal advisor provided the training materials on the latest development of the Listing Rules to ensure compliance and enhance Directors' awareness of good corporate governance practices in December 2019.

All Directors have participated in continuous professional development and provided a record of training they received for the year ended 31 December 2019.

A summary of training received by the Directors for the year ended 31 December 2019 is as follows:

Name of Directors	Types of Training
Executive Directors	
Zhou Yongwei	A
Wu Zhirui	A
Yan Zhijiang	A, B
Liu Aiqin	A
Non-executive Directors	
Jiang Haiying	A
Cai Rongjun	A
Independent non-executive Directors	
Zhang Lihe	A
Lin Jianguo	A
Sun Leland Li Hsun	A

Notes:

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

CHAIRMAN AND EXECUTIVE OFFICER

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

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

DIRECTORS' INSURANCE

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

BOARD COMMITTEES

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

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

Audit Committee

The Audit Committee consists of three members, namely Mr. Zhang Lihe (independent non-executive Director), Mr. Lin Jianguo (independent non-executive Director) and Mr. Cai Rongjun (non-executive Director). Mr. Zhang Lihe currently serves as the chairman of the Audit Committee.

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

The Audit Committee held 2 meetings during the year ended 31 December 2019. The Audit Committee has: (i) reviewed the financial statements and results of the Company for the year ended 31 December 2018 and interim financial statements and results of the Company for the six months ended 30 June 2019, including the accounting principles and practices adopted by the Company, report prepared by the external auditor covering major findings in the course of the audit; (ii) reviewed the policies and practices on corporate governance and the effectiveness of the Audit Committee, selection and appointment of the external auditors and the Company's risk management and internal control procedures and systems; and (iii) reviewed the terms of reference of the Audit Committee.

Remuneration Committee

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

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

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

The Remuneration Committee held 1 meeting during the year ended 31 December 2019. The Remuneration Committee has: (i) reviewed the remuneration policy and structure relating to the Directors, Supervisors and senior management of the Company, and (ii) reviewed the terms of reference of the Remuneration Committee and the effectiveness of the Remuneration Committee.

Nomination Committee

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

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

Corporate Governance Report (continued)

The Nomination Committee held 1 meeting during the year ended 31 December 2019. The Nomination Committee has: (i) reviewed the structure, size and composition of the Board and assessed independence of the independent non-executive Directors; (ii) made recommendations to the Board on the re-appointment of the retiring Directors; (iii) reviewed the diversity policy and nomination policy of the Board; and (iv) reviewed the terms of reference of the Nomination Committee and the effectiveness of the Nomination Committee.

CORPORATE GOVERNANCE FUNCTIONS

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

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

ATTENDANCE RECORD OF DIRECTORS AND SUPERVISORS

The attendance record of each of (i) the Directors at the meetings of the Board and the Board Committees; and (ii) the Supervisors at the meeting of the Supervisory Committee held during the year ended 31 December 2019 is set out in the table below. The Directors did not authorise any alternate Director to attend the Board or the Board Committee meetings.

	Attendance/Number of Meetings			
Name of Directors	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
Mr. Zhou Yongwei *(Chairman)*	6/6	1/1	N/A	N/A
Mr. Wu Zhirui	6/6	N/A	1/1	N/A
Mr. Yan Zhijiang	6/6	N/A	N/A	N/A
Ms. Liu Aiqin	6/6	N/A	N/A	N/A
Mr. Jiang Haiying	6/6	N/A	N/A	N/A
Mr. Cai Rongjun	6/6	N/A	N/A	2/2
Mr. Zhang Lihe	6/6	1/1	N/A	2/2
Mr. Lin Jianguo	6/6	N/A	1/1	2/2
Mr. Sun Leland Li Hsun	6/6	1/1	1/1	N/A

	Attendance/Number of Meetings	
Name of Supervisors	**19 March 2019**	**23 August 2019**
Ms. Hong Lijun *(Chairwoman)*	1/1	1/1
Mr. Li Jiancheng	1/1	1/1
Ms. Ruan Cen	1/1	1/1
Mr. Chen Jinzhu	1/1	1/1
Mr. Wu Lindi	1/1	1/1

BOARD PROCEEDINGS

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

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

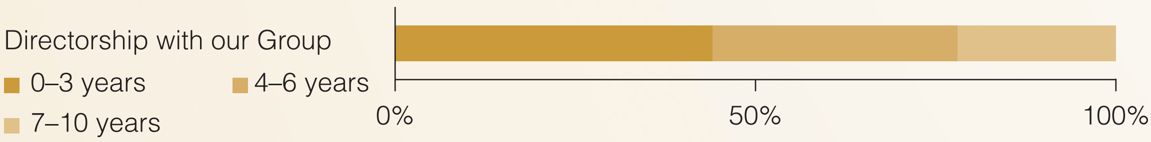
During the year ended 31 December 2019, there were 6 Board meetings held and all Directors attended the meetings that they were required to attend.

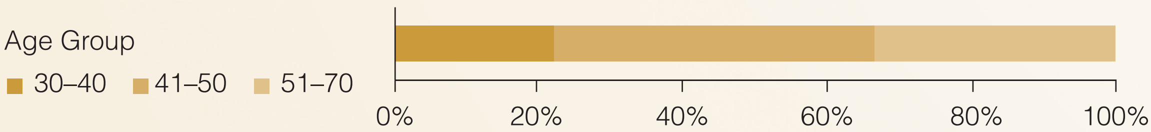
GENERAL MEETINGS

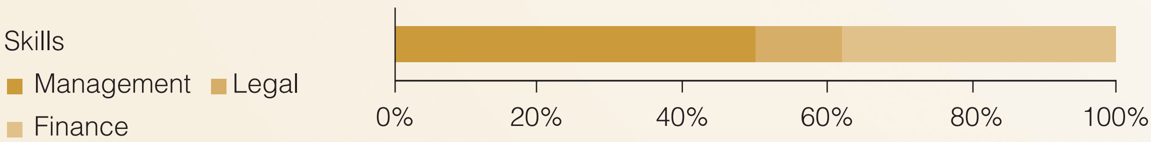
During the year ended 31 December 2019, the Company convened one general meeting which was held on 12 June 2019. All Directors attended this meeting.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "**Board Diversity Policy**") on 6 September 2016 in accordance with the requirement set out in the CG Code. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard to the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, and relationship with other Board members and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates could bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.







SUPERVISORY COMMITTEE

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

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

NOMINATION POLICY

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

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

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company and each service contract is for a term of three years. Directors and Supervisors shall be elected by our Shareholders at the Shareholders' general meeting with a term of three years.

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

UPDATED ON DIRECTORS' AND SUPERVISORS INFORMATION

Save as disclosed above, pursuant to Rule 13.51B(1) of the Listing Rules, there is no change in information of the Directors and Supervisors since the Company's last published interim report up to the date of this annual 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 for carrying out securities transactions of the Company by the Directors and Supervisors. After specific enquiry with all Directors and Supervisors, they have confirmed fully compliance with the relevant standards stipulated in the Model Code during the Reporting Period.

JOINT COMPANY SECRETARIES

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

RESPONSIBILITIES OF FINANCIAL REPORTING

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

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

EXTERNAL AUDITOR

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

Corporate Governance Report (continued)

During the year ended 31 December 2019, our Group paid Ernst & Young and its member firms a total fee of RMB1,450,000 (tax inclusive) for audit services and RMB170,000 (tax inclusive) for non-audit service. Our Group's non-audit service fees mainly comprise of: (i) environmental, social and governance (the "**ESG**") report related service fee of RMB50,000; and (ii) asset securitization business related service fee of RMB120,000.

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

COMMUNICATION WITH SHAREHOLDERS

The Company aims to, via its corporate governance structure, provide all Shareholders an equal opportunity to exercise their rights in an informed manner and allow all Shareholders to engage actively with the Company. The Company convenes the Shareholders' general meetings in compliance with the relevant rules and Shareholders' communication policy which was adopted by the Company on 25 January 2016 and highly values the opinions, suggestions and concerns of the Shareholders. Directors, Supervisors and senior management of the Company will attend the meetings.

SHAREHOLDERS' RIGHTS

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

- ### Participation at general meetings

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

- ### Enquiries and proposals to the Board

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

- ### Convening extraordinary general meetings

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

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

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

CONSTITUTIONAL DOCUMENTS

The Articles of Association were adopted with effect from the Listing Date and were amended on 19 April 2017, 22 August 2017, and 25 June 2019 pursuant to the resolutions of the Shareholders passed at the general meetings, respectively.

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

A proposed amendment of the Articles of Association was approved by the Board on 27 December 2019 and the Shareholders at the extraordinary general meeting and class meetings of the Company on 26 March 2020 and will be available on the websites of the Stock Exchange and the Company after all necessary filing procedures for filing with the relevant authorities in the PRC have been completed. For more details, please refer to the circular dated 9 January 2020 and the announcement of poll results of extraordinary general meeting and class meetings of the Company dated 26 March 2020.

INVESTOR RELATIONS

During the year ended 31 December 2019, the Company has maintained corporate transparency and communications with the Shareholders and the investment community through timely distribution of announcements and/or other publications and well-organized meetings and visits to enhance understanding by investors. The Company's website provides an effective communication platform to keep the market abreast of the latest developments.

RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 2019, the Board complied with the Code Provisions on risk management and internal control as set out in the CG Code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Company. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. In addition to the Board's oversight responsibilities, the Company has developed a risk management process to identify, evaluate and manage significant risks and to resolve material internal control defects (if any). Senior management of the Company is responsible for the annual risk reporting process. Manager of the risk management department meets with members of the senior management to review and assess risks and discuss solutions to address material internal control defects (if any), including any changes relevant to a given year. The risk assessment is reviewed by certain members of the senior management of the Company. Senior management of the Company monitors risks and takes measures to mitigate risks in day-to-day operations and presents the results of risk assessment to the Audit Committee and the Board for their review.

Corporate Governance Report (continued)

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

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

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

During the year ended 31 December 2019, the Company followed the rules and procedures on regulating the disciplines and actions of all employees in external media communications and designated key spokespersons of the Company in all external media communications. The purpose of streamlining the communications of the Company with the media is to regulate all media communication activities, protect the interests of the Company and keep inside information strictly confidential prior to its disclosure. The Board has overseen our Group's risk management and internal control systems on an ongoing basis. The Board has reviewed the risk management and internal control systems of our Group annually. The systems are considered to be effective and adequate in reducing the exposure to the carious quantifiable risks inherent in our operations. For details of the key risks and uncertainties facing the Company, please refer to sub-section headed "Key Risk Factors" set out in the section headed "Report of the Directors" of this annual report. The Company does not have in place an independent internal audit function as the Board is of the view that the appointment is not imminent under current circumstances, taking into account the current structure and scope of the Company's operations.

Environmental, Social and Governance Report

ABOUT THE REPORT

Overview

This report is the fourth ESG report published by the Company, which documents our ESG management approaches and performances.

Reporting period

The data in this report cover the period from 1 January to 31 December 2019, unless otherwise specified.

Reporting cycle

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

Reporting scope

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

Reporting reference

This report was prepared according to the ESG Guide as set out in Appendix 27 of the Listing Rules.

Data explanation

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

Board approval

Upon reviewed by the management, this report was approved by the Board on 26 March 2020.

Environmental, Social and Governance Report (continued)

OVERVIEW OF RESPONSIBILITY

About Huixin

Corporate culture

With the vision of becoming an industry-leading company, we are committed to fulfilling our corporate social responsibility. Driven by our core values, we incorporate responsibility concepts into our business operations to achieve our mission.

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

Honors and awards

1 Our Group was awarded the title of "Key Enterprise in 2019" by the Government of Licheng District of Quanzhou City, Fujian Province

2 Our Group was accredited AA+ by Fujian Branch of Lianhe Credit Information Service Co., Ltd.* (聯合信用管理有限公司福建分公司) relating to our credit during the year of 2018

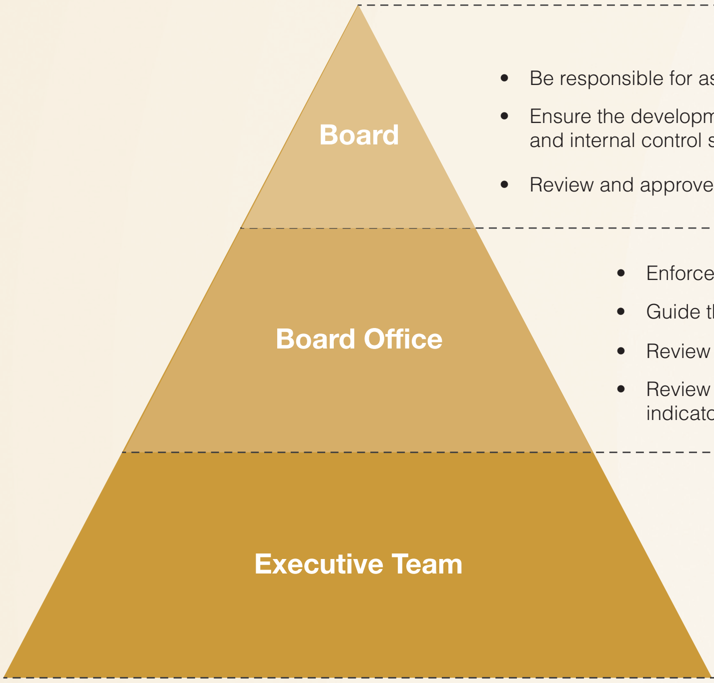
3 Our Group was elected as the first council unit of Quanzhou Licheng Federation of Enterprise and Entrepreneur* (泉州市鯉城區企業與企業家聯合會)

4 Our Group was elected as the executive member of the third council of Quanzhou Licheng Federation of Enterprise and Entrepreneur* (泉州市鯉城區企業與企業家聯合會)

5 Our Group was awarded the title of "Large Taxpayer in 2019" by the Government of Licheng District of Quanzhou City, Fujian Province

ESG management

As a responsible corporate citizen, our Group attaches great importance to ESG management. We incorporate ESG into our business operation and review our ESG governance-related work on an ongoing basis. Through a top-down ESG management system, we effectively implement ESG governance, promoting our Group's sustainable development, as well as realizing and protecting the most important interests of our investors, employees and other stakeholders. Our ESG management system is shown below:



- Be responsible for assessing and determining ESG-related risks
- Ensure the development of a suitable and effective ESG risk management and internal control system
- Review and approve ESG policies and ESG report

- Enforce ESG risk management and internal control measures
- Guide the executive team on ESG projects
- Review and approve ESG policies
- Review ESG report and confirm the accuracy of performance indicator data

- Promote the implementation of various ESG policies among all departments
- Report to the Board office on the implementation of ESG project
- Compile ESG performance indicators' data
- Prepare of ESG report

Environmental, Social and Governance Report (continued)

Stakeholder communication

Our Group attaches great importance to communication with stakeholders. We have established the communication mechanism to respond timely and sincerely to the demands of our stakeholders, which endeavors us to work together for mutual growth and win-win results.

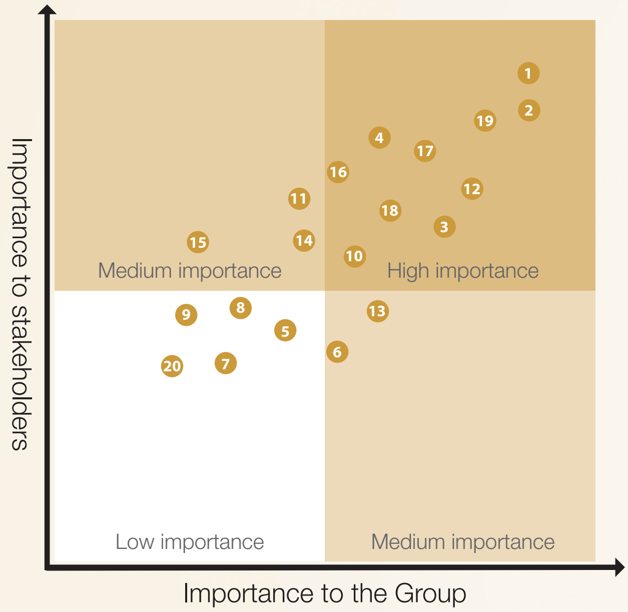
The stakeholders identified by our Group include:

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

Environmental, Social and Governance Report (continued)

Materiality matrix

Through peer benchmarking and interviews, we identified the following 10 highly important ESG issues and 5 moderately important issues, which are stated in this report. The materiality matrix is shown as below:



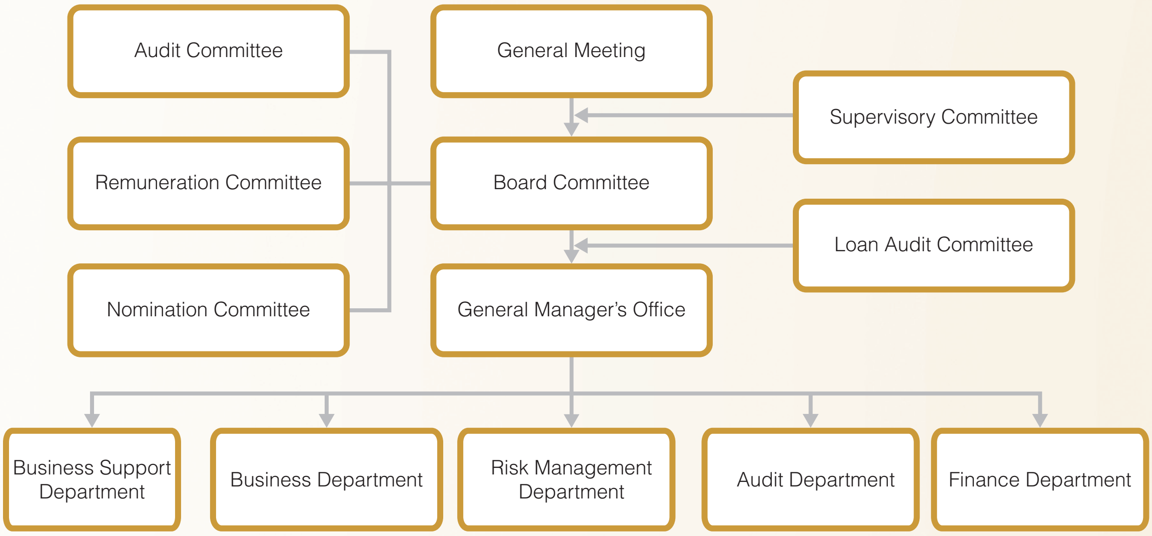
1	Compliance operation	11	Service innovation
2	Risk management	12	Inclusive finance
3	Corporate culture	13	Employee interests
4	Anti-corruption	14	Employee training and development
5	Charity	15	Health and safety
6	Industry participation	16	Promote local economic development
7	Energy saving and emission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

Environmental, Social and Governance Report (continued)

COMPLIANCE OPERATION

Corporate governance

The Company strictly abides by the applicable laws and regulations including the *Company Law of the People's Republic of China* (中華人民共和國公司法) and the Listing Rules. We have been improving our corporate governance and internal control practice based on a well-organized governance structure to ensure our stakeholders' interests. The Company's governance structure is shown as below:

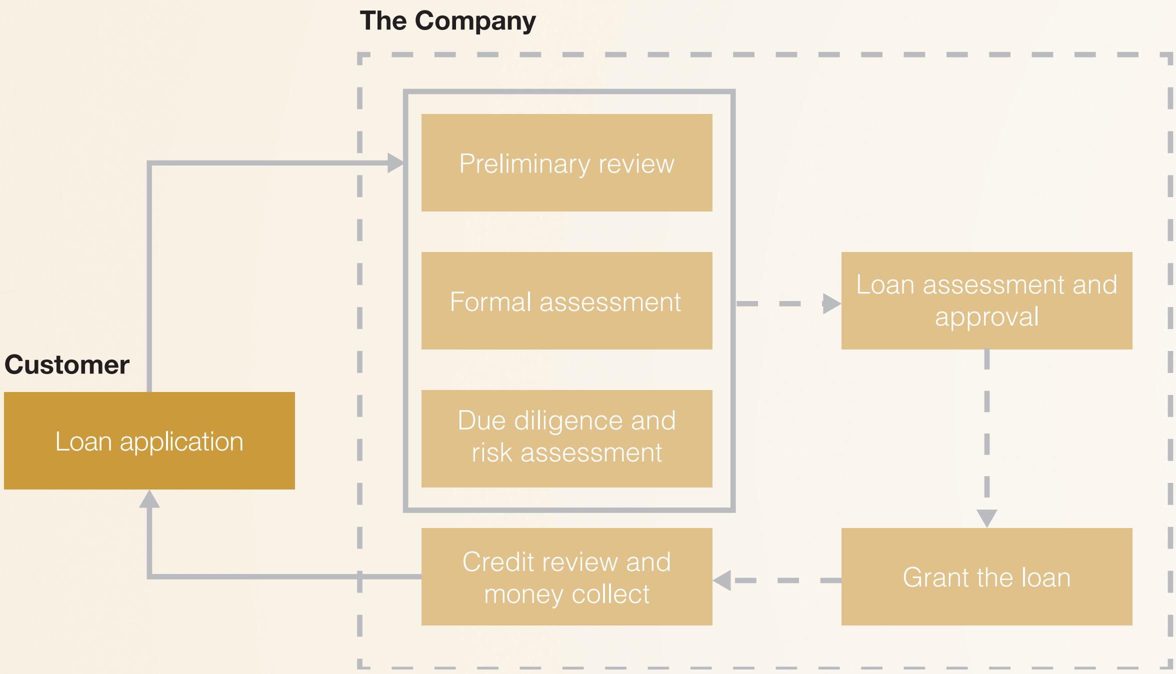


For more detailed information on corporate governance, please refer to the "Corporate Governance Report" of this annual report.

Risk management

— Loan risk management

As a microfinance company, we are deeply convinced that loan risk control is closely linked with our business operation. We have established an ordered internal credit risk control system to effectively identify, manage and minimize the loan risk associated with each loan we grant. We strictly implemented the following risk control procedure for each loan.



During the Reporting Period, we revised our *Business Management System* (業務管理制度) in accordance with the actual situation to further optimized the process of loan assessment and approval. In addition, we promoted mortgage and pledge credit products instead of guaranteed credit products to reduce our loan risk.

Our Group attaches great importance to comprehensive risk management education for our customers to improve their risk awareness and risk prevention capabilities.

– Compliance risk management

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

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

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

Anti-financial crime

Our Group regards compliance with business ethics as the primary condition for long-term business operation and has zero tolerance towards any non-compliant business behavior. Our Group is constantly attaching great importance of establishing an honest and faithful corporate culture and working style. In order to achieve the goal of eradicating financial misdeeds, we have developed a set of internal policies and procedures regarding anti-money laundering, anti-bribery and corruption, based on the requirements of the *Anti-money Laundering Law of the PRC* (中華人民共和國反洗錢法) and the regulations issued by China Banking Regulatory Commission (中國銀行業監督管理委員會). In terms of the behavior regulation of our employees and customers, we require all of them to sign the integrity commitment and the anti-money laundering commitment, respectively, to uplift our management level.

Internal Control

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

External Control

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

— Anti-fraud and anti-corruption

Our Group has set up a robust reporting mechanism with multiple channels against fraud and corruption based on our Anti-fraud and Anti-corruption Reporting Procedures (反舞弊及欺詐行為舉報制度), in order to create an integrity, transparent and fair operating environment. The fraud and corruption behavior is explained to all employees, and all reports are anonymous to protect reporters.

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

During the Reporting Period, our Group organized anti-corruption education to raise the moral consciousness of our employees. At the same time, four of our risk control personnel took part in a themed training course on internal control management held by the Quanzhou Financial Supervision Bureau (泉州市地方金融監督管理局) to enhance anti-corruption skills.

No incident regarding conflict of interest, fraud or bribery happened during the Reporting Period.

— Anti-money laundering

As a financial service provider, our Group actively takes anti-money laundering responsibilities and maintains the healthy and orderly development of the financial environment. In strict accordance with the *Administrative Measures for the Reporting of Large-value and Suspicious Transactions by Financial Institutions* (金融機構大額交易和可疑交易報告管理辦法), we have developed internal control policies including *Measures of Anti-money Laundering Management* (反洗錢工作管理辦法) and anti-money laundering incentive mechanism to prevent money laundering risk.

Our Group keeps enhancing anti-money laundering awareness, knowledge and skills for all our employees by providing high-quality training regarding anti-money laundering. During the Reporting Period, our risk control personnel and business personnel attended a financial risk prevention seminar organized by the Quanzhou Financial Supervision Bureau (泉州市地方金融監督管理局).

CUSTOMERS AND SUPPLIERS

Customer relationship management

Our Group is committed to building strong relationships with customers. Our Group adheres to innovation and service awareness, and constantly explore customer needs. With the premium products and caring services, our business scale has expanded rapidly since our inception in January 2010, and we have built a solid customer base in line with the growth in our business scale. During the Reporting Period, we served 3,527 customers.

In order to protect the rights and interest of our customers, our Group strictly complies with the *Law of the PRC on the Protection of Consumer Rights and Interests* (中華人民共和國消費者權益保護法) and the *Anti-unfair Competition Law of the PRC* (中華人民共和國反不正當競爭法) and other applicable laws and regulations relating to advertising, labeling and the redress method. We value every customer's feedback such as those from the official hotline and respond in a timely manner. Each complaint is required to be answered within 24 hours and resolved as soon as possible. No customer complaint was received during the Reporting Period.

Environmental, Social and Governance Report (continued)

Customer privacy

Due to the business nature, our Group strictly complies with the *Law of the PRC on the Protection of Consumer Rights and Interests* (中華人民共和國消費者權益保護法) and ensures the legitimate rights and interests of our customers, especially on customer privacy.

We are firmly convinced that customer privacy management is fundamental to gaining customer trust. All of our employees are asked to act in accordance with the confidentiality requirements to protect customer information. Any illegally disclosing, spying, and stealing of customer information are strictly prohibited. The following protective measures are adopted.

Strengthen internal management	All customer information is recorded in hard-copy documents. We have set up a separate room for customer information's archives management.
Enhance position management	We limit the access to customer's materials. Retrieving customer information requires a written approval of the general manager or deputy manager.
Enhance monitoring and accountability	We conduct irregular review to maintain the effectiveness of our customer information management.

Service innovation

Our Group strives to solve the financing issues of small and micro enterprises to support their sustainable development. In accordance with the characteristics of the local market economy, we timely launch customer-centric financial innovation products, such as housing loan and automobile finance lease services, to meet the diverse needs of our customers. Meanwhile, we have launched innovative housing loan products, whose convenience can bring our customers a better experience.

Relying on Internet technology, we built an online loan application platform that enables customers to apply for standardized, personal products such as housing loans and automobile finance leases in small value. This platform has helped us approach more potential customers. In addition, in order to further improve our operational efficiency and service quality, we have begun to develop a new business system, which are expected to be officially launched in 2020.

Supply chain management

As a financial service company, supply chain management is not of major concern in our operation. However, we also have established a stringent supplier screening system to ensure that our suppliers incorporate our ESG principles into their business operations and run in a responsible manner. In addition, we have sound management of potential environmental and social risks.

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

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

GREEN OPERATION

Environmental policy

Our Group is fully aware of our environmental responsibility and respects the environment and natural resources during our daily operations. We strictly comply with the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法), the *Energy Conservation Law of the PRC* (中華人民共和國節約能源法) and other relevant laws and regulations. Also, we actively adopt measures and encourage staff to minimize the environmental footprint of our business.

Environmental performance

Our Group promotes green office in daily operation, helping alleviate the burden on the ecological environment. We have implemented a waste classification system in the office, continue to take a series of green office initiatives, and consider other environmentally-friendly measures. These methods have made a contribution to a harmonious natural environment.

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

Environmental, Social and Governance Report (continued)

Summary of environmental KPIs

Resource consumption Category	2018 Total	Per capita	2019 Total	Per capita	Unit
Electricity	79,222	1,002.81	94,376	1,110.31	Kilowatt-hour
Gasoline					
92#	13,628	172.51	7,351	86.48	Liter
95#	14,323	181.30	10,743	126.39	Liter
97#	266	3.37	—	—	Liter
98#	1,381	17.48	279	3.28	Liter
Total	29,598	374.66	18,373	216.15	Liter
Paper	1,312	16.61	1,542	18.14	Kilogram

Emissions Category	2018 Total	Per capita	2019 Total	Per capita	Unit
Greenhouse gas					
Direct greenhouse gas emissions from vehicles[1] (CO_2 equivalent)	80.15	1.01	49.75	0.59	Metric ton
Indirect greenhouse gas emissions of electricity consumption (CO_2 equivalent)	55.73	0.71	66.39	0.78	Metric ton
Total	135.88	1.72	116.14	1.37	Metric ton
Air Emissions					
NOx					
Emissions from electricity consumption	110.91	1.40	132.13	1.55	Kilogram
SO_2					
Emissions from electricity consumption	166.37	2.11	198.19	2.33	Kilogram
Particulate					
Emissions from electricity consumption	15.84	0.20	18.88	0.22	Kilogram

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

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

EMPLOYEE

Employment policy

Our Group believes talents are always the cornerstone of our sustainable growth, as well as our greatest asset. Therefore, we attach great importance to the recruitment of talented individuals and the construction of harmonious teams.

Our Group strictly complies with the relevant regulations, such as the *Labor Law of the PRC* (中華人民共和國勞動法), the *Labor Contract Law of the PRC* (中華人民共和國勞動合同法), the *Law on Safeguarding Women's Interests and Rights of the PRC* (中華人民共和國婦女權益保障法), the *Special Provisions on the Labor Protection of Female Employees* (女職工勞動保護特別規定), etc. Besides, we cling to a fair and equal employment concept, pay full attention to our candidates' business ability, personal qualities, development potential and value congruence, and never discriminate against individuals for any reason, including their country of origin, race, nationality, religion, age, gender, sexual orientation, political affiliation, marital status and other social identities. As of 31 December 2019, the gender ratio of employees was 5.5:4.5 (male: female).

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

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

Environmental, Social and Governance Report (continued)

Employment performance

Remuneration and welfare

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

We have further established a welfare system to reward our employees, which empowered our Group to continuously recruit talents. Our employee welfare includes regular welfare and other welfare.

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

During the Reporting Period, we optimized the annual leave welfare system to provide additional leave according to the employee's onboarding time and length of service. The total annual leave shall not exceed 15 days.

Training and career development

Our Group regards a united and efficient team as one of our core competitiveness, thus we attach great importance to providing multiple and diversified training for the construction of our competitive talent pool.

In addition to improving the regular on-site training, we also take advantage of the Internet age and promote the online learning platform which offers tailored courses for different levels of our employees. Meanwhile, we have refined our online academy project and streamlined the online learning processes to facilitate employee training within their busy schedule.

As of 31 December 2019, the number of training participants totaled 289, covering 96.39% of total employees, the number of training hours totaled 894 hours. Employees' training expense was RMB203,395.

Internal training	**New staff**	• On-boarding training • Internal tutorial system
	Specialized business	**Legal affairs** • Common legal issues in loan business • Contract management **Finance and financial management** • Financial analysis of credit personnel • Risk management • Macroeconomic research **Market analysis** • Automobile circulation market and automobile consumption • Consumer finance • Construction industry • Inclusive finance and microfinance **Project management** • Project due diligence • Project communication • Project risk control **General business skill** • Target customers identification and approaching • Marketing skills • Talent management **Corporate culture cognition**
External training	**Seminar and learning courses**	• Professional capacity building

In terms of external training, our Group supports employees to participate in various skills training courses organized by a financial training service institution to improve their professional standards.

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

Environmental, Social and Governance Report (continued)

Communication and care

Our Group highly cares about employee's physical and mental health through advocating work-life balance. In order to enhance employees' recognition and internalization of our corporate culture, our Group continuously deepens the emotional connection between employees and organizations, employees and employees, etc. We organize various forms of team-building activities and festive events for our employees every year to help employees reduce stress and strike a better work-life balance. During the Reporting Period, our team building expense accumulated to RMB106,891.

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

Health and safety

Our Group convinces that the health and safety of employees are fundamental to a company's ongoing operations. Thus, we provide medical examinations for our employees annually and have purchased personal health and accident insurance for our employees. We are dedicated to establishing and maintaining a safe, healthy and person-oriented office environment.

Additionally, we carry out safety drills regularly every year. In 2019, we conducted a fire drill to popularize employees' safety knowledge and emergency response capabilities in the workplace. During the Reporting Period, there was no work-related death or injury at our workplace.

Our Group follows a working hour system of no more than 8 working hours every day and no more than 40 hours every week. It is in line with the requirements of national and regional governments. Also, exercising after work is highly encouraged in our Group.

Environmental, Social and Governance Report (continued)

Summary of employment KPIs

Employee statistics	Male	Female	Total	Unit	Ratio
Classified by age					
=<30 years old	15	14	29	Person	34.12%
31–40 years old	23	21	44	Person	51.76%
>=41years old	9	3	12	Person	14.12%
Classified by level					
Senior management	6	2	8	Person	9.42%
Intermediate management	9	4	13	Person	15.29%
General staff	32	32	64	Person	75.29%
Classified by education					
Below Bachelor degree	12	10	22	Person	25.88%
Bachelor degree	32	25	57	Person	67.06%
Master degree and higher	3	3	6	Person	7.06%
Total	**47**	**38**	**85**	**Person**	
Gender ratio	**55.29**	**44.71**	**100**	**%**	

Employee statistics	Training ratio	Average training hours
Classified by level		
Senior management	83.33%	4.88
Intermediate management	100%	9.92
General staff	93.75%	10.45
Classified by gender		
Male	95.74%	10.91
Female	92.11%	8.53
Total	**96.39%**	**9.85**

Employee turnover statistics

Employee turnover rate	
Total turnover rate	20%
Classified by gender	
Male	29%
Female	8%
Classified by age	
=<30 years old	25%
31–40 years old	22%
>=41 years old	0%

COMMUNITY PARTICIPATION

Promote industry development

Our Group engages in building a good industry environment, which can also promote the development of our Group. We always foster close relations with local regulatory bodies via hosting and participating in a series of industry conferences.

Meanwhile, we actively advocate for the development of the local financial industry association. As the president unit of Quanzhou Licheng Federation of Enterprise and Entrepreneur, we took part in a study trip to Shenzhen, and discussed problems encountered in the work with local counterparts in order to figure out effective solutions and explore a high-quality development model of the industry.

At the beginning of 2019, we proposed amendments on the *Administrative Measures for Fujian Small Loan Companies (Draft for Solicitation of Comments)* (福建省小額貸款公司管理辦法(徵求意見稿)) based on the opinions of all member units of the association and submitted it to the Municipal Financial Supervision Administration.

Support environment protection

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

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

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

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

During the Reporting Period, we granted a total of RMB41.4 million in loans to support companies in the environmental protection industry.

Support the real economy and local economic development

Our Group believes that facilitating the development of a healthy and sustainable local economy is essential to the fulfillment of our corporate social responsibility. We contributed to local economic construction by continual and increasing support for the real economy, domestic consumption and loans to microenterprises and SMEs. Various loans granted for supporting the real economy amounted to RMB2,567.0 million during the Reporting Period.

In addition, as a responsible taxpayer, we have always adhered to the philosophy of paying taxes honestly according to the law since the establishment. We won the “Large Taxpayer” title awarded by the Government of Licheng District of Quanzhou City, Fujian Province, in 2019. During the Reporting Period, the Company's total tax amounted to RMB37.7 million.

Inclusive finance

Our Group has been committed to combining our own business with the fulfillment of corporate social responsibilities. Through supporting the development of inclusive finance, we help the public to start businesses, which contributes to social equity and harmony. We have established a diversified financial service system, which comprises revolving credit facility, joint-guarantee loan, targeted payment loan, bridge loans and collateralized quick-access loans, to offer various practical and flexible short-term financing solutions for entrepreneurs, microenterprises and SMEs.

We aim to gradually expand our financial product portfolio to speed up customers' engagement and address their ongoing liquidity needs. While committed to becoming an industry leader, we would devote to creating value in return to society.

ESG KPIS INDEX

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

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

LIST OF MAIN LAWS AND REGULATIONS

Category	Main laws and regulations complied with
Corporate governance	Company Law of the PRC (中華人民共和國公司法)
	Anti-Money Laundering Law of the PRC (中華人民共和國反洗錢法)
	Listing Rules (上市規則)
	Guiding Opinions on the Pilot Operation of Microfinance Companies promulgated by the People's Bank of China (中國人民銀行關於小額貸款公司試點的指導意見)
	Administrative Measures for the Reporting of Large-Value and Suspicious Transactions by Financial Institutions (金融機構大額交易和可疑交易報告管理辦法)
	Interim Measures of Fujian Province for the Administration of Microfinance Companies (福建省小額貸款公司暫行管理辦法)
	Pilot Measures of Cross-County Operation of Microfinance in Quanzhou (泉州市小額貸款公司跨縣域經營試點實施方案)
	Opinions on Promoting the Sound and Sustainable Development of Micro-credit Companies, Pawnshop Companies and Financing Guarantee Companies promulgated by the government of Quanzhou City (泉州市人民政府關於促進小額貸款公司、典當行和融資擔保公司健康持續發展的若干意見)
Customer and supplier	Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法)
	Law of PRC on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法)
Green operation	Environmental Protection Law of the PRC (中華人民共和國環境保護法)
	Energy Conservation Law of the PRC (中華人民共和國節約能源法)
	Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法)
Employee	Labor Law of the PRC (中華人民共和國勞動法)
	Labor Contract Law of the PRC (中華人民共和國勞動合同法)
	Law on Safeguarding Women's Interests and Rights of the PRC (中華人民共和國婦女權益保障法)
	Special Provisions on the Labor Protection of Female Employees (女職工勞動保護特別規定)
	Protection of Minors Law of the PRC (中華人民共和國未成年人保護法)
	Provisions on the Prohibition of Using Child Labor (禁止使用童工規定)

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Quanzhou Huixin Micro-credit Co., Ltd. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 88 to 160, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditor's Report (continued)

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

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans and accounts receivable	
HKFRS 9 *Financial Instruments* (hereinafter referred to as "**HKFRS 9**") requires that the impairment measurement for financial assets using the "expected credit loss model". The measurement of expected credit losses ("**ECLs**") requires the application of significant judgment and increases complexity which include the identification of exposures with a significant deterioration in credit quality, and the use of assumptions in the ECL model (for exposures assessed individually or collectively), such as the expected future cash flows and forward-looking macroeconomic factors. As at 31 December 2019, the Group's loans and accounts receivable consisted of loans receivable and lease receivables, and accounted for 83% of the total assets of the Group. The determination of allowance for impairment of loans and accounts receivable is a key area of judgement. The disclosures relating to the loans and accounts receivable and allowance for impairment of loans and receivables are included in note 7 and note 17 to the consolidated financial statements.	We obtained an understanding of the controls over the approval, recording and monitoring of loans and accounts receivable and assessed such controls. We also assessed the effectiveness of key controls over the application of the impairment methodology, the governance for the ECL model, and inputs and assumptions used by the Group in calculating the ECLs. For the collectively assessed ECLs, we evaluated and tested the Group's ECL models, including the model input, model design, and model performance for significant portfolios. We evaluated the Group's criteria for assessing whether there has been a significant increase in credit risk so that allowances for loans and accounts receivable should be measured on a lifetime ECL basis. We also assessed whether historical experience is representative of current circumstances and of the recent losses incurred in the portfolios and assessed the forward-looking information used to determine expected credit losses. For the allowance for impaired loans and receivables determined on an individual basis, we assessed the indicators and assumptions for impairment, the quantification of allowance for impairment including the forecasts of future cash flows, the valuation of underlying collateral and estimates of recoverable amounts. We also assessed the adequacy of the disclosures relating to loans and accounts receivable and allowance for impairment of loans and accounts receivable, which are included in note 7 and note 17 to the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

Independent Auditor's Report (continued)

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ng Chi Keung.

Ernst & Young
Certified Public Accountants

Hong Kong
26 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019
(Amounts expressed in RMB unless otherwise stated)

	Notes	2019	2018
Interest income	6	**170,813,797**	156,789,014
Interest expense	6	**(9,052,708)**	(10,618,071)
Interest income, net		**161,761,089**	146,170,943
Impairment losses on loans and accounts receivable, net	7	**(37,828,797)**	(18,296,302)
Operating and administrative expenses		**(33,197,519)**	(25,161,028)
Foreign exchange gain/(loss), net		**113,382**	(728,902)
Other income and gains, net	8	**6,560,055**	3,114,867
Other expenses		**(2,231,399)**	—
Share of profit of an associate		**2,974,056**	9,140,326
PROFIT BEFORE TAX	9	**98,150,867**	114,239,904
Income tax expense	12	**(23,618,773)**	(26,256,421)
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**74,532,094**	87,983,483
Attributable to:			
Owners of the parent		**64,421,947**	87,989,848
Non-controlling interests		**10,110,147**	(6,365)
		74,532,094	87,983,483
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		**0.09**	0.13
Diluted		**0.09**	0.13

Consolidated Statement of Financial Position

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	15	**36,118,840**	51,717,811
Securities purchased under agreements to re-sell		**29,900,000**	—
Financial assets at fair value through profit or loss	16	**118,278,528**	53,000,000
Loans and accounts receivable	17	**1,098,824,186**	1,036,985,098
Property and equipment	18	**920,820**	1,548,850
Right-of-use assets	19	**1,930,175**	—
Goodwill	20	**14,729,281**	2,221,017
Other intangible assets	21	**1,583,360**	140,000
Investment in an associate		**—**	131,533,077
Deferred tax assets	22	**3,182,693**	2,116,411
Other assets	23	**15,320,526**	13,071,518
TOTAL ASSETS		**1,320,788,409**	1,292,333,782
LIABILITIES			
Interest-bearing bank borrowings	24	**70,108,074**	200,336,825
Lease liabilities	19	**1,647,345**	—
Income tax payable		**7,440,617**	11,585,025
Deferred tax liabilities	22	**116,477**	—
Other payables	25	**12,610,106**	14,185,151
TOTAL LIABILITIES		**91,922,619**	226,107,001
NET ASSETS		**1,228,865,790**	1,066,226,781
EQUITY			
Share capital	26	**680,000,000**	680,000,000
Reserves	27	**143,154,528**	136,970,598
Retained profits		**257,244,237**	233,006,220
Equity attributable to owners of the parent		**1,080,398,765**	1,049,976,818
Non-controlling interests		**148,467,025**	16,249,963
TOTAL EQUITY		**1,228,865,790**	1,066,226,781

Consolidated Statement of Changes in Equity

Year ended 31 December 2019
(Amounts expressed in RMB unless otherwise stated)

	Attributable to owners of the parent							
		Reserves						
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 1 January 2018	680,000,000	69,383,972	43,498,553	14,107,308	188,997,137	995,986,970	–	995,986,970
Net profit and total comprehensive income for the year	–	–	–	–	87,989,848	87,989,848	(6,365)	87,983,483
Appropriation to surplus reserve	–	–	8,732,479	–	(8,732,479)	–	–	–
Appropriation to general reserve	–	–	–	1,248,286	(1,248,286)	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	16,256,328	16,256,328
Distribution to shareholders (Note 13)	–	–	–	–	(34,000,000)	(34,000,000)	–	(34,000,000)
Balance as at 31 December 2018	680,000,000	69,383,972	52,231,032	15,355,594	233,006,220	1,049,976,818	16,249,963	1,066,226,781
Balance as at 1 January 2019	**680,000,000**	**69,383,972**	**52,231,032**	**15,355,594**	**233,006,220**	**1,049,976,818**	**16,249,963**	**1,066,226,781**
Net profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**64,421,947**	**64,421,947**	**10,110,147**	**74,532,094**
Appropriation to surplus reserve	**–**	**–**	**5,263,257**	**–**	**(5,263,257)**	**–**	**–**	**–**
Appropriation to general reserve	**–**	**–**	**–**	**920,673**	**(920,673)**	**–**	**–**	**–**
Acquisition of subsidiaries (Note 4)	**–**	**–**	**–**	**–**	**–**	**–**	**122,465,293**	**122,465,293**
Capital injection by a non-controlling shareholder	**–**	**–**	**–**	**–**	**–**	**–**	**20,000,000**	**20,000,000**
Capital return to a non-controlling shareholder	**–**	**–**	**–**	**–**	**–**	**–**	**(20,000,000)**	**(20,000,000)**
Distribution to shareholders (Note 13)	**–**	**–**	**–**	**–**	**(34,000,000)**	**(34,000,000)**	**(358,378)**	**(34,358,378)**
Balance as at 31 December 2019	**680,000,000**	**69,383,972**	**57,494,289**	**16,276,267**	**257,244,237**	**1,080,398,765**	**148,467,025**	**1,228,865,790**

Consolidated Statement of Cash Flows

Year ended 31 December 2019
(Amounts expressed in RMB unless otherwise stated)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**98,150,867**	114,239,904
Adjustments for:			
Share of profit of an associate		**(2,974,056)**	(9,140,326)
Depreciation of property and equipment		**790,537**	621,183
Depreciation of repossessed assets		**296,791**	—
Depreciation of right-of-use assets		**1,826,685**	—
Amortisation of other intangible assets		**1,451,662**	23,333
Impairment of loans and accounts receivable	7	**37,828,797**	18,296,302
Impairment of goodwill		**2,221,017**	—
Accreted interest on impaired loans		**(8,626,419)**	(3,226,428)
Foreign exchange (gain)/loss, net		**(113,382)**	728,902
(Losses)/gains on disposals of items of property and equipment		**(21,559)**	1,896
Interest expense	6	**9,052,708**	10,618,071
Increase in financial assets at fair value through profit or loss		**(38,446,416)**	(19,670,000)
Increase in securities purchased under agreements to re-sell		**(29,900,000)**	—
Decrease/(increase) in loans and accounts receivable		**103,204,559**	(81,877,675)
Decrease/(increase) in other assets		**512,621**	(9,352,321)
(Decrease)/increase in other payables		**(3,671,666)**	8,922,368
Net cash flows from operating activities before tax		**171,582,746**	30,185,209
Income tax paid		**(30,917,650)**	(26,926,743)
Net cash flows from operating activities		**140,665,096**	3,258,466
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(443,610)**	(431,221)
Prepayment for items of property and equipment		**29,648**	—
Acquisition of subsidiaries	4	**12,503,825**	(33,293,218)
Dividends received from an associate		**7,185,000**	7,185,000
Return of an investment in an associate		**—**	47,900,000
Net cash flows from investing activities		**19,274,863**	21,360,561
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by a non-controlling shareholder		**20,000,000**	—
New bank borrowings		**70,000,000**	200,000,000
Repayment of bank borrowings		**(200,000,000)**	(140,000,000)
Interest paid		**(9,120,483)**	(10,463,463)
Principal portion of lease payments		**(2,173,451)**	—
Dividends paid	13	**(34,000,000)**	(34,000,000)
Capital return and distribution to a non-controlling shareholder		**(20,358,378)**	—
Net cash flows (used in)/from financing activities	28	**(175,652,312)**	15,536,537
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(15,712,353)**	40,155,564
Cash and cash equivalents at beginning of year		**51,717,811**	12,291,149
Effect of foreign exchange rate changes, net		**113,382**	(728,902)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**36,118,840**	51,717,811

Notes to Financial Statements

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

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

Name	Place of incorporation and kind of legal entity	Registered capital	Paid-up capital	Percentage of ownership interest held by the Company Direct	Indirect	Principal activities and place of operation
Quanzhou Huixinxing Investment Co., Ltd.	Quanzhou, China Corporation	Renminbi ("**RMB**") 50,000,000	RMB50,000,000	100%	–	Investment advisory service, Quanzhou
Quanzhou Lianche Finance Leasing Co., Ltd.	Quanzhou, China Corporation	US dollars ("**USD**") 10,000,000	USD10,000,000	–	75%	Finance leasing, Quanzhou
Jinjiang Huixin Microfinance Co., Ltd. ("**JJHX**")*	Jinjiang, China Corporation	RMB200,000,000	RMB200,000,000	47.9%	–	Provision of micro-credit, Jinjiang
Fujian Huixinxing Bidding Guarantee Co., Ltd. ("**HXXBG**")**	Fuzhou, China Corporation	RMB50,000,000	RMB50,000,000	–	60%	Non-financing guarantee business, Fuzhou
Jinjiang Qiding Building Materials Co., Ltd.	Jinjiang, China Corporation	RMB5,000,000	RMB500,000	–	100%	Wholesale of building materials, Jinjiang
Jinjiang Houdexin Information Service Co., Ltd.	Jinjiang, China Corporation	RMB5,000,000	RMB500,000	–	100%	Information technology advisory service, Jinjiang
Hong Kong Huixinhang Co., Limited	Hong Kong, China Corporation	Hong Kong dollars ("**HKD**") 10,000,000	–	–	100%	Investment advisory service, Hong Kong
Fujian Huichangfu Real Estate Agency Co., Ltd.	Jinjiang, China Corporation	RMB10,000,000	RMB500,000	–	100%	Estate brokerage services, Jinjiang
Xiamen Anshenghe Trading Co., Ltd. ("**Anshenghe**")***	Xiamen, China Corporation	RMB5,078,000	RMB5,078,000	–	100%	Wholesale, Xiamen
Jinjiang Qinyuan Investment Consulting Co., Ltd.	Jinjiang, China Corporation	RMB5,000,000	RMB500,000	–	100%	Investment advisory service, Jinjiang

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

* JJHX is accounted for as a subsidiary of the Group even though the Group has only a 47.9% equity interest in this company based on the factors explained in note 4 to the financial statements.

** Pursuant to the shareholders' decision, HXXBG terminated its operations and have the business license revoked on 30 December 2019.

*** In May 2019, JJHX obtained a 100% interest in Anshenghe, details of which are set out in note 4 to the financial statements.

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

(Amounts expressed in RMB unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

3.1 Changes in Accounting Policies and Disclosures

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

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

3.1 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (the "**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

(Amounts expressed in RMB unless otherwise stated)

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

3.1 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease;
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on the assessment of whether leases were onerous by applying HKAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review; and
- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease)
Assets	
Increase in right-of-use assets	3,269,227
Decrease in other assets	(38,971)
Increase in total assets	3,230,256
Liabilities	
Increase in lease liabilities	3,287,322
Decrease in other payables	(57,066)
Increase in total liabilities	3,230,256

(Amounts expressed in RMB unless otherwise stated)

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

3.1 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

Financial impact at 1 January 2019 (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

Operating lease commitments as at 31 December 2018	2,395,367
Add: Payments for optional extension periods not recognised as at 31 December 2018	1,274,967
	3,670,334
Weighted average incremental borrowing rate as at 1 January 2019	6.00%
Lease liabilities as at 1 January 2019	3,287,322

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions. Based on the Group's tax compliance and transfer pricing study, our Group concluded that the interpretation did not have any significant impact on the financial position or performance of the Group.

(Amounts expressed in RMB unless otherwise stated)

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

3.2 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1and HKAS 8	*Definition of Material*[1]

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

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

3.3 Summary of Significant Accounting Policies

Investment in an associate

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

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

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill

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

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

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

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

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

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

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

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Fair value measurement

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets (Continued)

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Property and equipment and depreciation

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

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

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

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

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

3.3 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill)

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

The estimated useful lives of intangible assets are as follows:

Category	Estimated useful life
Software	1 to 3 years

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

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

3.3 Summary of Significant Accounting Policies (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(b) *Lease liabilities (Continued)*

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Leases (applicable before 1 January 2019)

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

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

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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

3.3 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets

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

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

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

General approach

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

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

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

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

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

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

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

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Parameters of ECL measurement

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

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the internal rating grade, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time PD under the current macroeconomic environment.

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collateral, the LGD varies.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Subsequent measurement (Continued)

Financial liabilities at amortised cost (loans and borrowings) (Continued)

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

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

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

Securities purchased under agreements to re-sell

The Group enters into purchases of securities under agreements to re-sell substantially identical securities. The amounts advanced under these agreements are classified as financial assets measured at amortised cost, and reflected as assets in the statement of financial position. The Group does not take physical possession of securities purchased under agreements to resell. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities.

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

3.3 Summary of Significant Accounting Policies (Continued)

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

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

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

Government grants

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

Revenue recognition

Interest income

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

Dividend income

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Employee benefits

Employee retirement scheme

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

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

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

3.3 Summary of Significant Accounting Policies (Continued)

Repossessed assets

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

3.4 Significant Accounting Judgements and Estimates

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on loans and accounts receivables

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

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

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

3.4 Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on loans and accounts receivables (Continued)

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

Deferred tax assets and liabilities and current income tax charge

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

Impairment of goodwill

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

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

(Amounts expressed in RMB unless otherwise stated)

4. BUSINESS COMBINATIONS

In April 2019, the Company and Quanzhou Yuanpeng Clothing and Textile Co., Ltd ("**Quanzhou Yuanpeng**"), which hold 47.9% and 9.6% equity interests in JJHX, respectively, entered into an agreement whereby the two parties agreed to act in concert in the exercise of the voting and other rights in relation to their shareholdings in JJHX. As a result of the above arrangement, the Company considered it has control over JJHX. Accordingly, the Company ceased to account for the investment in JJHX as an investment in an associate and the results of JJHX are consolidated in the Group's consolidated financial statements.

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

	Fair value recognised on acquisition
Cash and bank balances	13,581,344
Financial assets at fair value through profit or loss	7,340,000
Loans and accounts receivable	215,709,407
Other assets	3,958,341
Other liabilities	(5,530,947)
Total identifiable net assets at fair value	235,058,145
Non-controlling interests	(122,465,293)
Goodwill on acquisition	14,729,281
Fair value of the equity interest held by the Company	127,322,133

Management assessed the fair value of the investment in JJHX as of the acquisition date and considered the fair value approximates its carrying amount and therefore no revaluation gains or losses were recognised from this transaction.

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

Cash consideration	—
Cash and bank balances acquired	13,581,344
Net inflow of cash and cash equivalents included in cash flows from investing activities	13,581,344

Since the acquisition, JJHX contributed RMB28,210,144 to the Group's interest income and a net profit of RMB17,399,532 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the interest income of the Group and the net profit of the Group for the year would have been RMB182,386,955 and RMB80,740,979 respectively.

(Amounts expressed in RMB unless otherwise stated)

4. BUSINESS COMBINATIONS (CONTINUED)

In May 2019, JJHX repossessed a 100% interest in Anshenghe as a settlement for its non-performing loans. In addition, JJHX paid the original shareholder of Anshenghe a cash consideration of RMB1,078,000. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of the acquired subsidiary since its acquisition date.

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

	Fair value recognised on acquisition
Cash and bank balances	481
Financial assets at fair value through profit or loss	6,764,811
Other payables	(61,590)
Total identifiable net assets at fair value	6,703,702
Non-controlling interests	—
Goodwill on acquisition	—
Consideration:	
Cash	1,078,000
Fair value of the loan settled	5,625,702
Purchase consideration transferred	6,703,702

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

Cash consideration	(1,078,000)
Cash and bank balances acquired	481
Net outflow of cash and cash equivalents included in cash flows from investing activities	(1,077,519)

Notes to Financial Statements (continued)

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

5. SEGMENT REPORTING

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

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

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

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

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

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

Year ended 31 December 2019	**Micro-credit business**	**Finance lease business**	**Total**
Segment revenue			
Interest income	165,400,056	5,413,741	170,813,797
Interest expense	(9,033,589)	(19,119)	(9,052,708)
Interest income, net	156,366,467	5,394,622	161,761,089
Segment results	71,785,647	2,746,447	74,532,094
Segment assets	1,251,130,925	69,657,484	1,320,788,409
Segment liabilities	90,011,435	1,911,184	91,922,619
Other segment Information			
Net charge/(reversal) of the impairment on loans and accounts receivable, net	38,041,690	(212,893)	37,828,797
Share of profit of an associate	2,974,056	—	2,974,056
Depreciation and amortisation	3,861,289	504,386	4,365,675
Capital expenditure*	2,926,051	—	2,926,051

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

(Amounts expressed in RMB unless otherwise stated)

5. SEGMENT REPORTING (CONTINUED)

Year ended 31 December 2018	Micro-credit business	Finance lease business	Total
Segment revenue			
Interest income	155,940,665	848,349	156,789,014
Interest expense	(10,618,071)	—	(10,618,071)
Interest income, net	145,322,594	848,349	146,170,943
Segment results	114,265,362	(25,458)	114,239,904
Segment assets	1,226,528,295	67,805,487	1,294,333,782
Reconciliation			
Elimination of intersegment receivables			(2,000,000)
Total assets			1,292,333,782
Segment liabilities	225,301,367	2,805,634	228,107,001
Reconciliation			
Elimination of intersegment payables			(2,000,000)
Total liabilities			226,107,001
Other segment Information			
Net charge of the impairment on loans and accounts receivable, net	18,235,015	61,287	18,296,302
Share of profit of an associate	9,140,326	—	9,140,326
Depreciation and amortisation	600,575	43,941	644,516
Investment in an associate	131,533,077	—	131,533,077
Capital expenditure*	389,849	41,372	431,221

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

Geographical information

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

(Amounts expressed in RMB unless otherwise stated)

6. INTEREST INCOME

	2019	2018
Interest income on:		
Loans and accounts receivable	**170,813,797**	156,789,014
Interest expense on:		
Bank loans	**(8,891,732)**	(10,618,071)
Lease liabilities	**(160,976)**	—
Interest income, net	**161,761,089**	146,170,943

7. IMPAIRMENT LOSSES ON LOANS AND ACCOUNTS RECEIVABLE

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

Year ended 31 December 2019	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3**	**Total**
Loans and accounts receivable	**(10,473,528)**	**8,692,011**	**39,610,314**	**37,828,797**
Total impairment loss	**(10,473,528)**	**8,692,011**	**39,610,314**	**37,828,797**

Year ended 31 December 2018	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Loans and accounts receivable	1,546,027	1,376,981	15,373,294	18,296,302
Total impairment loss	1,546,027	1,376,981	15,373,294	18,296,302

(Amounts expressed in RMB unless otherwise stated)

8. OTHER INCOME AND GAINS, NET

	2019	2018
Gains on disposals of financial assets at fair value through profit or loss	**3,505,372**	921,056
Government grants	**1,260,000**	2,000,000
Gains/(losses) on disposals of items of property and equipment	**21,559**	(1,896)
Interest from bank deposits	**151,774**	198,311
Others	**1,621,350**	(2,604)
Total	**6,560,055**	3,114,867

9. PROFIT BEFORE TAX

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

	2019	2018
Depreciation and amortisation	**4,365,675**	644,516
Staff costs:		
Salaries, bonuses and allowances	**13,650,209**	10,249,812
Other social welfare	**2,341,737**	1,660,785
Impairment losses on loans and accounts receivable	**37,828,797**	18,296,302
Leasing expense	**—**	1,571,052
Impairment losses on goodwill	**2,221,017**	—
Auditor's remuneration	**1,366,934**	1,244,066

(Amounts expressed in RMB unless otherwise stated)

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Year ended 31 December 2019			
Name	**Fees**	**Salaries, allowances and benefits in kind**	**Contributions to a defined contribution scheme**	**Total**
Executive Directors				
Zhou Yongwei	—	—	—	—
Wu Zhirui	—	938,400	43,127	981,527
Yan Zhijiang	—	517,400	43,127	560,527
Liu Aiqin	—	360,965	42,704	403,669
Non-executive Directors				
Cai Rongjun	—	—	—	—
Jiang Haiying	—	—	—	—
Independent Non-executive Directors				
Zhang Lihe	87,799	—	—	87,799
Sun Leland Li Hsun	87,799	—	—	87,799
Lin Jianguo	87,799	—	—	87,799
Supervisors				
Li Jiancheng	—	—	—	—
Hong Lijun	10,000	380,375	38,849	429,224
Ruan Cen	10,000	140,100	29,639	179,739
Wu Lindi	20,000	—	—	20,000
Chen Jinzhu	20,000	—	—	20,000
	323,397	2,337,240	197,446	2,858,083

Notes to Financial Statements (continued)

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

10. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

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

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

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

Notes to Financial Statements (continued)

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three directors and one supervisor (2018: two directors and one supervisor), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining one (2018: two) highest paid employee who is neither a director nor a supervisor of the Company are as follows:

	2019	2018
Salaries, allowances and benefits in kind	**481,015**	661,060
Contributions to a defined contribution scheme	**38,849**	76,741
Total	**519,864**	737,801

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

	2019	2018
Nil to RMB1,000,000	**1**	2

12. INCOME TAX EXPENSE

	2019	2018
Current income tax	**23,363,520**	26,926,743
Deferred income tax (Note 22)	**255,253**	(670,322)
Total	**23,618,773**	26,256,421

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

(Amounts expressed in RMB unless otherwise stated)

12. INCOME TAX EXPENSE (CONTINUED)

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

	2019	2018
Profit before tax	**98,150,867**	114,239,904
Tax at the applicable tax rate of 25%	**24,537,717**	28,559,976
Lower tax rate for specific provinces or enacted by local authority	**(659,115)**	—
Tax effect of income not subject to tax	**(960,237)**	(2,285,081)
Tax effect of expenses not deductible for tax purposes	**739,532**	33,274
Tax losses utilised from previous periods	**(128,210)**	(58,113)
Tax losses not recognised	**89,086**	6,365
Total tax expense for the year at the Group's effective tax rate	**23,618,773**	26,256,421

13. DIVIDENDS

Pursuant to the resolution of its annual general meeting held on 12 June 2019, the Company distributed cash dividends of RMB34.0 million to the shareholders for the year ended 31 December 2018.

Pursuant to the resolution of the board of directors of the Company passed on 26 March 2020, a final dividend of approximately RMB34.0 million (equivalent to RMB0.05 per share (including tax)) was proposed after the appropriation of the statutory surplus reserve and general reserve and is subject to approval by shareholders at the forthcoming annual general meeting.

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

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

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

	2019	2018
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**64,421,947**	87,989,848
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**680,000,000**	680,000,000
Basic and diluted earnings per share	**0.09**	0.13

Notes to Financial Statements (continued)

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

15. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash on hand	**32,932**	1,444
Cash at banks	**36,052,503**	51,716,367
Cash equivalents	**33,405**	—
Total	**36,118,840**	51,717,811

At the end of the reporting period, the cash and bank balances of the Group denominated in US dollar ("**USD**") amounted to RMB9,138,624 (2018: RMB17,411,322). Cash at banks earns interest at floating rates based on daily bank deposit rates.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	31 December 2019	31 December 2018
At fair value through profit or loss			
Wealth management products	(a)	**47,820,000**	53,000,000
Listed equity investments		**44,528,525**	—
Listed funds		**6,000,000**	—
Designated as at fair value through profit or loss			
Other unlisted investments	(b)	**19,930,003**	—
Total		**118,278,528**	53,000,000

(a) Wealth management products purchased from time to time, which are held for a relatively short period of time, offered by licensed commercial banks in the PRC.

(b) The unlisted equity investments were designated as at fair value through profit or loss on the basis that they are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Group.

17. LOANS AND ACCOUNTS RECEIVABLE

	31 December 2019	31 December 2018
Loans receivable	**1,129,136,307**	1,023,706,284
Lease receivables	**39,228,856**	56,797,698
Less: Unearned finance income	**(3,746,939)**	(7,122,889)
Net lease receivables	**35,481,917**	49,674,809
Less: Allowance for impairment		
— Individually assessed	**(43,438,596)**	(18,960,642)
— Collectively assessed	**(22,355,442)**	(17,435,353)
Total	**1,098,824,186**	1,036,985,098

(Amounts expressed in RMB unless otherwise stated)

17. LOANS AND ACCOUNTS RECEIVABLE (CONTINUED)

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

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

	31 December 2019			
	12-month ECLs	**Lifetime ECLs**		
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3**	**Total**
Net lease receivables				
Performing	**35,297,942**	**—**	**—**	**35,297,942**
Non-performing	**—**	**—**	**183,975**	**183,975**
Loans receivable				
Performing (i)	**732,590,133**	**323,239,966**	**—**	**1,055,830,099**
Non-performing (ii)	**—**	**—**	**73,306,208**	**73,306,208**
Total	**767,888,075**	**323,239,966**	**73,490,183**	**1,164,618,224**

	31 December 2018			
	12-month ECLs	Lifetime ECLs		
	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Net lease receivables				
Performing	49,674,809	—	—	49,674,809
Loans receivable				
Performing (i)	920,274,205	48,481,169	—	968,755,374
Non-performing (ii)	—	—	54,950,910	54,950,910
Total	969,949,014	48,481,169	54,950,910	1,073,381,093

(i) Performing loans are collectively assessed for impairment.

(ii) Non-performing loans to customers include those with objective evidence of impairment.

The Group's loans receivable consisted of credit loans, guaranteed loans and collateral-backed loans. As at 31 December 2019, 38.8% (31 December 2018: 41.7%) of loans receivable were guaranteed loans, and 60.7% (31 December 2018: 53.7%) of loans receivable were collateral-backed loans.

(Amounts expressed in RMB unless otherwise stated)

17. LOANS AND ACCOUNTS RECEIVABLE (CONTINUED)

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

	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Gross carrying amount as at 1 January 2018	884,500,568	35,362,772	20,623,858	940,487,198
New	2,974,224,322	—	—	2,974,224,322
Derecognised (excluding write-off)	(2,861,083,702)	(23,362,772)	(2,147,165)	(2,886,593,639)
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(43,281,169)	43,281,169	—	—
Transfer to Stage 3	(30,000,000)	(6,800,000)	36,800,000	—
Write-off	—	—	(325,783)	(325,783)
Acquisition of a subsidiary	45,588,995	—	—	45,588,995
At 31 December 2018	**969,949,014**	**48,481,169**	**54,950,910**	**1,073,381,093**
New	**2,941,661,963**	**—**	**—**	**2,941,661,963**
Derecognised (excluding write-off)	**(2,942,741,008)**	**(101,344,191)**	**(22,244,705)**	**(3,066,329,904)**
Transfer to Stage 1	**—**	**—**	**—**	**—**
Transfer to Stage 2	**(303,537,467)**	**303,537,467**	**—**	**—**
Transfer to Stage 3	**(3,762,095)**	**(23,106,078)**	**26,868,173**	**—**
Write-off	**—**	**—**	**(31,387,529)**	**(31,387,529)**
Acquisition of a subsidiary	**106,317,668**	**95,671,599**	**45,303,334**	**247,292,601**
At 31 December 2019	**767,888,075**	**323,239,966**	**73,490,183**	**1,164,618,224**

(Amounts expressed in RMB unless otherwise stated)

17. LOANS AND ACCOUNTS RECEIVABLE (CONTINUED)

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

	Stage 1 Collective	**Stage 2 Collective**	**Stage 3**	**Total**
ECL allowance as at 1 January 2018	10,973,389	2,855,121	7,139,559	20,968,069
Net charge/(reversal) of the impairment	2,473,671	(1,852,175)	12,723,111	13,344,607
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(547,883)	547,883	—	—
Transfer to Stage 3	(379,761)	(549,019)	928,780	—
Accreted interest on impaired loans	—	—	(3,226,428)	(3,226,428)
Impact on year end ECLs of exposures transferred between stages during the year	—	3,230,292	1,721,403	4,951,695
Write-off and transfer out	—	—	(325,783)	(325,783)
Acquisition of a subsidiary	683,835	—	—	683,835
At 31 December 2018	**13,203,251**	**4,232,102**	**18,960,642**	**36,395,995**
Net charge/(reversal) of the impairment	**(6,189,087)**	**(8,193,623)**	**37,104,932**	**22,722,222**
Transfer to Stage 1	**—**	**—**	**—**	**—**
Transfer to Stage 2	**(4,231,765)**	**4,231,765**	**—**	**—**
Transfer to Stage 3	**(52,676)**	**(284,673)**	**337,349**	**—**
Accreted interest on impaired loans	**—**	**—**	**(8,626,419)**	**(8,626,419)**
Impact on year end ECLs of exposures transferred between stages during the year	**—**	**12,938,542**	**2,168,033**	**15,106,575**
Write-off	**—**	**—**	**(31,387,529)**	**(31,387,529)**
Acquisition of a subsidiary	**1,516,207**	**5,185,399**	**24,881,588**	**31,583,194**
At 31 December 2019	**4,245,930**	**18,109,512**	**43,438,596**	**65,794,038**

The Group did not have any loans and accounts receivable that were still subject to enforcement activity, but, otherwise, had already been written off either at 31 December 2019 or at 31 December 2018.

Notes to Financial Statements (continued)

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

17. LOANS AND ACCOUNTS RECEIVABLE (CONTINUED)

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

	31 December 2019	31 December 2018
Lease receivables		
Due within 1 year	**26,465,686**	25,303,073
Due in 1 to 2 years	**11,913,752**	23,096,534
Due in 2 to 3 years	**849,418**	8,398,091
	39,228,856	56,797,698

	31 December 2019	31 December 2018
Net lease receivables		
Due within 1 year	**23,469,421**	20,713,596
Due in 1 to 2 years	**11,193,980**	20,908,152
Due in 2 to 3 years	**818,516**	8,053,061
	35,481,917	49,674,809

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

18. PROPERTY AND EQUIPMENT

	Motor vehicles	Fixtures and furniture	Leasehold improvements	Total
Cost:				
At 1 January 2018	902,803	1,252,421	2,124,058	4,279,282
Additions	84,006	55,507	291,708	431,221
Acquisition of a subsidiary	—	166,272	309,590	475,862
Disposals	—	(37,920)	—	(37,920)
At 31 December 2018	**986,809**	**1,436,280**	**2,725,356**	**5,148,445**
Additions	**—**	**30,608**	**421**	**31,029**
Acquisition of subsidiaries	**703,268**	**109,944**	**—**	**813,212**
Disposals	**(157,176)**	**(4,600)**	**—**	**(161,776)**
At 31 December 2019	**1,532,901**	**1,572,232**	**2,725,777**	**5,830,910**

(Amounts expressed in RMB unless otherwise stated)

18. PROPERTY AND EQUIPMENT (CONTINUED)

	Motor vehicles	Fixtures and furniture	Leasehold improvements	Total
Accumulated depreciation:				
At 1 January 2018	648,798	497,638	1,757,721	2,904,157
Depreciation charge for the year	97,032	294,251	229,900	621,183
Acquisition of a subsidiary	—	32,243	78,036	110,279
Disposals	—	(36,024)	—	(36,024)
At 31 December 2018	**745,830**	**788,108**	**2,065,657**	**3,599,595**
Depreciation charge for the year	**112,717**	**355,018**	**322,802**	**790,537**
Acquisition of subsidiaries	**573,794**	**99,851**	**—**	**673,645**
Disposals	**(149,317)**	**(4,370)**	**—**	**(153,687)**
At 31 December 2019	**1,283,024**	**1,238,607**	**2,388,459**	**4,910,090**
Net carrying amount:				
At 31 December 2019	**249,877**	**333,625**	**337,318**	**920,820**
At 31 December 2018	240,979	648,172	659,699	1,548,850

19. LEASES

The Group as a lessee

The Group has lease contracts for various items of property used in its operations. Leases of property generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(Amounts expressed in RMB unless otherwise stated)

19. LEASES (CONTINUED)

The Group as a lessee (Continued)

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Properties
At 1 January 2019	3,269,227
Additions	304,398
Acquisition of a subsidiary	183,235
Depreciation charge	(1,826,685)
At 31 December 2019	1,930,175

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	Lease liabilities
Carrying amount at 1 January 2019	3,287,322
New leases	250,363
Additions as a result of acquisition of a subsidiary	122,135
Accretion of interest recognised during the year	160,976
Payments	(2,173,451)
Carrying amount at 31 December	1,647,345

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019
Interest on lease liabilities	**160,976**
Depreciation charge of right-of-use assets	**1,826,685**
Total amount recognized in profit or loss	**1,987,661**

(d) The total cash outflow for leases is disclosed in note 28(b) to the financial statements. At 31 December 2019, there were no future cash outflows relating to leases that have not yet commenced.

(Amounts expressed in RMB unless otherwise stated)

20. GOODWILL

Cost at 1 January 2018, net of accumulated impairment	—
Acquisition of a subsidiary	2,221,017
Cost at 31 December 2018, net of accumulated impairment	2,221,017
At 31 December 2018:	
Cost	2,221,017
Accumulated impairment	—
Net carrying amount	2,221,017
Cost at 1 January 2019, net of accumulated impairment	2,221,017
Acquisition of subsidiaries (Note 4)	14,729,281
Impairment during the year	(2,221,017)
Cost at 31 December 2019, net of accumulated impairment	14,729,281
At 31 December 2019:	
Cost	16,950,298
Accumulated impairment	(2,221,017)
Net carrying amount	14,729,281

Impairment testing of goodwill

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

- Finance lease cash-generating unit; and
- Micro-credit cash-generating unit.

Finance lease cash-generating unit

The recoverable amount of the finance lease cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13%. As at 31 December 2019, the recoverable amount is less than the carrying amount, the related difference is recognised in the current profit or loss.

(Amounts expressed in RMB unless otherwise stated)

20. GOODWILL (CONTINUED)

Impairment testing of goodwill (Continued)

Micro-credit cash-generating unit

The recoverable amount of the micro-credit cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13%. As at 31 December 2019, the Group assessed the impairment on goodwill and the recoverable amounts exceeded the carrying amount, and hence the goodwill was not regarded as impaired.

The carrying amounts of goodwill are as follows:

	31 December 2019	31 December 2018
Finance lease	**—**	2,221,017
Micro-credit	**14,729,281**	—
	14,729,281	2,221,017

Assumptions were used in the value in use calculation of the finance lease and micro-credit cash-generating units for 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rate — The discount rate used reflects specific risks relating to the relevant unit.

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

(Amounts expressed in RMB unless otherwise stated)

21. OTHER INTANGIBLE ASSETS

	Software
Cost:	
At 1 January 2018	954,400
Acquisition of a subsidiary	280,000
At 31 December 2018	**1,234,400**
Additions	**2,895,022**
Acquisition of subsidiaries	**22,700**
At 31 December 2019	**4,152,122**
Accumulated amortisation:	
At 1 January 2018	954,400
Acquisition of a subsidiary	116,667
Charge for the year	23,333
At 31 December 2018	**1,094,400**
Acquisition of subsidiaries	**22,700**
Charge for the year	**1,451,662**
At 31 December 2019	**2,568,762**
Net carrying amount:	
At 31 December 2019	**1,583,360**
At 31 December 2018	140,000

(Amounts expressed in RMB unless otherwise stated)

22. DEFERRED TAX

The movements in the gross deferred tax assets and liabilities are as follows:

Gross deferred tax assets

	Impairment allowance on loans	Fair value adjustments of financial assets at fair value through profit or loss	Recoverable loss	Total
At 1 January 2018	1,446,089	—	—	1,446,089
Recognised in profit or loss (Note 12)	670,322	—	—	670,322
At 31 December 2018	**2,116,411**	**—**	**—**	**2,116,411**
Recognised in profit or loss (Note 12)	**(172,158)**	**33,382**	**380**	**(138,396)**
Acquisition of subsidiaries	**1,205,058**	**—**	**—**	**1,205,058**
At 31 December 2019	**3,149,311**	**33,382**	**380**	**3,183,073**

Gross deferred tax assets liabilities

	Fair value adjustments of financial assets at fair value through profit or loss	Total
At 1 January 2018 and at 31 December 2018	**—**	**—**
Recognised in profit or loss (Note 12)	**116,857**	**116,857**
Acquisition of subsidiaries	**—**	**—**
At 31 December 2019	**116,857**	**116,857**

(Amounts expressed in RMB unless otherwise stated)

22. DEFERRED TAX (CONTINUED)

Gross deferred tax assets liabilities (Continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019	2018
Net deferred tax assets recognised in the consolidated statement of financial position	**3,182,693**	2,116,411
Net deferred tax liabilities recognised in the consolidated statement of financial position	**116,477**	—

The Group has tax losses arising in Mainland China of RMB36,104 (2018: RMB454,014) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

23. OTHER ASSETS

	Note	**31 December 2019**	31 December 2018
Repossessed assets	(a)	**12,855,969**	8,060,000
Other receivables		**1,691,324**	1,448,906
Deferred and prepaid expenses		**773,233**	3,562,612
		15,320,526	13,071,518

Note:

(a) Repossessed assets are properties located at Quanzhou City, Fujian Province and Weihai City, Shandong Province in the PRC. The contracts to effect the repossession of the properties have been signed and registered with the local authority. The certificates of some properties with a carrying amount of RMB8,060,000 (31 December 2018: RMB8,060,000) have not been obtained because these properties are still under development.

(Amounts expressed in RMB unless otherwise stated)

24. INTEREST-BEARING BANK BORROWINGS

	31 December 2019	31 December 2018
Guaranteed bank loans repayable:		
Within one year	**70,108,074**	200,336,825

As at 31 December 2019, the annual interest rate of the loans above was 5.434% (31 December 2018: 6.003%).

The interest-bearing bank borrowings of RMB70.1 million as at 31 December 2019 were guaranteed by one of the shareholders, Fujian Septwolves Group Co., Ltd. ("**Septwolves Group**").

25. OTHER PAYABLES

	31 December 2019	31 December 2018
Payrolls payable	**4,888,981**	2,792,062
Value-added tax, and surcharges payable	**1,646,239**	2,637,223
Deposits	**3,739,241**	7,132,335
Others	**2,335,645**	1,623,531
	12,610,106	14,185,151

26. SHARE CAPITAL

	31 December 2019	31 December 2018
Issued and fully paid ordinary shares of RMB1 each	**680,000,000**	680,000,000

27. RESERVES

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

Capital reserve

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

Surplus reserve

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

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

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

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

General reserve

In accordance with the relevant regulations, the Company is required to set aside a general reserve through appropriations of profit after tax on an annual basis, and the balance of the general reserve should reach 1.5% of its risk assets. Such reserve is not available for profit distribution or transfer to capital. As at 31 December 2019, the balance of the general reserve of the Company was RMB16.3 million, no lower than 1.5% of its risk assets.

(Amounts expressed in RMB unless otherwise stated)

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

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

	Bank borrowings and interest payable	Lease liabilities	Amounts due to shareholders
At 31 December 2018	200,336,825	—	—
Effect of adoption of HKFRS 16	—	3,287,322	—
At 1 January 2019 (restated)	200,336,825	3,287,322	—
Changes from financing cash flows	(139,120,483)	(2,173,451)	(34,000,000)
2018 final dividends payable	—	—	34,000,000
Return of retained earnings	—	—	—
New finance lease	—	250,363	—
Acquisition of subsidiaries	8,891,732	122,135	—
Interest expense	—	160,976	—
At 31 December 2019	70,108,074	1,647,345	—

(b) Total cash outflow for leases

The total cash outflow for leases of RMB2,173,451 was within financing activities.

(Amounts expressed in RMB unless otherwise stated)

29. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel of the Group

	2019	2018
Salaries and other short-term employee benefits	**2,693,393**	2,860,442

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

(b) Loan guarantee

The interest-bearing bank borrowings of RMB70.1 million as at 31 December 2019 (31 December 2018: RMB200.0 million) were guaranteed by Septwolves Group. The guarantee fee of RMB672,830 (2018: RMB949,906) was accrued during the year, which was based on a fixed rate of the balance of the interest-bearing borrowings.

(c) loan facilitation services

During the year, the Group provided loan facilitation service to a related party, Fujian Yuanheng Pegadaian Co., Ltd., and received a fee of revenue of RMB261,001 (2018: RMB39,579).

(d) Lease and property management fee

The Group has signed a lease agreement with Xiamen Septwolves Asset Management Co., Ltd. ("**Septwolves AMC**"), a subsidiary of Septwolves Group. During the year, the Group paid Septwolves AMC RMB126,000 (2018: RMB97,638) for the rent.

During the year, the property management fee of RMB32,934 (2018: RMB19,265) was paid to Xiamen Huakaifugui Property Management Co., Ltd., a subsidiary of Septwolves Group.

(e) Outstanding balances with related parties

As at 31 December 2019, the Group had an outstanding balance due to Septwolves Group, amounting to RMB11,132 (31 December 2018: RMB90,849). The balance is both unsecured and interest-free.

30. CONTINGENT LIABILITIES

As at 31 December 2019, there were no significant contingent liabilities.

31. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	31 December 2019	31 December 2018
Contracted, but not provided for:		
Software	**767,000**	556,553

(Amounts expressed in RMB unless otherwise stated)

31. COMMITMENTS (CONTINUED)

(b) Operating lease commitments as at 31 December 2018

The Group leases office premises under various operating lease agreements as the lessee. At 31 December 2018, the Group had total future minimum lease payments (inclusive of value-added tax) under non-cancellable operating leases falling due as follows:

	2018
Within 1 year	1,362,614
1 to 2 years (inclusive)	1,032,753
	2,395,367

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

	31 December 2019	31 December 2018
Financial assets		
Financial assets at fair value through profit or loss	**118,278,528**	53,000,000
Financial assets at amortised cost		
— Cash and cash equivalents	**36,118,840**	51,717,811
— Securities purchased under agreements to re-sell	**29,900,000**	—
— Loans and accounts receivable	**1,098,824,186**	1,036,985,098
— Other receivables	**1,691,324**	1,448,906
	1,284,812,878	1,143,151,815
Financial liabilities		
Financial liabilities at amortised cost		
— Interest-bearing bank borrowings	**70,108,074**	200,336,825
— Lease liabilities	**1,647,345**	—
— Other payables	**5,545,483**	8,755,866
	77,300,902	209,092,691

33. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

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

- Centralised credit management procedures;

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

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

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

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

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

- Doubtful: Borrowers cannot repay the principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.

- Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

The Group is exposed to credit risk primarily associated with cash at banks, securities purchased under agreements to re-sell, loans and accounts receivable and other receivables. The credit risk of these assets mainly arises from the counterparties' failure to discharge their contractual obligations and the maximum exposure equals the carrying amount.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

The Group conducts an assessment of ECLs according to forward-looking information and uses complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECLs according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECLs
- Forward-looking information

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, internal rating grade, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of each reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Impairment assessment (Continued)

Criteria for judging significant increases in credit risk (Continued)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in remaining lifetime probability of default is considered significant comparing with the one at initial recognition.

Qualitative criteria

- Significant adverse change in debtor's operation or financial status.
- Be classified into Special Mention category within the five-tier loan classification.

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due.

Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under HKFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Internal rating of the borrower indicating default or near-default;
- Significant financial difficulty of the issuer or the customer;
- The debtor leaves any of the loans receivable of the Group overdue for more than 90 days;
- It is becoming probable that the customer will enter bankruptcy or other financial restructuring.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

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

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Impairment assessment (Continued)

Parameters of ECL measurement (Continued)

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the internal rating grade, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time PD under the current macroeconomic environment.

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL, such as GDP growth, central bank base rates and price indices.

Collateral and other credit enhancements

The amount and the type of collateral required depend on the assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The collateral obtained by the Group mainly consists of mortgages on land use rights, building ownership rights or equipment and pledge on shares. All collateral is registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of the collateral regularly.

Although collateral can mitigate credit risk to a certain extent, the Group mostly grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flows, instead of the value of collateral. The necessity of collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

(Amounts expressed in RMB unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Collateral and other credit enhancements (Continued)

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

The tables below summarise the impaired loans by type of collateral, guarantee and overdue period.

	31 December 2019				
	Not overdue	**Overdue within 3 months**	**Overdue more than 3 to 12 months**	**Overdue more than 1 year**	**Total**
Guaranteed loans	**—**	**650,000**	**5,410,000**	**44,841,797**	**50,901,797**
Collateral-backed loans with guarantees	**—**	**183,975**	**—**	**22,404,411**	**22,588,386**
Total	**—**	**833,975**	**5,410,000**	**67,246,208**	**73,490,183**

	31 December 2018				
	Not overdue	Overdue within 3 months	Overdue more than 3 to 12 months	Overdue more than 1 year	Total
Guaranteed loans	—	2,500,000	34,300,000	18,150,910	54,950,910
Total	—	2,500,000	34,300,000	18,150,910	54,950,910

Credit quality of loans receivable

A loan or advance is identified as an impaired loan if there is objective evidence indicating that the loan's estimated future cash flows are influenced by one or several factors and the impact can be estimated reliably. The Group closely monitors the credit quality of the loans, and uses measures such as disposal of impaired loans to mitigate overall credit risk exposure.

The Group manages the credit quality of financial assets using credit ratings. The table below shows the credit quality of loans receivable exposed to credit risk, based on the Group's credit rating system. The amounts presented are gross of impairment allowances.

(Amounts expressed in RMB unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit quality of loans receivable (Continued)

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
31 December 2019	**1,009,318,041**	**81,810,000**	**73,490,183**	**1,164,618,224**
31 December 2018	996,530,183	21,900,000	54,950,910	1,073,381,093

As at 31 December 2019 and 31 December 2018, loans neither past due nor impaired were related to various diversified customers with no recent default history.

As at 31 December 2019, loans past due but not impaired are related to the individual customer with no default history. According to past experience, the Group does not recognise individual allowance for these loans receivable since there is no significant change in credit quality and the amount is expected to be recovered in full.

Analysis of risk concentration

Since the loans are granted to third parties whose creditworthiness has been assessed by the Group, no collateral is required in certain cases. The Group manages its exposure to the concentration of credit risk by diversifying its portfolio in terms of customer type and industry. Because its business operations are subject to the geographic restrictions of its operating licence, the Group is exposed to the credit risk of geographic concentration. However, although its customers are concentrated in Quanzhou City, the Group provides loans to a wide variety of customers that operate in different industries in order to mitigate its exposure to such risk.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

	31 December 2019	31 December 2018
Cash and cash equivalents*	**36,085,908**	51,716,367
Securities purchased under agreements to re-sell	**29,900,000**	—
Loans and accounts receivable	**1,098,824,186**	1,036,985,098
Other receivables	**1,691,324**	1,448,906
Total	**1,166,501,418**	1,090,150,371

* Excluding cash on hand

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Foreign currency risk

The Group operates principally in Mainland China with only limited exposure to foreign exchange rate risk arising primarily from certain bank deposits denominated in USD or HKD.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and HKD exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets) and the Group's equity.

	2019	
Changes in exchange rates	**Impact on profit before tax**	**Impact on equity**
+ 5%	**714,315**	**714,315**
– 5%	**(714,315)**	**(714,315)**

	2018	
Changes in exchange rates	Impact on profit before tax	Impact on equity
+ 5%	870,579	870,579
– 5%	(870,579)	(870,579)

The above impact on equity represents adjustments to profit before tax.

(c) Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its cash at banks, securities purchased under agreements to re-sell, loans and accounts receivable, interest-bearing bank borrowings and lease liabilities. The majority of the Group's loans and accounts receivable bear interest at fixed rates. They are mostly influenced by the mismatch of the repricing dates of interest-generating assets and interest-bearing liabilities. The Group does not use derivative financial instruments to manage its interest rate risk.

Notes to Financial Statements (continued)

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

The table below analyses the Group's interest rate risk exposure on financial assets and liabilities.

The assets and liabilities are included at carrying amount and categorised by the earlier of the contractual repricing or maturity date.

	31 December 2019					
	Overdue	Less than 3 months	3 to 12 months	1 to 5 years	Floating rate	Total
Financial assets:						
Cash and cash equivalents	–	–	–	–	36,085,908	36,085,908
Securities purchased under agreements to re-sell	–	29,900,000	–	–	–	29,900,000
Loans and accounts receivable	37,915,481	228,360,987	633,746,370	198,801,348	–	1,098,824,186
Subtotal	37,915,481	258,260,987	633,746,370	198,801,348	36,085,908	1,164,810,094
Financial liabilities:						
Interest-bearing bank borrowings	–	–	–	–	70,108,074	70,108,074
Lease liabilities	–	245,467	1,222,157	179,721	–	1,647,345
Subtotal	–	245,467	1,222,157	179,721	70,108,074	71,755,419
Exposure to interest sensitivity	37,915,481	258,015,520	632,524,213	198,621,627	(34,022,166)	1,093,054,675

	31 December 2018					
	Overdue	Less than 3 months	3 to 12 months	1 to 5 years	Floating rate	Total
Financial assets:						
Cash at banks	–	–	–	–	51,716,367	51,716,367
Loans and accounts receivable	55,978,535	270,360,171	545,719,755	164,926,637	–	1,036,985,098
Subtotal	55,978,535	270,360,171	545,719,755	164,926,637	51,716,367	1,088,701,465
Financial liabilities:						
Interest-bearing bank borrowings	–	–	–	–	200,000,000	200,000,000
Subtotal	–	–	–	–	200,000,000	200,000,000
Exposure to interest sensitivity	55,978,535	270,360,171	545,719,755	164,926,637	(148,283,633)	888,701,465

(Amounts expressed in RMB unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate instruments). The Group's equity is not affected, other than the consequential effect on retained profits (a component of the Group's equity) by the changes in profit before tax.

Changes in variables	2019 Impact on profit before tax	2018 Impact on profit before tax
+ 50 basis points	**(169,570)**	(741,418)
– 50 basis points	**169,570**	741,418

(d) Price risk

Equity price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Group is exposed to equity price risk arising from financial assets at fair value through profit or loss (Note 16) As at 31 December 2019, a 10% increase in the fair value of the financial assets, with all other variables held constant, would increase financial assets at fair value through profit or loss by RMB11.8 million (31 December 2018: RMB5.3 million).

(e) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group seeks to manage its liquidity risk by circulating liquidity facilities. The facilities consider the maturity dates of financial instruments and estimated cash flows from operation.

(Amounts expressed in RMB unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

The tables below present the cash flows of the Group of financial assets and financial liabilities that will be settled on a net basis and on a gross basis by the remaining contractual maturities at the financial reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	31 December 2019						
	On demand	Overdue	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Financial assets:							
Cash and cash equivalents	36,118,840	–	–	–	–	–	36,118,840
Securities purchased under agreements to re-sell	–	–	29,900,000	–	–	–	29,900,000
Financial assets at fair value through profit or loss	47,820,000	–	–	–	–	70,458,528	118,278,528
Loans and accounts receivable	–	80,340,183	277,500,222	687,508,853	233,777,628	–	1,279,126,886
Other assets	533,817	–	374,779	441,053	341,675	–	1,691,324
Subtotal	84,472,657	80,340,183	307,775,001	687,949,906	234,119,303	70,458,528	1,465,115,578
Financial liabilities:							
Interest-bearing bank borrowings	–	–	20,964,014	51,262,056	–	–	72,226,070
Lease liabilities	–	–	268,461	1,258,278	182,300	–	1,709,039
Other payables	–	–	2,445,483	–	3,100,000	–	5,545,483
Subtotal	–	–	23,677,958	52,520,334	3,282,300	–	79,480,592
Net	84,472,657	80,340,183	284,097,043	635,429,572	230,837,003	70,458,528	1,385,634,986

(Amounts expressed in RMB unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

	31 December 2018					
	On demand	Overdue	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
Financial assets:						
Cash and cash equivalents	51,717,811	–	–	–	–	51,717,811
Financial assets at fair value through profit or loss	53,000,000	–	–	–	–	53,000,000
Loans and accounts receivable	–	76,850,910	310,460,657	580,372,574	185,752,959	1,153,437,100
Other assets	–	–	123,361	996,139	329,406	1,448,906
Subtotal	104,717,811	76,850,910	310,584,018	581,368,713	186,082,365	1,259,603,817
Financial liabilities:						
Interest-bearing bank borrowings	–	–	3,338,325	205,669,500	–	209,007,825
Other payables	–	–	2,155,866	–	6,600,000	8,755,866
Subtotal	–	–	5,494,191	205,669,500	6,600,000	217,763,691
Net	104,717,811	76,850,910	305,089,827	375,699,213	179,482,365	1,041,840,126

(f) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2019.

(Amounts expressed in RMB unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, less cash and cash equivalents. Management regards total equity, which includes share capital, reserves and retained profits, as capital. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2019	31 December 2018
Interest-bearing bank borrowings	**70,108,074**	200,336,825
Lease liabilities	**1,647,345**	—
Less: Cash and cash equivalents	**36,118,840**	51,717,811
Net debt	**35,636,579**	148,619,014
Share capital	**680,000,000**	680,000,000
Reserves	**143,154,528**	136,970,598
Retained profits	**257,244,237**	233,006,220
Capital	**1,080,398,765**	1,049,976,818
Capital and net debt	**1,116,035,344**	1,198,595,832
Gearing ratio	**3.2%**	12.4%

Notes to Financial Statements (continued)

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. For purposes of the tables set forth, "Loans and accounts receivable" are considered overdue only if principal payments are overdue. In addition, for loans and accounts receivable that are repayable by instalments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity:

	31 December 2019					
	On demand	Overdue	Less than 3 months	3 to less than 12 months	After 12 months	Total
Assets:						
Cash and cash equivalents	36,118,840	–	–	–	–	36,118,840
Financial assets held under resale agreements	–	–	29,900,000	–	–	29,900,000
Financial assets at fair value through profit or loss	47,820,000	–	–	–	70,458,528	118,278,528
Loans and accounts receivable	–	37,915,481	228,360,987	633,746,370	198,801,348	1,098,824,186
Property and equipment	–	–	–	–	920,820	920,820
Right-of-use assets	–	–	–	–	1,930,175	1,930,175
Goodwill	–	–	–	–	14,729,281	14,729,281
Other intangible assets	–	–	–	–	1,583,360	1,583,360
Deferred tax assets	–	–	–	–	3,182,693	3,182,693
Other assets	533,817	–	525,321	1,063,744	13,197,644	15,320,526
Subtotal	84,472,657	37,915,481	258,786,308	634,810,114	304,803,849	1,320,788,409
Liabilities:						
Interest-bearing bank borrowings	–	–	20,108,074	50,000,000	–	70,108,074
Lease liabilities	–	–	245,467	1,222,157	179,721	1,647,345
Income tax payable	–	–	7,440,617	–	–	7,440,617
Deferred tax liabilities	–	–	–	–	116,477	116,477
Other payables	–	–	9,510,106	–	3,100,000	12,610,106
Subtotal	–	–	37,304,264	51,222,157	3,396,198	91,922,619
Net	84,472,657	37,915,481	221,482,044	583,587,957	301,407,651	1,228,865,790

(Amounts expressed in RMB unless otherwise stated)

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	31 December 2018					
	On demand	Overdue	Less than 3 months	3 to less than 12 months	After 12 months	Total
Assets:						
Cash and cash equivalents	51,717,811	—	—	—	—	51,717,811
Financial assets at fair value through profit or loss	53,000,000	—	—	—	—	53,000,000
Loans and accounts receivable	—	55,978,535	270,915,576	546,547,788	163,543,199	1,036,985,098
Property and equipment	—	—	—	—	1,548,850	1,548,850
Goodwill	—	—	—	—	2,221,017	2,221,017
Other intangible assets	—	—	—	—	140,000	140,000
Investment in an associate	—	—	—	—	131,533,077	131,533,077
Deferred tax assets	—	—	—	—	2,116,411	2,116,411
Other assets	—	—	314,178	4,367,934	8,389,406	13,071,518
Subtotal	104,717,811	55,978,535	271,229,754	550,915,722	309,491,960	1,292,333,782
Liabilities:						
Interest-bearing bank borrowings	—	—	336,825	200,000,000	—	200,336,825
Income tax payable	—	—	11,585,025	—	—	11,585,025
Other payables	—	—	7,585,151	—	6,600,000	14,185,151
Subtotal	—	—	19,507,001	200,000,000	6,600,000	226,107,001
Net	104,717,811	55,978,535	251,722,753	350,915,722	302,891,960	1,066,226,781

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group's financial assets mainly include cash at banks, securities purchased under agreements to re-sell, financial assets at fair value through profit or loss and loans and accounts receivable.

The Group's financial liabilities mainly include interest-bearing bank borrowings, lease liabilities and other payables.

Due to the short remaining period or periodical repricing to reflect market price, the carrying amounts of these financial assets and liabilities approximate to their fair values.

(Amounts expressed in RMB unless otherwise stated)

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group's finance department headed by the finance director is responsible for determining the policies and procedures for the fair value measurements of financial instruments. The finance director reports directly to the general manager and the audit committee. At each reporting date, the Group analyses the movements in the values of financial instruments. The valuation is reviewed and approved by the general manager.

The Group invests in wealth management products issued by banks in Mainland China. The Group has estimated the fair values of these wealth management products by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair values of unlisted equity investments were determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; making reference to the current market value of another instrument that is substantially the same and net assets making as much use of available and supportable market data as possible. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets at fair value through profit or loss	**92,348,525**	**6,000,000**	**19,930,003**	**118,278,528**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets at fair value through profit or loss	53,000,000	—	—	53,000,000

(Amounts expressed in RMB unless otherwise stated)

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 (31 December 2018: Nil).

In 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

Important unobservable input value in fair value measurement of Level 3

2019	Fair value	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Other unlisted investment	12,727,300	Recent transaction price	N/A	N/A
Other unlisted investment	7,202,703	Adjusted net asset value	Discount for lack of liquidity	The lower the discount, the higher the fair value

The movements in fair value measurements within Level 3 during the year are as follows:

	2019
Financial assets at fair value through profit or loss	
At 1 January	–
Total gains recognised in profit or loss	**437,892**
Acquisition of a subsidiary	**6,764,811**
Repossessed unlisted investments	**12,727,300**
At 31 December	**19,930,003**

36. OTHER MATTERS

On 30 December 2019, the Shenzhen Stock Exchange approved the Company's proposal to issue asset backed securities using some of its loans and accounts receivable as the underlying assets, with an aggregate principal amount of not more than RMB300.0 million. The approval is valid for 12 months.

(Amounts expressed in RMB unless otherwise stated)

37. EVENT AFTER THE REPORTING PERIOD

The ECL as at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Since January 2020, the outbreak of coronavirus has spread, and the prevention and control of coronavirus has been going on throughout the Mainland China. The outbreak of coronavirus has caused disruption to business and economic activities. The impact on the GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECLs under HKFRS 9 in 2020.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2019	31 December 2018
ASSETS		
Cash and cash equivalents	**4,810,669**	32,674,394
Financial assets at fair value through profit or loss	**12,727,300**	49,000,000
Loans and accounts receivable	**845,096,485**	988,055,411
Property and equipment	**611,017**	1,172,320
Right-of-use assets	**1,541,987**	—
Investments in subsidiaries	**177,322,133**	50,000,000
Investment in an associate	**—**	131,533,077
Intangible assets	**1,583,360**	—
Deferred tax assets	**2,339,106**	2,116,411
Other assets	**103,906,663**	12,896,144
TOTAL ASSETS	**1,149,938,720**	1,267,447,757
LIABILITIES		
Interest-bearing bank borrowings	**70,108,074**	200,336,825
Lease liabilities	**1,379,032**	—
Income tax payable	**2,130,731**	11,449,517
Other payables	**8,134,023**	6,107,123
TOTAL LIABILITIES	**81,751,860**	217,893,465
NET ASSETS	**1,068,186,860**	1,049,554,292
EQUITY		
Share capital	**680,000,000**	680,000,000
Reserves	**143,154,528**	136,970,598
Retained profits	**245,032,332**	232,583,694
TOTAL EQUITY	**1,068,186,860**	1,049,554,292

Notes to Financial Statements (continued)

31 December 2019
(Amounts expressed in RMB unless otherwise stated)

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

A summary of the Company's reserves is as follows:

	Capital reserve	Surplus reserve	General reserve	Total
Balance as at 1 January 2018	69,383,972	43,498,553	14,107,308	126,989,833
Appropriation to surplus reserve	—	8,732,479	—	8,732,479
Appropriation to general reserve	—	—	1,248,286	1,248,286
Balance as at 31 December 2018 and 1 January 2019	**69,383,972**	**52,231,032**	**15,355,594**	**136,970,598**
Appropriation to surplus reserve	**—**	**5,263,257**	**—**	**5,263,257**
Appropriation to general reserve	**—**	**—**	**920,673**	**920,673**
Balance as at 31 December 2019	**69,383,972**	**57,494,289**	**16,276,267**	**143,154,528**

39. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Company's board of directors on 26 March 2020.

Financial Summary

The following is a summary of assets and liabilities of our Group as of 31 December 2015, 2016, 2017, 2018 and 2019, and of the results of our Group for each of the years ended 31 December 2015, 2016, 2017, 2018 and 2019.

	Year ended 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
RESULTS					
Interest income	135,882	143,693	140,015	156,789	**170,814**
Profit before tax	100,351	114,281	119,867	114,240	**98,151**
Income tax expense	(25,096)	(28,762)	(28,900)	(26,256)	**(23,619)**
Net profit and total comprehensive income for the year	75,255	85,519	90,966	87,983	**74,532**
ASSETS AND LIABILITIES					
Total assets	747,679	960,886	1,156,331	1,292,334	**1,320,788**
Total liabilities	118,561	21,866	160,344	226,107	**91,922**
Total equity	629,118	939,021	995,987	1,066,227	**1,228,866**

Note: The summary of assets and liabilities of the Company as of 31 December 2015 and the summary of the results of the Company for the years ended 31 December 2015 have been extracted from the Prospectus.

Definitions

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

"AGM"	the annual general meeting of the Company scheduled to be held at 7/F, Nanyi Square Office, No. 666 Feng Ze Street, Feng Ze District, Quanzhou City, Fujian Province, the PRC at 10:00 a.m. on Friday, 12 June 2020
"Anshenghe"	Xiamen Anshenghe Trading Co., Ltd.* (廈門安盛和貿易有限責任公司)
"Articles of Association"	the articles of association of the Company as amended from time to time
"Board" or "Board of Directors"	the board of directors of the Company
"CBIRC"	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), which was formed by a merger of former China Banking Regulatory Commission (中國銀行業監督管理委員會) and former China Insurance Regulatory Commission (中國保險業監督管理委員會) in 2018; or, where the context so requires, China Banking Regulatory Commission
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" and "PRC" do not include Taiwan, Macau Special Administrative Region and Hong Kong
"Company"	Quanzhou Huixin Micro-credit Co., Ltd.* (泉州匯鑫小額貸款股份有限公司), a joint stock company established in the PRC with limited liability on 8 January 2010 converted from the predecessor company, Quanzhou Licheng District Huixin Microcredit Co., Ltd.* (泉州市鯉城區匯鑫小額貸款有限公司), on 18 August 2014, the H Shares of which are listed on the Hong Kong Stock Exchange (stock code:1577)
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB by PRC nationals and/or PRC-incorporated entities
"Finance Businesses"	certain other finance-related businesses in which the Substantial Shareholders and their respective close associates had interests, namely, the provision of financing guarantee services through Fujian Baiying Financing Guarantee Co., Ltd.* (福建百應融資擔保股份有限公司), the provision of finance leasing services through Xiamen Baiying Finance Leasing Co., Ltd.* (廈門市百應融資租賃有限公司), the provision of pawn loan services through Xiamen Borong Pawn Co., Ltd.* (廈門博融典當有限公司) and Fujian Yuanheng Pawn Co., Ltd.* (福建元亨典當有限公司), and the provision of microcredit services in Xiamen City through Xiamen Siming Baiying Microcredit Co., Ltd.* (廈門思明百應小額貸款有限公司), and the provision of settlement services, entrusted loans services, loans to and taking deposits from the subsidiaries or associated companies of Fujian Septwolves Group or such other companies as approved by or registered with China Banking Regulatory Commission Fujian Bureau* (中國銀行業監督管理委員會福建監管局) through Fujian Septwolves Group Finance Co., Ltd.* (福建七匹狼集團財務有限公司)

Definitions (continued)

"Fujian" or "Fujian Province"	Fujian Province (福建省), a province located in the southeastern coast of China
"Fujian Haoxiang Gardening"	Fujian Haoxiang Gardening Building Decoration Engineering Co., Ltd.* (福建豪翔園林建設有限責任公司)
"Fujian Huian Haoda"	Fujian Huian Haoda Construction Company Limited* (福建省惠安豪達建設有限公司), formerly known as Fujian Huian Haoda Stoning Company Limited* (福建省惠安豪達石業有限公司)
"Fujian Panpan"	Fujian Panpan Biotech Limited* (福建盼盼生物科技有限公司)
"Fujian Septwolves Group"	Fujian Septwolves Group Co., Ltd.* (福建七匹狼集團有限公司)
"Group", "we," "us," or "our"	the Company and its subsidiaries
"HKAS(s)"	Hong Kong Accounting Standards
"HKFRS(s)"	Hong Kong Financial Reporting Standards
"H Share(s)"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
"H Share Registrar"	Boardroom Share Registrars (HK) Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huixinxing"	Quanzhou Huixinxing Investment Co., Ltd.* (泉州匯鑫行投資有限責任公司) established in the PRC with limited liability on 19 October 2017, a wholly owned subsidiary of the Company
"Independent Third Party(ies)"	(an) individual(s) or (a) company(ies) who or which, as far as the Directors are aware after having made all reasonable enquiries, is/are not (a) connected person(s) of our Group within the meaning of the Listing Rules and are independent of and not connected with the Company and its directors, chief executive, and Substantial Shareholders or any of its subsidiaries or their respective associates
"JJHX"	Jinjiang Huixin Microfinance Co., Ltd.* (晉江市匯鑫小額貸款有限公司), a non-wholly owned subsidiary of the Company, established in the PRC in April 2014
"Lianche"	Quanzhou Lianche Finance Leasing Co., Ltd.* (泉州市連車融資租賃有限公司), an indirectly non-wholly owned subsidiary of the Company, established in the PRC in August 2017
"Listing"	the listing of the H Shares on the Main Board of the Stock Exchange

Definitions (continued)

"Listing Date"	30 September 2016, the date on which the H Shares became listed on the Hong Kong Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Prospectus"	the prospectus of the Company dated 19 September 2016 in connection with the Hong Kong public offering
"Quanzhou" or "Quanzhou City"	Quanzhou City (泉州市), Fujian Province
"Quanzhou Haoxiang"	Quanzhou Haoxiang Stone Co., Ltd.* (泉州豪翔石業有限公司)
"Quanzhou Yuanpeng"	Quanzhou Yuanpeng Clothing and Textile Co., Ltd.* (泉州市遠鵬服飾織造有限公司)
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"Reporting Period"	the period for the year ended 31 December 2019
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	Domestic Share(s) and/or H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"SMEs"	small and medium-sized enterprise(s)
"Substantial Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, collectively refers to Fujian Septwolves Group, Mr. Zhou Yongwei and Ms. Chen Pengling
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Wealth Success"	Wealth Success Enterprise Limited (成康企業有限公司)
"Xiamen Gaoxinhong"	Xiamen Gaoxinhong Equity Investment Co., Ltd.* (廈門市高鑫泓股權投資有限公司)
"Xiamen Sifang"	Xiamen Sifang Jiasheng Trading Company Limited* (廈門四方嘉盛貿易有限公司)

* *for identification purpose only*

汇鑫小额贷款
HUIXIN MICRO-CREDIT

Quanzhou Huixin Micro-credit Co., Ltd.*

泉州匯鑫小額貸款股份有限公司