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

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

Annual Report 2019

CONTENTS

02 Definitions

05 Corporate Information

07 Financial Summary

08 Chairman's Statement

09 Management Discussion and Analysis

27 Biographies of Directors and Supervisors

33 Environmental, Social and Governance Report

54 Report of the Directors

67 Report of the Board of Supervisors

69 Corporate Governance Report

80 Independent Auditor's Report

87 Consolidated Statement of Profit or Loss and Other Comprehensive Income

88 Consolidated Statement of Financial Position

89 Consolidated Statement of Changes in Equity

90 Consolidated Cash Flow Statement

91 Notes to the Financial Statements

DEFINITIONS

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

"Acting in Concert Agreement"	an agreement entered into by Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy and dated 28 April 2014
"AFR (三農)"	customers engaged in agricultural businesses and/or rural development activities, and/or customers residing in rural areas
"AGM"	an annual general meeting of the Company to be held at Conference Room, 3th Floor, Zuoli Building, No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC on Monday, 29 June 2020 at 3:00 p.m.
"Articles of Association"	the articles of association of the Company
"Bangni Fiber"	浙江邦尼耐火纖維有限公司 (Zhejiang Bangni Refractory Fiber Co., Ltd.*)
"Board" or "Board of Directors"	the board of Directors
"Board of Supervisors"	the board of Supervisors
"Bond(s)	the convertible bond(s) that may be offered and issued by Jinhui Micro-finance pursuant to the Bonds Agreement
"Bonds Agreement"	the collective of (i) the referral services agreement entered into between Jinhui Micro-finance and Zheli Financial Service; (ii) the entrustment agreement entered into between Jinhui Micro-finance and Zheli Financial Service; and (iii) the convertible bonds subscription manual published by Jinhui Micro-finance, all dated 15 November 2019, in connection with the issue and offering of the Bonds
"Chief Financial Controller"	the chief financial controller of the Company
"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Company", "we", "us" or "our"	佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited*), a joint stock company incorporated in the PRC with limited liability on 18 August 2011 and converted from our Predecessor Company on 28 April 2014, the H Shares of which are listed on the Hong Kong Stock Exchange (stock code: 6866)
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and in case of the Company, means Zuoli Holdings, Puhua Energy, Mr. Yu Yin, Mr. Yu Youqiang, Deqing Yintian, Mr. Shen Haiying, Dingsheng Investment and Mr. Zhang Jianming
"Creditor's Rights"	the creditor's rights against the borrowers under the Credit Rights Transfer Agreement
"Creditor's Rights Transfer Agreement"	the agreement entered into between Xing Yao Micro-finance and Xing Yao Construction on 18 October 2019 in relation to the transfer of the creditor's rights against the borrowers for their respective outstanding loans. For details, please refer to the announcement of the Company dated 18 October 2019

"CSRC"	the China Securities Regulatory Commission
"Deqing Yintian"	德清銀天股權投資管理有限公司 (Deqing Yintian Equity Investment and Management Company Limited*)
"Dingsheng Investment"	德清鼎盛股權投資管理有限公司 (Deqing Dingsheng Equity Investment and Management Company Limited*)
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB by PRC nationals and/or PRC-established entities
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Jinhui Micro-finance"	德清金匯小額貸款有限公司 (Deqing Jinhui Micro-finance Company Limited*), a non-wholly owned subsidiary of the Company
"Jinhui Micro-finance Registered Capital"	the registered capital of Jinhui Micro-finance
"Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Listing Date"	13 January 2015, the day on which the H Shares became listed on the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" and the "PRC" do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
"Predecessor Company"	德清佐力科創小額貸款有限公司 (Deqing Zuoli Kechuang Micro-finance Company Limited*), a limited liability company established in the PRC on 18 August 2011 and the predecessor of the Company

DEFINITIONS (CONTINUED)

"Previous Creditor's Rights Transfer Agreement"	the creditor's rights transfer agreement entered into between Xing Yao Micro-finance and Xing Yao Construction on 27 December 2018, pursuant to which Xing Yao Micro-finance agreed to sell and transfer, Xing Yao Construction agreed to accept the creditor's rights at a consideration of RMB4,326,250 (equivalent to approximately HK$4,975,187.5). For details, please refer to the announcement of the Company dated 27 December 2018
"Promoter(s)"	the promoters that established the Company on 28 April 2014. At the time of our establishment, our promoters comprised 6 corporate shareholders and 44 individual shareholders
"Puhua Energy"	德清普華能源有限公司 (Deqing Puhua Energy Company Limited*)
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	Domestic Share(s) and/or H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"SME(s)"	small and medium enterprise(s), as defined in the Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises (關於印發中小企業劃型標準規定的通知)
"Supervisor(s)"	the supervisor(s) of the Company
"Xingyao Micro-finance"	杭州市高新區(濱江)興耀普匯小額貸款有限公司 (Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd.*), a non-wholly owned subsidiary of the Company
"Xing Yao Construction"	杭州興耀建設集團有限公司 (Hangzhou Xing Yao Construction Group Co., Ltd*)
"Zheli Financial Service"	浙江浙裡金融信息服務有限公司 (Zhejiang Zheli Financial Information Service Co., Ltd.*), a limited liability company incorporated in the PRC
"Zuoli Holdings"	佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*)

* For identification purposes only

DIRECTORS

Executive Directors

Mr. Yu Yin *(Chairman)*
Mr. Zheng Xuegen *(Vice-Chairman)*
Mr. Yang Sheng *(Vice-Chairman)*
Ms. Hu Fangfang

Non-executive Director

Mr. Pan Zhongmin (formerly known as Pan Zhongming)

Independent non-executive Directors

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

SUPERVISORS

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

AUDIT COMMITTEE

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

REMUNERATION AND APPRAISAL COMMITTEE

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

NOMINATION COMMITTEE

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

LOAN APPROVAL COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.zlkcxd.cn

STOCK CODE

6866

AUDITOR

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

LEGAL ADVISERS

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

H SHARE REGISTRAR

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

PRINCIPAL BANKER

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

FINANCIAL SUMMARY

The following is a summary of assets and liabilities of the Group as at 31 December 2015, 2016, 2017, 2018 and 2019 and of the results of the Group for each of the years ended 31 December 2015, 2016, 2017, 2018 and 2019.

RESULTS	Year ended 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Interest income	212,128	243,360	314,301	337,536	**320,349**
Profit before taxation	196,961	200,869	209,382	191,212	**188,482**
Income tax	(50,442)	(50,333)	(53,530)	(48,312)	**(47,694)**
Profit and total comprehensive income for the year	146,519	150,536	155,852	142,900	**140,788**
Profit attributable to the equity shareholders of the Company	146,086	146,147	148,828	136,968	**131,587**
ASSETS AND LIABILITIES					
Total assets	1,522,570	2,033,266	2,217,262	2,427,471	**2,527,413**
Total liabilities	126,977	568,691	597,393	674,454	**781,108**
Total equity	1,395,593	1,464,575	1,619,869	1,753,017	**1,746,305**

CHAIRMAN'S STATEMENT

In 2019, the finance market maintained stable and healthy development as a whole. Under the further improved regulatory system, we insisted on continuously improving our financing capacity and strived to achieve a steady pace of development.

On behalf of the Board, I would like to express my gratitude to our Shareholders and stakeholders who have been following and supporting the development of the Company and all of our employees who have been striving for the best results for the Company. On behalf of the Group, I would like to present to you our operating results for 2019.

Over the past year, "intensive and strict supervision" was still the underlying values of the finance market, which has become a normal mechanism. However, the Company has gone ahead steadily and surely, maintaining a stable performance. In 2019, our loans scale reached RMB4,131.84 million; interest income reached RMB320.35 million; net profit reached RMB140.79 million; and amounts attributable to equity shareholders of the Company reached RMB131.59 million.

In 2019, under the main focus of stable development and risk control, the Company realized stable and orderly development on the basis of consolidating its original business and by adjusting the loan structure and optimizing customer quality. We will deepen the concept of innovative product design, fully taping the depth of the market, and provide customers with convenient and flexible financing services based on the principle of small amount and dispersion through efficient and rapid means to ensure the healthy and sustainable development of our core business.

COVID-19, which broke out in January 2020, has made an impact on social and economic development, which may affect the Group to a certain extent. The degree of impact will depend on the actual development situation of the COVID-19 epidemic. We will continue to monitor and actively respond to such situation.

Upholding the stability of micro-finance business, our core business, we will continue to accelerate the pace of transformation and upgrading in 2020, to achieve scientific, innovative and sustainable development of the Company.

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

20 March 2020

* *For identification purpose only*

INDUSTRY OVERVIEW

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

Competition within the microfinance industry in Zhejiang remains intense. As of 31 December 2019, the number of microfinance companies in Zhejiang reached 324 in total. The average registered capital per microfinance company amounted to RMB0.17 billion. The average loan balance per microfinance company amounted to RMB0.19 billion.

As of 31 December 2019, apart from the Group, there were three other microfinance companies in Deqing. The accumulated aggregate amount of loans granted by the Group and the three microfinance companies for the year ended 31 December 2019 reached RMB5.64 billion (2018: RMB5.8 billion), out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 73.3% (2018: 78.8%). As of 31 December 2019, the balance of loans of the Group and these three microfinance companies reached RMB3.57 billion (2018: RMB3.3 billion), out of which the balance of loans of the Group accounted for approximately 69.5% (2018: 72.6%).

BUSINESS OVERVIEW

As at 31 December 2019, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Financial Work Office of the People's Government of Zhejiang Province. We have been providing financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes.

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

Due to the increase in the size of our loan portfolio and strong demand for financing of our customers, our gross loan balance (excluding accrued interest) increased from RMB2,396.4 million as at 31 December 2018 to RMB2,482.7 million as at 31 December 2019.

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

	As at 31 December 2019	As at 31 December 2018
Registered capital (RMB'000)	**1,180,000**	1,180,000
Gross loans and advances to customers (excluding accrued interest, RMB'000)	**2,482,713**	2,396,383
Leverage ratio[1]	**2.10**	2.03

Note:

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

For the years ended 31 December 2018 and 2019, our average interest rates for loans were 14.8% and 12.8%, respectively. Our average loan interest rate decreased slightly during the aforesaid period, mainly due to the decrease in the average interest rate of the loans granted by other companies in the industry under the influence of external economic environment, and we properly adopted lower interest rates for some loans to keep industry competitiveness. At the same time, we continued to focus on serving customers with stronger repayment ability in 2019, to which we charged relatively lower interest rates in order to effectively control the credit risk.

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

	As at 31 December 2019	As at 31 December 2018
Up to RMB500,000	**1,857**	4,074
Over RMB500,000 to RMB1 million (inclusive)	**81**	133
Over RMB1 million to RMB5 million (inclusive)	**378**	364
Over RMB5 million	**114**	95
Total number of loans and advances to customers	**2,430**	4,666

As at 31 December 2018 and 2019, among our loan contracts, the higher proportion of loans with amount up to RMB1 million was mainly due to our main targets of service, including the SMEs and micro enterprises, individuals in the agricultural, industrial and service sectors in Huzhou City and Hangzhou City and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc., the loan amount granted to whom are generally lower. Among our loan contracts, the higher proportion of loans with amount up to RMB1 million decreased from 90.2% to 79.8%, mainly because the balance of internet loans as of 31 December 2019 decreased as compared to that of 31 December 2018, and the amount of internet loans was up to RMB0.5 million.

LOANS AND ADVANCES TO CUSTOMERS BY SECURITY

The following table sets out our loans and advances to customers by security as at the dates indicated:

	As at 31 December 2019 RMB'000	%	As at 31 December 2018 RMB'000	%
Unsecured loans[1]	29,575	1.2	53,584	2.2
Guaranteed loans	2,401,778	96.8	2,282,460	95.3
Collateralized loans	43,360	1.7	54,899	2.3
Pledged loans	8,000	0.3	5,440	0.2
Sub-total	2,482,713	100.0	2,396,383	100.0
Accrued interest	37,327		18,868	
Gross loans and advances to customers	2,520,040		2,415,251	

Note:

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

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

	As at 31 December 2019 RMB'000	%	As at 31 December 2018 RMB'000	%
Within three months	11,020	0.4	14,377	0.6
Three to six months	69,859	2.8	323,555	13.5
Six months to one year	2,377,400	95.8	2,029,895	84.7
More than one year	24,434	1.0	28,556	1.2
Sub-total	2,482,713	100.0	2,396,383	100.0
Accrued interest	37,327		18,868	
Gross loans and advances to customers	2,520,040		2,415,251	

The following table sets out our loans and advances to customers by exposure size as at the dates indicated:

	As at 31 December 2019 RMB'000	%	As at 31 December 2018 RMB'000	%
Up to RMB500,000	**102,400**	**4.1**	175,767	7.4
Over RMB500,000 to RMB1 million (inclusive)	**72,500**	**2.9**	120,486	5.0
Over RMB1 million to RMB5 million (inclusive)	**1,131,542**	**45.6**	1,054,540	44.0
Over RMB5 million	**1,176,271**	**47.4**	1,045,590	43.6
Sub-total	**2,482,713**	**100.0**	2,396,383	100.0
Accrued interest	**37,327**		18,868	
Gross loans and advances to customers	**2,520,040**		2,415,251	

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

	As at 31 December 2019			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
Gross loans and advances to customers	**2,412,683**	**158**	**107,199**	**2,520,040**
Less: Allowances for impairment losses	**(65,718)**	**(51)**	**(89,692)**	**(155,461)**
Net loans and advances to customers	**2,346,965**	**107**	**17,507**	**2,364,579**

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

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

	As at 31 December 2019	As at 31 December 2018
Impaired loan ratio[(1)]	**4.3%**	3.0%
Balance of impaired loans (RMB'000)	**107,199**	72,362
Gross loans and advances to customers (RMB'000)	**2,520,040**	2,415,251
Allowance coverage ratio[(2)]	**145%**	184%
Allowances for impairment losses[(3)] (RMB'000)	**155,461**	133,169
Balance of impaired loans (RMB'000)	**107,199**	72,362
Provision for impairment losses ratio[(4)]	**6.2%**	5.5%
Balance of overdue loans (RMB'000)	**71,038**	76,138
Gross loans and advances to customers (RMB'000)	**2,520,040**	2,415,251
Overdue loan ratio[(5)]	**2.8%**	3.2%

Notes:

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

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

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

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

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

Total impaired loans

Our balance of impaired loans increased from RMB72.4 million as of 31 December 2018 to RMB107.2 million as of 31 December 2019, which was mainly due to the increase of loan balance and the deterioration of the operating environment of some of our loan customers as at 31 December 2019.

Total overdue loans

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Unsecured loans	**18,172**	19,046
Guaranteed loans	**34,921**	45,292
Collateralized loans	**17,945**	11,800
Total overdue loans	**71,038**	76,138

We had overdue loans of RMB76.1 million and RMB71.0 million as at 31 December 2018 and 31 December 2019, respectively, accounting for 3.2% and 2.8% of our gross loan balance as at the respective dates. As at 20 March 2020, RMB1.8 million out of the overdue loans as of 31 December 2019 was recovered.

FINANCIAL OVERVIEW

Net interest income

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

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

	2019 RMB'000	2018 RMB'000
Interest income from		
Loans and advances to customers	**320,064**	336,799
Bank deposits	**285**	737
Total interest income	**320,349**	337,536
Interest and commission expenses from		
Borrowings from banks	**(9,030)**	(9,606)
Borrowings from non-bank institutions	**(40,222)**	(33,264)
Lease liabilities	**(194)**	—
Bank charges	**(107)**	(598)
Total interest and commission expenses	**(49,553)**	(43,468)
Net interest income	**270,796**	294,068

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rates that we charge on loans and advances to our customers. Our balance of loans increased during the reporting period, generally in line with the size of our capital base, which is in turn affected by the size of our net assets and financing. As at 31 December 2018 and 2019, our loan balance (excluding accrued interest) were RMB2,396.4 million and RMB2,482.7 million, respectively, and our average interest rates for loans were 14.8% and 12.8% for the years ended 31 December 2018 and 2019, respectively. Our average loan interest rates decreased slightly during the aforesaid period , mainly due to the decrease in the average interest rates of the loans granted by other companies in the industry under the influence of the external economic environment in the PRC, and we properly adopted lower interest rates for some loans to keep industry competitiveness. At the same time, we continued to focus on serving customers with stronger repayment ability in 2019, to which we charged relatively lower interest rates in order to effectively control the credit risk.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, lease liabilities as well as bank charges, were RMB43.5 million and RMB49.6 million for the years ended 31 December 2018 and 2019, respectively. We incurred interest expenses primarily on the interest payment on bank borrowings and non-bank institutions borrowings, including other borrowings from third parties, convertible bonds and borrowings from Euro zone, which were principally applied to expand our loan business.

Our balance of bank borrowings (excluding accrued interest) as at 31 December 2018 and 2019 amounted to RMB180 million and RMB150 million, respectively. Our balance of borrowings from non-bank institutions (excluding accrued interest) amounted to RMB393.9 million and RMB558.1 million as at 31 December 2018 and 2019, respectively.

For the years ended 31 December 2018 and 2019, our net interest income were RMB294.1 million and RMB270.8 million, respectively.

Other net income

Our other net income for the years ended 31 December 2018 and 2019 were RMB13.4 million and RMB14.2 million, respectively.

Impairment losses

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

For the years ended 31 December 2018 and 2019, our impairment losses were RMB47.4 million and RMB36.7 million, respectively.

Administrative expenses

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

	2019 RMB'000	2018 RMB'000
Tax and surcharge	**1,729**	1,674
Staff costs	**22,903**	24,066
Office expenditures and travel expenses	**7,421**	7,851
Operating lease charges	**43**	2,079
Depreciation and amortization expenses	**8,608**	6,652
Consulting and professional service fees	**9,034**	12,034
Business development expenses	**3,659**	3,867
Advertising expenses	**2,710**	4,317
Others	**3,654**	6,278
Total administrative expenses	**59,761**	68,818

Our staff costs accounted for approximately 35.0% and 38.3% of the total administrative expenses for the years ended 31 December 2018 and 2019, respectively. Our staff costs slightly decreased from RMB24.1 million for the year ended 31 December 2018 to RMB22.9 million for the year ended 31 December 2019, which was mainly attributable to the slightly decrease in the number of non-business personnel in 2019 compared to previous year.

Our depreciation and amortisation expenses increased from RMB6.7 million for the year ended 31 December 2018 to RMB8.6 million for the year ended 31 December 2019, which was mainly attributable to the depreciation of additional right-of-use assets according to HKFRS 16 Lease.

Income tax

Our income taxes for the years ended 31 December 2018 and 2019 were RMB48.3 million and RMB47.7 million, respectively, and our effective tax rates were 25.3% and 25.3%, respectively.

Profit and total comprehensive income for the year

We had profit for the year of RMB142.9 million and RMB140.8 million for the years ended 31 December 2018 and 2019, respectively.

Liquidity and capital resources

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

As at 31 December 2019, our balance of interest-bearing borrowings was approximately RMB716.0 million (31 December 2018: RMB580.1 million).

WORKING CAPITAL MANAGEMENT

Cash flows

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

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents as at 1 January	**41,707**	37,235
Net cash generated from/(used in) operating activities	**92,675**	(9,383)
Net cash (used in)/generated from investing activities	**(7,835)**	12,139
Net cash (used in)/generated from financing activities	**(71,156)**	1,718
Net increase in cash and cash equivalents	**13,684**	4,474
Effect of the change of exchange rate	**(81)**	(2)
Cash and cash equivalents as at 31 December	**55,310**	41,707

Net cash generated from operating activities

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

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

Net cash generated from operating activities for the year ended 31 December 2019 was RMB92.7 million. Our net cash generated from operating activities reflect: (i) our profit before tax of RMB188.5 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB36.7 million, depreciation and amortization of RMB8.6 million, interest expenses of RMB49.4 million, investment income of RMB0.6 million, foreign exchange losses of RMB1.4 million; (ii) the effect of changes in working capital, primarily including the increase in loans and advances to customers of RMB116.7 million, the decrease in interest receivables and other assets of RMB2.3 million, and the decrease in accruals and other payables of RMB17.2 million; and (iii) income tax paid of RMB59.8 million.

Net cash used in investing activities

For the year ended 31 December 2019, our net cash used in investing activities was RMB7.8 million. Our net cash used in investing activities mainly consisted of: payment for the purchase of fixed assets and intangible assets of RMB8.6 million, which was partially offset by income received from the wealth management products of RMB0.6 million and income received from the disposal of fixed assets of RMB0.2 million.

Net cash used in financing activities

For the year ended 31 December 2019, our net cash used in financing activities was RMB71.2 million. Our cash used in financing activities mainly consisted of: (i) repayment of financing from interest-bearing borrowings amounting to RMB950.9 million, (ii) payment of interest on borrowings of RMB38.3 million, (iii) payment of shareholder bonus of RMB155.2 million, and (iv) payment of lease of RMB2.8 million. Our cash generated from financing activities mainly represents financing from interest-bearing borrowings received of RMB1,076.0 million.

Cash management

As our business primarily relies on our available cash, we normally set aside a sufficient amount of cash for meeting general working capital needs, such as administrative expenses and payment of interests on borrowings from banks and other non-bank institutions, and use the remaining parts for granting loans to our customers. As at 31 December 2018 and 2019, total cash and cash equivalents amounted to RMB41.7 million and RMB55.3 million, respectively.

Cash and cash equivalents

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Cash in hand	**2**	3
Cash at banks	**54,906**	41,176
Other currencies cash	**402**	528
Cash and cash equivalents	**55,310**	41,707

Loans and advances to customers

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Corporate loans	**878,370**	759,910
Retail loans	**1,566,901**	1,561,718
Internet loans	**37,442**	74,755
Sub-total	**2,482,713**	2,396,383
Accrued interest	**37,327**	18,868
Gross loans and advances to customers	**2,520,040**	2,415,251
Less: Allowances for impairment losses	**(155,461)**	(133,169)
Net loans and advances to customers	**2,364,579**	2,282,082

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

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Within three months	**11,020**	14,377
Three to six months	**69,859**	323,555
Six months to one year	**2,377,400**	2,029,895
More than one year	**24,434**	28,556
Sub-total	**2,482,713**	2,396,383
Accrued interest	**37,327**	18,868
Gross loans and advances to customers	**2,520,040**	2,415,251

We had overdue loans of RMB76.1 million and RMB71.0 million as at 31 December 2018 and 2019, respectively, accounting for approximately 3.2% and 2.8% of our gross loans and advances to customers as at the same dates.

The following table sets out our loans and advances to customers by security as at the dates indicated:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Unsecured loans[1]	29,575	53,584
Guaranteed loans	2,401,778	2,282,460
Collateralized loans	43,360	54,899
Pledged loans	8,000	5,440
Sub-total	2,482,713	2,396,383
Accrued interest	37,327	18,868
Gross loans and advances to customers	2,520,040	2,415,251

Note:

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

The majority of our loans were guaranteed loans, which accounted for approximately 95.3% and 96.8% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2018 and 2019, respectively.

OTHER ASSETS

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Prepayment	1,173	1,282
others	25	556
Total other assets	1,198	1,838

Accruals and other payables

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Staff costs payable	**5,788**	5,657
Value-added tax payable	**1,933**	1,826
Tax and surcharges and other taxation payable	**117**	674
Dividends payable to non-controlling interests	**—**	6,400
Other payables	**14,775**	36,061
Total accruals and other payables	**22,613**	50,618

Our accruals and other payables decreased by RMB28.0 million during the aforesaid period, which was mainly attributable to the dividends payable to non-controlling interests of Xingyao Micro-finance, a non-wholly owned subsidiary of the Company paid in 2019.

Current taxation

Our current taxation, representing our income tax payable, were RMB43.8 million and RMB41.2 million as at 31 December 2018 and 2019, respectively.

Operating lease commitments

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	31 December 2018 RMB'000
Within one year	2,800
After one year but within five years	1,400
Total	4,200

The Group is the lessee in respect of certain properties which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to these leases. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with such policies.

Capital commitments

As at 31 December 2019, we did not have any capital commitments (2018: nil).

Key financial indicators

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

	For the year ended 31 December 2019	For the year ended 31 December 2018
Return on weighted average equity (%)	**8.0**	8.6
Average return on assets (%)[1]	**5.7**	6.2

Note:

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

Our return on weighted average equity and average return on assets decreased slightly mainly due to the increase in weighted average net assets and average total assets for the year ended 31 December 2019 as compared to the year ended 31 December 2018.

Gearing Ratio

	As at 31 December 2019	As at 31 December 2018
Gearing ratio (%)[1]	**40.4**	32.6

Note:

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

As of 31 December 2019, our gearing ratio increased, which was mainly due to the fact that the interest-bearing borrowings as of 31 December 2019 increased as compared to 31 December 2018 and the scale of interest-bearing borrowings was in line with the loans scale of the Company.

Related party transactions

For the year ended 31 December 2019, Mr. Yu Yin, an executive Director and the chairman of the Board, and other related parties had guaranteed some of our interest-bearing borrowings. As at 31 December 2019, the amount of guarantee provided by Mr. Yu Yin and other related parties amounted to RMB659.4 million. Such related party transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the captioned provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

For the year ended 31 December 2019, the Company leased a property from Zuoli Holdings with a depreciation expenses on right-of-use assets and interest expense of RMB2.2 million. Puhua Energy is a Controlling Shareholder and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted the continuing connected transactions under Chapter 14A of the Listing Rules.

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

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

On 18 October 2019, Xingyao Micro-finance entered into the Creditor's Rights Transfer Agreement with Xing Yao Construction, pursuant to which Xingyao Micro-finance agreed to sell and transfer, and Xing Yao Construction agreed to accept the Creditor's Rights against borrowers at a consideration of RMB10,789,320 (equivalent to approximately HK$11,976,145.2). The entering into of the Creditor's Rights Transfer Agreement allows Xingyao Micro-finance the chance to recoup the corresponding loans (including the incurred interests) in full by reducing the default risks exposure to those borrowers.

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

Pursuant to Rule 14A.81 of the Listing Rules, as the Previous Creditor's Rights Transfer Agreement and the Creditor's Rights Transfer Agreement were entered into by Xing Yao Micro-finance and Xing Yao Construction and are of a similar nature, the transactions contemplated under the Previous Creditor's Rights Transfer Agreement and the Creditor's Rights Transfer Agreement should be aggregated.

Since one or more of the applicable percentage ratios (set out in Rule 14.07 of the Listing Rules) in respect of the transaction contemplated under the Creditor's Rights Transfer Agreement, when aggregated, is more than 0.1% but are less than 5%, the transaction contemplated under the Creditor's Rights Transfer Agreement is subject to the reporting and announcement requirements but exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. The Company has duly announced the said transaction on 18 October 2019.

Save as disclosed above, during the year ended 31 December 2019, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

INDEBTEDNESS

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Interest-bearing borrowings	**715,972**	580,079

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

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2019, we did not have any off-balance sheet arrangements (2018: nil).

EMPLOYMENT AND EMOLUMENTS

As at 31 December 2019, the Company had approximately 128 employees (2018: 141). Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid, which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance, etc.

SIGNIFICANT INVESTMENT

Save and except for the wealth management products issued by banks in the PRC, the Group had no significant investments during the year ended 31 December 2019.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisition or disposal of subsidiaries, associates or joint ventures during the year ended 31 December 2019.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2019, the Group has pledged 60% of the equity interest of Xingyao Micro-finance held by the Company as a guarantee for the financing of Jinhui Micro-finance and pledged 44% of the equity interest of Jinhui Micro-finance held by the Company as a guarantee for the financing of the Company and Jinhui Micro-finance (2018: pledged 60% of the equity interest of Xingyao Micro-finance held by the Company as a guarantee for the financing of Jinhui Micro-finance).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

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

FOREIGN CURRENCY RISK

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

The Group operates in the PRC. Save as the exposure to foreign exchange risk mainly arising from bank deposits in EUR and foreign borrowings denominated in EUR, the Group was not exposed to foreign exchange risk arising from any other currency risk. The management will continue to monitor the exposure to foreign exchange and adopt prudent measures to minimize exchange risk.

CONTINGENT LIABILITIES

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

PROSPECTS

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

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

Jinhui Micro-finance, a subsidiary of the Group, is located in Deqing. As the Group's main platform for conducting micro-finance business, it helped us consolidate our market share in Deqing and further increase our market penetration rate of AFR (三農) customers.

Xingyao Micro-finance, another subsidiary of the Group, is located in Binjiang District, Hangzhou City, and Binjiang District. Hangzhou City is one of the first batch of National High-tech Industrial Development Zone in China and Hangzhou City is the "Internet Capital" of China at the same time, so the high-tech industry and internet industry in the zone are booming and our competitive advantages has been further enhanced.

USE OF PROCEEDS

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

DIRECTORS

Executive Directors

Mr. Yu Yin (俞寅), aged 33, is the executive Director and the chairman of the Board. Mr. Yu is one of the Promoters of the Company. He is primarily responsible for the Company's day-to-day management, postulating business development plans and overseeing the Company's overall corporate strategies. He is also a member of the Nomination Committee and Remuneration and Appraisal Committee. Mr. Yu is the son of Mr. Yu Youqiang (俞有強) who is the controlling shareholder of Puhua Energy, one of our Controlling Shareholders.

From August 2007 to March 2011, Mr. Yu was the chairman of the board of directors at Zhejiang Deqing Longxiang Investment Company Limited* (浙江德清隆祥投資有限公司, formerly known as Zhejiang Deqing Longxiang Guaranty Company Limited* (浙江德清隆祥擔保投資有限公司, "**Deqing Longxiang**"), a company that principally engaged in the provision of guarantee for SMEs and individuals and the related advisory services, and investment holding. Mr. Yu was involved in decision making of key issues but was not involved in the day-to-day management of Deqing Longxiang. During the same period of time, Mr. Yu was also working as an assistant to the president* (行長助理), being responsible for marketing at Deqing Rural Cooperative Bank Wukang Branch* (德清農村合作銀行武康支行, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited* (浙江德清農村商業銀行股份有限公司)). From July 2015, Mr. Yu acted as the chairman of Deqing Jinhui Micro-finance Company Limited* (德清金匯小額貸款有限公司), a subsidiary of the Company. From June 2016 to July 2019, Mr. Yu is the chairman of the board of directors at Zhejiang Province Anli Tourism Development Company Limited* (浙江郡安里文旅發展有限公司) (formerly known as Deqing County Anli Tourism Development Company Limited* (德清郡安里旅遊開發有限公司)). Since June 2016, Mr. Yu Yin is the chairman of the board of directors at Deqing Yulong Tourism Development Company Limited* (德清御隆旅遊開發有限公司). Since December 2015, Mr. Yu Yin is the vice chairman of the board of directors at Zuoli Holdings Group Company Limited* (佐力控股集團有限公司).

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

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

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

Mr. Zheng Xuegen (鄭學根), aged 55, is the executive Director, and the vice chairman, deputy general manager and secretary to the Board. Mr. Zheng is also one of the founders of the Company. He is primarily responsible for the day-to-day operations, strategic development and administrative management. He is also a member of the Loan Approval Committee.

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

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

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

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

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

Mr. Yang Sheng (楊晟), aged 45, is the executive Director, the general manager of the Company, the vice chairman of the Board and also the chairman of the Loan Approval Committee, who is mainly responsible for the business management of the Company. Before joining the Company, Mr. Yang accumulated ample experience on credit and management in Bank of China. From February 1994 to June 2003, Mr. Yang was a staff member at Huzhou City Branch of Bank of China. Mr. Yang served as the deputy head of security department in Huzhou City Branch of Bank of China from June 2003 to July 2007. Mr. Yang served as the head of security department in Huzhou City Branch of Bank of China from July 2007 to August 2010. Mr. Yang served as the head of general management department in Huzhou City Branch of Bank of China from January 2010 to August 2010. Mr. Yang was assigned to Anji County Sub-branch of Bank of China as the president from August 2010 to January 2014. Mr. Yang was the president of Deqing County Sub-branch of Bank of China from January 2014 to August 2015. Mr. Yang has served as the general manager of 德清金匯小額貸款有限公司 (Deqing Jinhui Micro-finance

Company Limited*), a subsidiary of the Company, from April 2018 to August 2018. Since December 2016, Mr. Yang has served as the chairman of the board of directors of 杭州市高新區(濱江)興耀普匯小額貸款有限公司 (Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd.*), a subsidiary of the Company. Since March 2018, Mr. Yang has acted as a director of 佐力(深圳)企業發展有限公司 (Zuoli (Shenzhen) Enterprise Development Co., Ltd.*). Since August 2018, Mr. Yang has been appointed as the general manager of the Company.

Ms. Hu Fangfang (胡芳芳), aged 38, joined the Company as the Chief Financial Controller and a member of the Loan Approval Committee on 1 July 2015. Ms. Hu is responsible for coordinating and guiding the financial management, budget management, accounting and auditing and internal control aspects of the Company. As executive Director, Ms. Hu will be responsible for formulating the Company's financial strategies, organize and implement important internal audit activities, coordinate fund raising activities for working capital of the Company's operation and prepare the Company's financial planning. She will also be responsible for monitoring the financial affairs of the Company's subsidiaries, assist senior management in implementing business strategies and operation plans to achieve the Company's operation and management targets and development goals. Prior to joining the Company, Ms. Hu has built up extensive experience on financial management.

From July 2004 to November 2006, Ms. Hu worked in Zhejiang Jiangong Real Estate Development Group Company Limited (浙江建工房地產開發集團有限公司) and engaged in financial duties. From November 2006 to December 2008, she worked in Zhejiang Dongfang Accountants Company Limited (浙江東方會計師事務所有限公司) and engaged in on-site audit works. From December 2008 to June 2015, Ms. Hu served as a manager of Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)). Ms. Hu has served as a director of Deqing Jinhui Micro-finance Company Limited* (德清金匯小額貸款有限公司), a subsidiary of the Company from July 2015 to April 2019. Ms. Hu has served as a supervisor of Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd.* (杭州市高新區(濱江)興耀普匯小額貸款有限公司), a subsidiary of the Company since December 2016.

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

Non-executive Director

Mr. Pan Zhongmin (潘忠敏) (formerly known as Pan Zhongming (潘忠明)), aged 46, was appointed as the non-executive Director on 8 August 2014. Mr. Pan has over 10 years of experience in marketing related matters. From October 1998 to February 2003, Mr. Pan worked as a sales and marketing representative in Deqing Wukang Zhong Sheng Refractory and Heat Insulating Material Operating Department* (德清縣武康中盛耐火保溫材料經營部), a company primarily engaged in the sales and marketing of heat insulating material and refractory materials. From March 2003 to January 2005, Mr. Pan Zhongmin worked as a deputy general manager in Hangzhou Meibao Furnace Engineering Co., Ltd.* (杭州美寶爐窖工程有限公司), a company primarily engaged in the design, production and installation of furnace. He was responsible for overseeing the daily operation in the abovementioned companies. Since March 2005 till now, Mr. Pan has been the chairman of the board of directors of Bangni Fiber. Bangni Fiber is a company mainly engaged in production and sales of refractory fiber and materials where Mr. Pan has been responsible for strategic planning and business development.

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

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

Independent non-executive Directors

Mr. Ho Yuk Ming, Hugo (何育明), aged 48, was appointed as the independent non-executive Director on 28 April 2014. Mr. Ho is also a chairman of the Audit Committee and a member of the Remuneration and Appraisal Committee. Mr. Ho is a qualified professional accountant with over 19 years of experience in auditing, accounting and financial management. He is an associate member of the Hong Kong Institute of Certified Public Accountants. He held senior position in a number of public and holding companies in Hong Kong. He graduated from the Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) with a honours diploma in accounting in July 1996. Mr. Ho served as the independent non-executive director of Greatwalle Inc.* (長城匯理公司) (formerly known as King Force Group Holdings Limited*(冠輝集團控股有限公司), stock code: 8315) from September 2016 to July 2018. Currently, Mr. Ho is the chief financial officer and the company secretary of National Investments Fund Limited (Stock code: 1227), and an independent non-executive director of Wuxi Sunlit Science and Technology Company Limited* (Stock code: 1289), the shares of which are listed on the Main Board of the Stock Exchange.

Mr. Jin Xuejun (金雪軍), aged 61, was appointed as the independent non-executive Director on 28 April 2014. Mr. Jin is also a member of the Audit Committee and Nomination Committee and a chairman of the Remuneration and Appraisal Committee of the Board.

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

Mr. Jin served as the independent non-executive director of Xinhu Zhongbao Co., Ltd.* (新湖中寶股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600208) ,China Zheshang Bank Co., Ltd. (浙商銀行股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 2016), Zhejiang Weixing Industry Development Co., Ltd.* (浙江偉星實業發展股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002003) and Huaan Securities Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600909) from September 2012 to July 2018 , March 2016 to November 2018, September 2012 to June 2019 and 2015 to July 2019, respectively. Mr. Jin served as the non-executive director of Hakim Information Technology Co., Ltd.* (漢鼎信息科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300300) since February 2014.

Mr. Jin graduated from Nankai University (南開大學) and obtained a bachelor's degree in economics in January 1982. Mr. Jin obtained a master's degree in economics from Nankai University in December 1984.

Ms. Huang Lianxi (**黃廉熙**), aged 57, was appointed as the independent non-executive Director on 28 April 2014. Ms. Huang is also a member of the Audit Committee and a chairman of the Nomination Committee.

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

Ms. Huang served as the independent non-executive director of Zhejiang Kangsheng Co., Ltd. (浙江康盛股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002418), from July 2013 to December 2018. She has been an independent non-executive director of Zhejiang Youpon Integrated Ceiling Co., Ltd.* (浙江友邦集成吊頂股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002718), Shenghua Lande Scitech Limited* (浙江升華蘭德科技股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 8106) and HANJIA DESIGN GROUP CO., LTD* (漢嘉設計集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300746) since March 2016, May 2017 and November 2019, respectively. In August 1983, Ms. Huang Lianxi graduated from East China College of Political Science and Law (華東政法學院) (currently known as East China University of Political Science and Law (華東政法大學)) majoring in law. Ms. Huang furthered her legal study at Shanghai College of International Business and Economics (上海對外貿易學院) (currently known as Shanghai University of International Business and Economics (上海對外貿易大學)) in September 1984 and graduated in July 1986. From 1991 to 1992, Ms. Huang attended an one-year course in United Kingdom Practical Training Scheme for Lawyers of the People's Republic of China at the University of London and obtained a certificate of completion in July 1992. Ms. Huang was granted the qualification to practice in securities law jointly by Ministry of Justice of the PRC and CSRC in July 1996.

SUPERVISORS

Mr. Dai Shengqing (戴勝慶), aged 52, was appointed as the Supervisor with effect from 8 August 2014. From September 1984 to July 1986, Mr. Dai studied at Zhejiang College of Finance & Economics* (浙江財政學校) (currently known as Zhejiang University of Finance & Economics (浙江財經大學)) majoring in infrastructure finance and credit* (基建財務與信用), and obtained a diploma in vocational education from Zhejiang College of Finance & Economics in September 1986. From September 1988 to November 1992, Mr. Dai studied part-time at Zhejiang Radio & Television University (浙江廣播電視大學) majoring in finance, and obtained a college diploma (專科文憑) from Zhejiang Radio & Television University in December 1992.

From July 1986 to August 2001, Mr. Dai worked at Deqing Sub-branch of China Construction Bank (中國建設銀行德清支行), a company whose shares are currently listed on the Shanghai Stock Exchange (Stock Code: 601939) and the Hong Kong Stock Exchange (Stock Code: 0939). From September 2001 to September 2010, Mr. Dai worked as a deputy general manager at Deqing Xing Long Real Estate Development Company Limited* (德清興隆房地產開發有限公司). From October 2010 to December 2012, Mr. Dai worked as a deputy general manager at Zhejiang Dewei Science and Technology Company Limited* (浙江德微科技有限公司), a company primarily engaged in research and development in software and hardware. Since January 2013 till now, Mr. Dai Shengqing worked as a deputy general manager in Deqing Yulong Tourism Development Company Limited* (德清御隆旅遊開發有限公司), a company primarily engaged in tourism program development. Since March 2017 to March 2019, Mr. Dai Shengqing worked as a general manager in Zhejiang Province Anli Tourism Development Company Limited* (浙江郡安里文旅發展有限公司) (formerly known as Deqing County Anli Tourism Development Company Limited* (德清郡安里旅遊開發有限公司), a company primarily engaged in tourism program development). In November 1998, Mr. Dai Shengqing obtained the qualification certificate of finance (intermediate level)* (專業資格證書金融專業(中級)) issued by the Ministry of Personnel of the PRC (中華人民共和國人事部, currently known as the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)).

Ms. Yang Zhenlan (楊振嵐), aged 28, was appointed as the Supervisor, has been serving the Company's administrative management department since October 2014.

Mr. Wang Peijun (王培軍), aged 46, was appointed as the Supervisor with effect from 8 August 2014. From September 1994 to August 1997, Mr. Wang studied marketing courses provided by Anhui University (安徽大學), and obtained a graduate certificate from Anhui University in August 1997. In January 2011, Mr. Wang graduated from the college of online education of Chongqing University (重慶大學) majoring in engineering management (engineering cost management)* (工程管理(工程造價管理方向)) with a college diploma (專科文憑).

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

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

EXPLANATION ON REPORT PREPARATION

Scope of Report Time:

This report is an annual report with a time spin between 1 January 2019 and 31 December 2019 (except when specifically indicated).

Scope of Report Organization:

It covers Zuoli Kechuang Micro-finance Company Limited (the "**Company**") and three subsidiaries (collectively, the "**Group**").

Basis for Report Preparation:

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

Data Explanation:

In the report, some of the financial data is from the financial statements of Zuoli Kechuang Micro-finance Company Limited for 2019 (which have been audited by KPMG). Other data is mainly from the Group's internal system and the statistics from the respective subsidiaries.

Guarantee Method for the Report:

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

Publication Method of the Report:

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

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

CHAIRMAN'S STATEMENT

In 2019, the basic trend of China's long-term economic development remained unchanged, but the business environment of financial industry has become more severe and complex, presenting both opportunities and challenges. Facing with series of policies and market orientation, the Company has persisted in serving the real economy, adhered to the principle of "small and diverse", implemented the business philosophy of seeking sustainable development, further improved its resources deployment and strived for steady development.

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

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

In terms of the assumption of social responsibilities, "donation of warm clothes for students in Yushu primary school" has become an internal traditional campaign of the Company. In cooperation with "Yinxing Fund", the Group expresses its condolences and care to disadvantaged families in the county. Through the labour union, the Company provides the disabled with consolation funds in the county and grants loans for the startup of disadvantaged groups totalling RMB0.2 million and loans to the education system totalling RMB7.37 million. The Company strongly supported poor students and provided interest-free grants and loans to them.

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

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

The transformation of financial markets is an irreversible trend of economic development of the PRC. During this phase, opportunities coexist with challenges, which remind us to always keep a sense of crisis. In view of this, Zuoli Micro-finance will continue to accelerate the pace of transformation and upgrade and continue to move forward under regulatory adjustments to develop the businesses of the Group for a more diversified and more professional trend based on the micro-finance business.

1. ABOUT US

1.1. Company Profile

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

The Company is currently located in Deqing County, Huzhou City, Zhejiang Province. In 2015, the Company successfully acquired Deqing Jin Hui Micro-finance Co., Ltd (德清金匯小額貸款有限公司). In 2016, the Company successfully acquired Hangzhou High-tech District (Binjiang) Xingyao Pu Hui Micro-finance Co., Ltd (杭州市高新區(濱江)興耀普匯小額貸款有限公司). In terms of registered capital, the Group is currently the largest microfinance company in Zhejiang Province.

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

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

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

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

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

1. ABOUT US (Continued)

1.1. Company Profile (Continued)

1.1.1. Corporate Culture

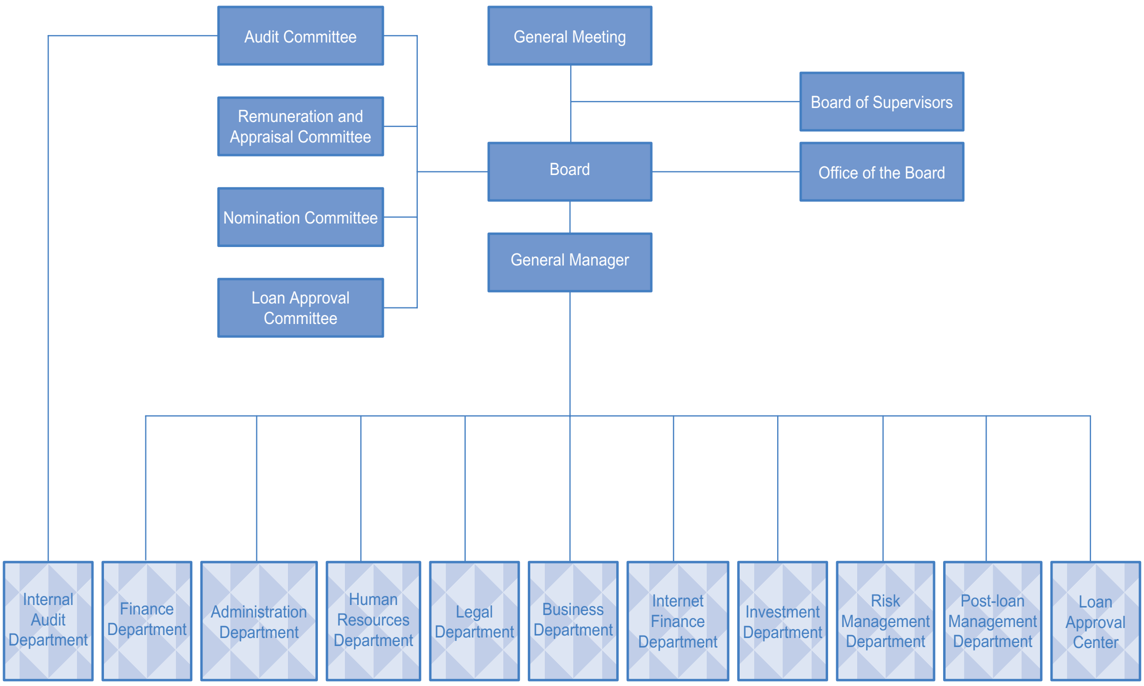
Corporate culture is the soft power of corporate development. Culture matching with the development of the Company will strengthen the staff cohesion and encourage them to provide better services for achieving the Company's strategies. The Group continues to develop its business while emphasizing on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

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

1.1.2. Corporate Governance

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

Corporate Governance Structure:



1. ABOUT US (Continued)

1.2. Table of Key Performance

Key Performance Indicators[1]	Unit	2019	2018
Economic Performance			
Net interest income	RMB0'000	**27,080**	29,407
Total profit	RMB0'000	**18,848**	19,121
Net profit attributable to shareholders of the parent Company	RMB0'000	**13,159**	13,697
Basic earnings per share	RMB	**0.11**	0.12
Total assets	RMB0'000	**252,741**	242,747
Total liabilities	RMB0'000	**78,111**	67,445
Impaired loan ratio	%	**4.25**	3.02
Provision coverage ratio	%	**145.02**	184.03
Social Performance			
Total taxes paid	RMB0'000	**8,021**	4,559
Total donations	RMB0'000	**14**	14
Total employees	person	**128**	141
Including: Male employees	person	**60**	63
Female employees	person	**68**	78
Ethnic-minority employees	person	**1**	2
Turnover rate of employees (under contracts)	%	**16.31**	24.29
Total training input	RMB0'000	**7**	56
Social contribution per share	RMB/share	**0.24**	0.22
Environmental Performance			
Remaining balance of internet loans	RMB0'000	**3,744**	7,476
Per capita urban electricity consumption	kWh/person	**2,146.23**	2,598.60
Per capita urban water consumption	ton/person	**34.43**	48.17
Per capita Xerox paper consumption	kilogram/person	**5.57**	8.14

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

1.3. Honours

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

1. ABOUT US (Continued)

1.3. Honours (Continued)

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

In March 2019, the Group was awarded the "2018 Advanced unit for Communications Reporting of Micro-finance Industry (2018年度小貸行業通訊報導先進單位)" by the China Micro-credit Companies Association (中國小額貸款公司協會).

In March 2019, the Group was awarded the 2018 "Double Star (雙星)" enterprise of service industry in Deqing County.

In August 2019, the Group was awarded the "Grade A Outstanding Micro-finance Company of Zhejiang Province* (浙江省A級優秀小額貸款公司)" by the Financial Work Office of the People's Government of Zhejiang Province* (浙江省人民政府金融辦公室).

1.4. Analysis of Stakeholders

To promote the development of the Company, the Group further improved the communication with stakeholders and responded to demands of stakeholders in a timely and sincere manner in 2019.

The stakeholders identified by the Group include:

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

1. ABOUT US (Continued)

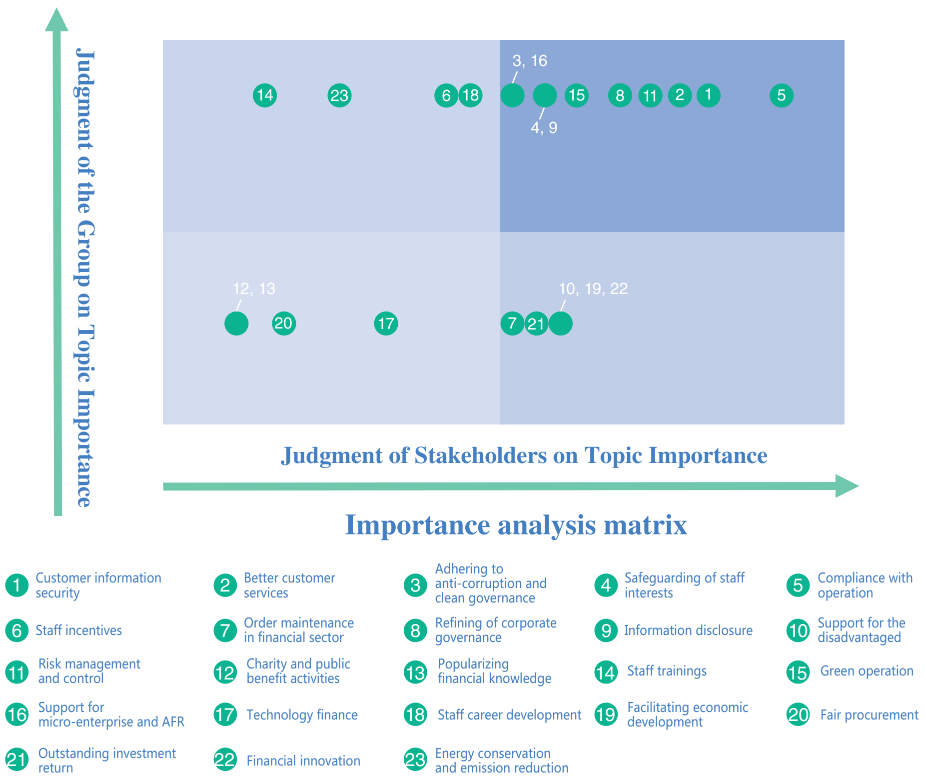
1.4. Analysis of Stakeholders (Continued)

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

1. ABOUT US (Continued)

1.5. Importance analysis matrix

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



2. ECONOMIC RESPONSIBILITIES

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

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

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

2. ECONOMIC RESPONSIBILITIES (Continued)

2.1. Promoting economic development

2.1.1. Supporting local economic development

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

As of 31 December 2019, the balance of non-online loans of the Group was RMB2,445.27million (excluding accrued interests), representing an increase of RMB123.64 million as compared with RMB2,321.63 million as at 31 December 2018.

2.1.2. Supporting real economies

For the purpose of meeting the genuine demand of diversified and different customers and contributing to the development of real economies, various corporate loan balances granted by the Group for supporting real economies amounted to RMB878.37 million (excluding accrued interests) as of 31 December 2019, representing an increase of RMB118.46 million as compared to that of RMB759.91 million as of 31 December 2018.

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

The Group has adhered to the idea of supporting the growth of micro-to-small enterprises in our operation. In the extent of efficient risk control, the loan balance granted by the Group to sole proprietors amounted to RMB438.71 million (excluding accrued interests) as of 31 December 2019, representing an increase of RMB74.04 million as compared with RMB364.67 million as at 31 December 2018.

2.1.4. Supporting "AFR (三農)" development

The "AFR (三農)" issues faced by the PRC require prompt solutions. In 2019, under the premise of effective credit risk control, the Group actively involved in promoting development of "AFR (三農)" business in the regions of operation through various measures. As of 31 December 2019, the Group's offline loan balance for "AFR (三農)" amounted to RMB1,959.71 million (excluding accrued interests). The offline loan balance for "AFR (三農)" in 2019 increased by RMB201.64 million as compared to that of RMB1,758.07 million (excluding accrued interests) in 2018.

2.2. Facilitating improvement in livelihood

The Group has been placing great concerns on the development of educational business, and endeavoured to satisfy the capital needs required by developing educational business. As of 31 December 2019, the loan balance for educational business of the Group amounted to RMB7.78 million (excluding accrued interests). As of 31 December 2018, the loan balance for educational business of the Group amounted to RMB5.98 million (excluding accrued interests). In 2019, the Group granted interest-free loans in an accumulated amount of RMB160 thousand to poverty-stricken university students in cooperation with charity organizations, as same as that of RMB160 thousand in 2018.

2. ECONOMIC RESPONSIBILITIES (Continued)

2.3. Technology Finance

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

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

As of 31 December 2019, the Group's Internet loan balance amounted to RMB37.44 million (excluding accrued interests). As of 31 December 2018, the Group's Internet loan balance amounted to RMB74.76 million (excluding accrued interests).

3. ENVIRONMENTAL RESPONSIBILITIES

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

3.1. Green operation

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

3.2. Emission[2]

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

As of 31 December 2019, the Group did not emit any harmful or harmless wastes.

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

3. ENVIRONMENTAL RESPONSIBILITIES (Continued)

3.2. Emission (Continued)

Waste gas emission[3]:	Unit	2019	2018
NO_X emission of vehicles	kilogram	169.61	201.28
NO_X emission of gaseous fuel	kilogram	—	0.03
Emission of NO_X	kilogram	169.61	201.31
SO_2 emission[4]	kilogram	0.27	0.30
Particulate emission[5]	kilogram	16.20	19.29

Emission of greenhouse gas[6]:	Unit	2019	2018
Direct greenhouse gas emission of fuels in stationary sources (CO_2 equivalent)	ton	6.60	264.48
Direct greenhouse gas emission of vehicles (CO_2 equivalent)	ton	42.81	48.85
Direct greenhouse gas emission and reduction (CO_2 equivalent)	ton	49.41	313.33
Energy indirect greenhouse gas emission (CO_2 equivalent)[7]	ton	223.22	297.72
Other indirect greenhouse gas emission (CO_2 equivalent)[8]	ton	4.64	11.32
Total greenhouse gas emission (CO_2 equivalent)	ton	277.27	622.37
Greenhouse gas emission per capita (CO_2 equivalent)	Ton/person	2.17	4.41

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

3. ENVIRONMENTAL RESPONSIBILITIES (Continued)

3.3. Use of Resources

The Group conserves water and electricity in the operation: In order to increase the environmental awareness of our staff, the Group included the concepts of conserving water, resources, and electricity and avoiding wastage in written form in the Articles of Association, specifically including the conditions and principles of using high electrical consumption appliances such as air conditioners, computers and lamps. Meanwhile, the Group required the staff to save water. The Group's water consumption per capita in 2019 was 34.43 tonnes/person.

The Group obtains water from the water works company within its jurisdiction. As of 31 December 2019, the Group did not produce any finished products, and did not use any packaging materials for finished products.

Use of resources[9]	Unit	2019	2018
Electricity consumption	kWh	**274,717.41**	366,403.14
Electricity consumption per capita	kWh/person	**2,146.23**	2,598.60
Oil consumption	litre	**17,636.49**	20,700.54
Oil consumption per capita	litre/person	**137.79**	146.81
Gas consumption	cubic meter	**3,049.50**	6,730.29
Gas consumption per capita	Cubic meter/person	**23.82**	47.73
Water consumption	ton	**4,407.63**	6,791.59
Water consumption per capita	ton/person	**34.43**	48.17
Copy paper consumption	kilogram	**712.73**	1,148.23
Copy paper consumption per capita	kilogram/person	**5.57**	8.14

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

4. SOCIAL RESPONSIBILITIES

4.1. Staff

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

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

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

The Group respects gender, age, ethnic group and religion of every individual staff. Discrimination against the individual difference among staff is strictly prohibited. The Group complied with the relevant legislations and regulations and strictly prohibited the employment of child labor or forced labor. As of 31 December 2019, the Group did not employ any child labor or forced labor.

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

Statistics of staff[10]	Unit	2019	2018
Male staff	person	**60**	63
Female staff	person	**68**	78
	person	**128**	141
Ethnic minorities	person	**1**	2
Han ethnic group	person	**127**	139
	person	**128**	141
Master's degree	person	**2**	2
Bachelor's degree	person	**56**	67
Tertiary education level	person	**49**	58
Below tertiary education level (exclusive)	person	**21**	14
	person	**128**	141
30 years old and below	person	**55**	76
31–40 years old	person	**47**	40
41–50 years old	person	**17**	16
51 years old and above	person	**9**	9
	person	**128**	141

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

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

Statistics of staff[11]	Unit	2019	2018
Within Zhejiang province	person	**104**	112
Outside Zhejiang province	person	**24**	29
	person	**128**	141
Contracted staff	person	**128**	141
Departed staff	person	**23**	34
Turnover rate of male staff	%	**14.29**	25.76
Turnover rate of female staff	%	**17.95**	22.97
Turnover rate of staff within Zhejiang Province	%	**16.07**	16.95
Turnover rate of staff outside Zhejiang Province	%	**17.24**	63.64
Turnover rate of staff of 30 years old and below	%	**19.74**	20.00
Turnover rate of staff of 31–40 years old	%	**15.00**	20.69
Turnover rate of staff of 41–50 years old	%	**6.25**	29.41
Turnover rate of staff of 51 years old and above	%	**11.11**	50.00
Staff turnover rate	%	**16.31**	24.29

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

4.1.1. Communication

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

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

4.1.2. Staff career development

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

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

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

4.1.3. Training

Staff training[12]	Unit	**2019**	2018
Total training expense	RMB0'000	**7**	56
Training participants	Person-time	**489**	446
Training expense per capita	RMB'000/Person	**0.55**	3.97
Total training time	Hour	**242**	620
Training time per capita	Hour/Person-time	**1.99**	4.53
Number of senior staff participating in training	Person	**10**	9
Training time of senior staff per capita	Hour/Person-time	**3.57**	28.28
Number of middle staff participating in training	Person	**24**	22
Training time of middle staff per capita	Hour/Person-time	**1.92**	3.89
Number of junior staff participating in training	Person	**58**	62
Training time of junior staff per capita	Hour/Person-time	**1.85**	2.88
Number of male staff participating in training	Person	**40**	36
Training time of male staff per capita	Hour/Person-time	**1.55**	4.60
Number of female staff participating in training	Person	**52**	57
Training time of female staff per capita	Hour/Person-time	**2.31**	4.47
Number of contracted staff participating in training	Person	**92**	93

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

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

In 2019, the Group organized its employees to attend training programs such as "notes for industrial chain business operation", "risks of supply chain and post-lending", "product innovation thinking training and creative commercialization" and "loan guarantee risk analysis". In the meantime, the Group organized certain personnel of its senior management to attend EMBA courses of School of Management of Fudan University.

4.1.4. Remuneration and benefits

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

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

4. SOCIAL RESPONSIBILITIES (Continued)

4.1. Staff (Continued)

4.1.5. Work-life balance

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

In February 2019, the Group organized all staff for a "guessing lantern riddles" activity on Lantern Festival. In March 2019, the Group organized its staff to make dumplings on Women's Day. In August 2019, the Group organized its staff to carry out team building activities for fun sports.

4.1.6. Occupational health and safety

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

4.2. Supplier

The Group has a total of 15 suppliers, among which , 12 are from Yangtze River Delta regions, 2 are from Beijing, and 1 is from Guangzhou. Suppliers mainly provided daily office supplies, transportation facilities, recruiting and renovation services to the Group. Effective supply chain management is vital to the Group's operation.

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

4.3. Customers

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

4. SOCIAL RESPONSIBILITIES (Continued)

4.3. Customers (Continued)

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

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

4.3.1. *Customer information security*

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

4.3.2. *Information disclosure*

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

4.3.3. *Better customer services*

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

Customer services provided by the Group:

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

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

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

4. SOCIAL RESPONSIBILITIES (Continued)

4.4. Other social responsibilities

4.4.1. *Product liabilities*

The Group has devoted in providing grants and loans for poor university students since its incorporation. In 2019, the Group granted RMB160 thousand interest-free loans for poor university students accumulatively in the cooperation with the charity organization, as same as that of RMB160 thousand in 2018.

4.4.2. *Rewarding the society*

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

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

2. The Group donated RMB10 thousand to Deqing County Charity Federation;

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

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

4.4.3. *Adhering to Anti-corruption and clean governance*

After launching of eight policies of the Central government, the Group actively responded to the calls for people-orientation and rectification measures of undesirable trends like idleness and luxury. A practical and efficient operation is achieved in every aspect of the Company's operation to avoid extravagance and waste. In addition, the Group carried out internal punishment and prevention of corruption in the Company and fought against bribery. As of 31 December 2019, there was neither corruption in the Company, nor any concluded legal cases regarding corrupt practices brought against the Group or its staff.

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

5. PROSPECT

The year of 2020 is an important year for the "Thirteenth Five-Year Plan". As supply-side reform has gradually seen results, and economic structural adjustment of the PRC carried forward, technology and innovation will play more and more vital roles in economic growth. Along with the changes of an economic atmosphere as a whole in the PRC, the micro-finance industry will face more development opportunities and challenges from increasing competition.

Looking into 2020, the Group will adhere to serving the real economy, serving the "AFR (三農)", supporting the business development of small-to-medium and micro enterprises. Based on compliance, the Group will comprehensively control and analyse financial risks. Meanwhile, the Group will insist on green development, conservation of resources and reduction of emission, involvement in charity activities, refining customer experience and promoting innovation in order to make contributions for a better home.

5.1 Enhancing the brand value

In 2020, the Group will continue to improve the quality of customer services, and continue to make its contribution in local economic constructions by continuous increasing supports for "AFR (三農)", real economy, resident consumption and loans to small-to-medium and micro enterprises.

In 2020, the course of the Group in returning to society, along with providing financial support for poverty-stricken university students is in continuous development.

5.2 Promoting harmony and integrity

In 2020, the Group will further incorporate integrity into corporate governance and continue to provide customer services with self-regulation and integrity. The Group will also reinforce policies and measures of anti-corruption and commercial bribery, with an aim to enhance the risk control ability of the Group.

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

Attachment 1: References to ESG Guide

Number	Details	Place of Disclosure
A1.1	The types of emissions and respective emissions information.	Page 43: Waste gas emission
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 43: Greenhouse gas emission
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not applicable
A1.5	Description of measures to mitigate emissions and results achieved.	Page 42: 3.2. Emission
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Not applicable
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Page 44: Use of Resources
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Page 44: Use of Resources
A2.3	Description of energy use efficiency initiatives and results achieved.	Page 44: Use of Resources
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Page 44: Use of Resources
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable
A3.1	Description of the significant impacts of business activities on the environment and natural resources and the actions taken to manage them.	Page 42: Green operation; Page 42: Emission; Page 44: Use of Resources.
B1.1	Total workforce by gender, employment type, age group and geographical region.	Page 45: Statistics of staff
B1.2	Employee turnover rate by gender, age group and geographical region.	Page 46: Statistics of staff
B2.1	Number and rate of work-related fatalities.	Not applicable
B2.2	Lost days due to work injury.	Not applicable
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Page 48: 4.1.6. Occupational health and safety

Number	Details	Place of Disclosure
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Page 47: Staff training
B3.2	The average training hours completed per employee by gender and employee category.	Page 47: Staff training
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Not applicable
B4.2	Description of steps taken to eliminate non-compliance practices when discovered.	Not applicable
B5.1	Number of suppliers by geographical region.	Page 48: 4.2 Suppliers
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Page 48: 4.2 Suppliers
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable
B6.2	Number of products and service related complaints received and how they are dealt with.	Page 49: the second paragraph of 4.3 Customers
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not applicable
B6.4	Description of quality assurance process and product recall procedures.	Not applicable
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Page 49: 4.3.1 Customer information security
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Not applicable
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Page 50: 4.4.3. Adhering to Anti-corruption and clean governance
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Page 50: 4.4.1. Product liabilities; Page 50: 4.4.2. Rewarding the society
B8.2	Resources contributed (e.g. money or time) to the focus area.	Page 50: 4.4.1. Product liabilities; Page 50: 4.4.2. Rewarding the society

REPORT OF THE DIRECTORS

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

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the sections headed "Chairman's Statement", "Financial Summary", "Management Discussion and Analysis" of this report and the paragraphs below.

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

Impact of Local and International Regulations

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

Third-Party Risks

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

Key Relationships with Employees and Customers

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

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

Our major customers primarily consist of AFR (三農), SMEs, micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products. The years of business relationship with the Group ranged from one to three years and the credit terms granted to the major customers ranged from 6 months to 12 months. Details of the interest receivables of the Group as at 31 December 2019 are set out in note 11 to the financial statements.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, interests income from our five largest customers accounted for less than 30% of our net interests income for the year.

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

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years are set out on page 7 of this report. This summary does not form part of the audited combined financial statements.

FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2019 and the state of the Group's and the Group's affairs as at that date are set out in the financial statements on pages 87 to 156 of this annual report.

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

FIXED ASSETS

Details of movements in fixed assets of the Group during the year ended 31 December 2019 are set out in note 15 to the combined financial statements.

RESERVES

Details of movements in reserves of the Group during the year ended 31 December 2019 are set out in the section headed "Consolidated Statement of Changes in Equity" of this report, of which details of reserves available for distribution to the Shareholders are set out in note 21 to the combined financial statements.

DIVIDEND

The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2019 (2018: RMB0.125).

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 Friday, 29 May 2020 to Monday, 29 June 2020, both days inclusive, during which period no share transfers will be registered. The holders of Shares whose names appear on the register of members of the Company on Monday, 29 June 2020 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, holders of Shares shall lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of H shares), or to or to the Company's registered office in the PRC at No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC (in respect of Domestic Shares) no later than 4:30 p.m. on Thursday, 28 May 2020.

CHARITABLE DONATIONS

The Company donated RMB140 thousand to help the disadvantaged in the year ended 31 December 2019.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Group as at 31 December 2019 are set out in note 17 to the combined financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in the section headed "Combined Statement of Changes in Equity" of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules for the year ended 31 December 2019 and up to the date of this report.

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2019, a subsidiary of the Company has issued an aggregate principal amount of not more than RMB80,000,000 convertible bonds. Save as disclosed herein, the Company has not purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this report, no equity-linked agreements were entered into during the year ended 31 December 2019 or subsisted at the end of the year.

CONVERTIBLE BOND(S)

On 15 November 2019, Jinhui Micro-finance, a non-wholly owned subsidiary of the Company) entered into the Bonds Agreement, pursuant to which Jinhui Micro-finance has conditionally agreed to issue, and Zheli Financial Service has conditionally agreed to act as referral agent, general coordinator and manager for, the convertible bond(s) issued by Jinhui Micro-finance in an aggregate principal amount of not more than RMB80,000,000.

The bonds will be convertible into RMB65,573,770 of newly increased Jinhui Micro-finance Registered Capital, representing:

(i) approximately 5.34% of the total existing Jinhui Micro-finance Registered Capital before the issuance of the Bonds; and

(ii) approximately 5.07% of the total Jinhui Micro-finance Registered Capital as enlarged by full conversion of the bonds.

The equity fund raising activity conducted by the Company during the Reporting Period is set out below:

	Intended use of net proceeds from the issuance of convertible bonds by Jinhui Micro-finance *(approximate)*	Utilised net proceeds from the issuance of convertible bonds by Jinhui Micro-finance for the year ended 31 December 2019 *(approximate)*	Utilised net proceeds from the issuance of convertible bonds by Jinhui Micro-finance as at 31 December 2019 *(approximate)*	Unutilised net proceeds from the issuance of convertible bonds by Jinhui Micro-finance *(approximate)*
For replenishing the working capital of Jinjui Micro-finance	RMB73.9 million	RMB73.9 million for general working capital of the Group.	RMB73.9 million	RMB0 million

The Company believes that the raising of funds by the issuance of the bonds by Jinhui Micro-finance is beneficial to the Company considering the recent market conditions which represent an opportunity for Jinhui Micro-finance to enhance its working capital. In doing so, Jinhui Micro-finance may strengthen its capital base and financial position, which would equip it with enhanced financial capability and flexibility for its long term business and development, and thereby increase its profitability. Jinhui Micro-finance intends to use the net proceeds from the offering of the Bonds to replenish its working capital.

DIRECTORS AND SUPERVISORS

The following table sets forth information concerning the Directors and Supervisors for the year ended 31 December 2019.

Name	Age	Position	Appointment Date
Directors			
Mr. Yu Yin	33	Executive Director and chairman of the Board	28 April 2014
Mr. Zheng Xuegen	55	Executive Director, vice-chairman, deputy general manager and secretary to the Board	28 April 2014
Mr. Yang Sheng	45	Executive Director, vice-chairman of the Board and General Manager	7 April 2016
Mr. Hu Haifeng* (resigned on 18 April 2019)	54	Executive Director	28 April 2014
Ms. Hu Fangfang	38	Executive Director, Chief Financial Controller	28 June 2019
Mr. Pan Zhongmin (formerly known as Pan Zhongming)	46	Non-executive Director	8 August 2014
Mr. Ho Yuk Ming, Hugo	48	Independent non-executive Director	28 April 2014
Mr. Jin Xuejun	61	Independent non-executive Director	28 April 2014
Ms. Huang Lianxi	57	Independent non-executive Director	28 April 2014
Supervisors			
Mr. Dai Shengqing	52	Supervisor	8 August 2014
Mr. Wang Peijun	46	Supervisor	8 August 2014
Ms. Yang Zhenlan	28	Supervisor	15 May 2018

* Mr. Hu Haifeng resigned as an executive Director on 18 April 2019 in order to further develop his personal business.

In accordance with Article 10.2 of Article of Association, Directors shall be elected at the shareholders' general meeting to hold office for a term of three years. The three independent non-executive Directors has been reappointed for two consecutive years, and shall be expired and re-elected at the annual general meeting of the Company which will be held on 29 June 2020. Upon the expiry of the term of office, the remaining Directors shall be eligible to be re-elected and reappointed, and shall be re-elected for a term of three years at the annual general meeting of the Company which will be held on 29 June 2020.

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 AND SUPERVISORS

Biographical details of Directors and Supervisors of the Company are set out on pages 27 to 32 of this report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

Save as disclosed above, the Company has not entered, and does not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within 1 year without the payment of compensation (other than statutory compensation)).

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such indemnity provisions for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2019.

REMUNERATION OF DIRECTORS AND SUPERVISORS

No emoluments are paid or payable to these directors and supervisors as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2019 and 2018.

No director waived or agreed to waive any remuneration for the year ended 31 December 2019 and 2018.

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

MANAGEMENT CONTRACTS

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

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

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

Interests of the Directors in the Shares

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[1]	Percentage in the total issued share capital[1]
Yu Yin	Domestic Shares	88,000,000 (L)	Beneficial owner[2]	10.00%	7.46%
	Domestic Shares	307,061,040 (L)	Interests held jointly with another person[2]	34.89%	26.02%
Zheng Xuegen	Domestic Shares	2,992,000 (L)	Beneficial owner	0.34%	0.25%
Hu Haifeng[3] (resigned on 18 April 2019)	Domestic Shares	10,630,400 (L)	Beneficial owner	1.21%	0.90%
Pan Zhongmin	Domestic Shares	11,792,000 (L)	Interest of a controlled Corporation[4]	1.34%	1.00%

Notes:

(1) The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 31 December 2019, which comprised 880,000,000 Domestic Shares and 300,000,000 H Shares.

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

(3) Mr. Hu Haifeng resigned as an executive Director on 18 April 2019 in order to further develop his personal business.

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

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

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the persons (other than Directors or chief executives of the Company) or corporations who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[1]	Percentage in the total issued share capital[1]
Mr. Yu Youqiang	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[2][3]	44.89%	33.48%
Puhua Energy	Domestic Shares	264,000,000 (L)	Beneficial owner[2]	30.00%	22.37%
	Domestic Shares	131,061,040 (L)	Interests held jointly with another person[2]	14.89%	11.11%
Zuoli Holdings	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[2][4]	44.89%	33.48%
Deqing Yintian	Domestic Shares	395,061,040 (L)	Interest of a controlled corporation[2][5]	44.89%	33.48%
Mr. Shen Haiying	Domestic Shares	23,760,000 (L)	Beneficial owner[2]	2.70%	2.01%
	Domestic Shares	371,301,040 (L)	Interests held jointly with another person[2]	42.19%	31.47%
Dingsheng Investment	Domestic Shares	395,061,040 (L)	Interests held jointly with another person[2]	44.89%	33.48%
Mr. Zhang Jianming	Domestic Shares	19,301,040 (L)	Beneficial owner[2]	2.19%	1.64%
	Domestic Shares	375,760,000 (L)	Interests held jointly with another person[2]	42.70%	31.84%

Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[(1)]	Percentage in the total issued share capital[(1)]
Gawun (HK) International Trading Co., Limited	H Shares	65,860,000 (L)	Beneficial owner	21.95%	5.58%
Tamai Investment Corp.	H Shares	20,650,000 (L)	Trustee	6.88%	1.75%
Mr. Peng Tao	H Shares	67,830,000 (L)	Beneficial owner	22.61%	5.75%

Notes:

(1) The calculation is based on the total number of 1,180,000,000 ordinary shares of the Company in issue as at 31 December 2019, which is comprised of 880,000,000 Domestic Shares and 300,000,000 H Shares.

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

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

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

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

(6) The letter “L” denotes the person’s long position in such securities.

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

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance in relation to the business of the Group to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or supervisor of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2019.

CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2019, there had been no contract of significance between the Company or any of its subsidiaries and a Controlling Shareholder, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries.

INTEREST OF DIRECTORS AND SUPERVISORS IN A COMPETING BUSINESS

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

COMPLIANCE WITH NON-COMPETE UNDERTAKING

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

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 31 December 2019 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Supervisors or their respective spouses or minor children, or were such rights exercised by them, or was the Company or its holding company a party to any arrangements to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

RETIREMENT SCHEME

The Company participates in pension scheme organized by the municipal government of Huzhou City and Hangzhou City, Zhejiang for the Group's employees based in the PRC. The Group has no other material obligation for payment of retirement benefits to employees beyond the contributions to retirement scheme described above. For the year ended 31 December 2019, contribution to retirement scheme for directors and supervisors was RMB73 thousand (2018: RMB65 thousand) and contribution to retirement scheme for five highest paid individuals was RMB78 thousand, of which including contributions to retirement scheme to Ms. Hu Fangfang who is not served as Director in 2019 (2018: RMB79 thousand).The details of the Group's pension scheme are set out in note 1(n) to the combined financial statements.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

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

On 8 April 2019, Mr. Yu Yin, a Controlling Shareholder, notified the Company that he has charged 88,000,000 Domestic Shares, representing approximately 7.46% of the total issued share capital of the Company in favour of Shanghai Pudong Development Bank Co., Ltd. (Huzhou Deqing Sub-branch) as security provided for the facility of Jinhui Micro-finance.

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

For details of the above, please refer to the announcements of the Company dated 23 April 2018 and 8 April 2019, respectively.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2019, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of the COVID-19 in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group will earnestly implement the requirements of the "Notice on Further Enhancing Financial Support for Prevention and Control of the COVID-19 (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》)" and other relevant policies and regulations jointly published by the People's Bank of China, the Ministry of Finance, the China Banking Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange, to strengthen financial support for epidemic prevention and control.

The COVID-19 will have certain impact on the operation of enterprise in Zhejiang province and some industries, and the overall economic operation, which may affect the asset quality or return on assets of the Group's credit assets to a certain extent. The degree of impact will depend on the situation, duration of the epidemic prevention and control, and the implementation of various control policies.

The Group will continue to closely monitor the development of the COVID-19, assess and actively respond to its impact on the financial condition, operating results and other aspects of the Group. Up to the date of this report, the assessment is still in progress.

On 30 March 2020, Puhua Energy, a Controlling Shareholder, informed the Company that it had acquired 13,730,000 shares held by Mr. Shen Haiying, a Controlling Shareholder and 15,400,000 shares held by non-controlling shareholders. As such, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying, Mr. Zhang Jianming and Puhua Energy together control 34.78% of the issued share capital in the Company. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Yu Youqiang, Mr. Yu Yin, Mr. Shen Haiying and Mr. Zhang Jianming are deemed to be interested in approximately 34.78% of the issued share capital in the Company.

On 20 April 2020, Puhua Energy, a Controlling Shareholder, informed the Company that it had released 258,000,000 Domestics Shares pledged to the Agricultural Bank of China Ltd. (Deqing County Sub-branch) , and pledged 264,000,000 Domestics Shares to Zheli Financial Service as collateral for its financing from Zuoli Holdings.

Up to the date of this report, except for the above, the Group has no other significant subsequent events for disclosure.

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2019, Mr. Yu Yin, an executive Director and the chairman of the Board, and other related parties had guaranteed some of our interest-bearing borrowings. As at 31 December 2019, the amount of guarantee provided by Mr. Yu Yin and other related parties amounted to RMB659.4 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Listing Rules. As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the captioned provision of guarantees was fully exempted from Shareholders' approval, annual review and all disclosure requirements.

For the year ended 31 December 2019, the Company leased a property from Zuoli Holdings with a depreciation expenses on right-of-use assets and interest expense of RMB2.2 million. Puhua Energy is a Controlling Shareholder of the Company and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted the continuing connected transactions under Chapter 14A of the Listing Rules.

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

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

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

On 18 October 2019, Xing Yao Micro-finance entered into the Creditor's Rights Transfer Agreement with Xing Yao Construction pursuant to which, Xing Yao Micro-finance agreed to sell and transfer, Xing Yao Construction agreed to accept the Creditor's Rights at a consideration of RMB10,789,320 (equivalent to approximately HK$11,976,145.2). The consideration under the Creditor's Rights Transfer Agreement shall be payable by Xing Yao Construction on or before 15 November 2019.The entering into the Creditor's Rights Transfer Agreement allows Xing Yao Micro-finance the chance to recoup the Original Loans (including the incurred interested) in full by reducing the default risks exposure to the Borrowers.

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

Pursuant to Rule 14A.81 of the Listing Rules, as the Previous Creditor's Rights Transfer Agreement and the Creditor's Rights Transfer Agreement were entered into by Xing Yao Micro-finance and Xing Yao Construction and are of a similar nature, the transactions contemplated under the Previous Creditor's Rights Transfer Agreement and the Creditor's Rights Transfer Agreement should be aggregated.

Since one or more of the applicable percentage ratios (set out in Rule 14.07 of the Listing Rules) in respect of the transaction contemplated under the Creditor's Rights Transfer Agreement, when aggregated, is more than 0.1% but are less than 5%, the transaction contemplated under the Creditor's Rights Transfer Agreement is subject to the reporting and announcement requirements but exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. The Company has duly announced the said transaction on 18 October 2019.

Save as disclosed above, during the year ended 31 December 2019, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, risk management and internal control systems and financial report matters including the review of the Group's consolidated financial results for the year ended 31 December 2019. The annual financial statements of the Group have been audited by the independent auditor of the Company, KPMG.

AUDITOR

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

By order of the Board

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

Hong Kong, 20 March 2020

REPORT OF THE BOARD OF SUPERVISORS

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

During the year ended 31 December 2019, for the Company's long term interests and the Shareholders' interests, the Board of Supervisors acted in strict compliance with relevant laws, regulations, rules, regulatory documents, the Articles of Association and the Listing Rules and earnestly performed their duties of supervision as to the acts of the Directors of the Company. The main area of work of the Board of Supervisors in 2019 is summarised as follows:

I. MEETING CONDUCTED BY THE BOARD OF SUPERVISORS

The Board of Supervisors convened two meetings for the year ended 31 December 2019.

II. WORK OF THE BOARD OF SUPERVISORS

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

1. Inspection over implementation of resolutions of the general meetings

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

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

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

3. Inspection over the Company's daily operating activities

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

4. Inspection over the Group's financial condition

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

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

佐力科創小額貸款股份有限公司
(Zuoli Kechuang Micro-finance Company Limited*)
Dai Shengqing
Chairman of the Board of Supervisors

Hong Kong, 20 March 2020

CORPORATE GOVERNANCE

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

The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of the CG Code as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2019, the Company has fully complied with the Code Provisions.

BOARD OF DIRECTORS

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

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

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographies of Directors and Supervisors" on pages 27 to 32 in this report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

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

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

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

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

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

APPOINTMENT AND RE-ELECTION

In accordance with Article 10.2 of Article of Association, Directors shall be elected at the Shareholders' general meeting to hold office for a term of three years. The three independent non-executive Directors has been reappointed for two consecutive years, and shall be expired and re-elected at the annual general meeting of the Company which will be held on 29 June 2020. Upon the expiry of the term of office, the remaining Directors shall be eligible to be re-elected and reappointed, and shall be re-elected for a term of three years at the annual general meeting of the Company which was held on 29 June 2020.

The composition of the Board is reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' profile is set out on pages 27 to 32 of this report.

DIRECTORS' AND OFFICERS' INSURANCE

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

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

In March 2019, the Company organized specialised training sessions in relation to connected transaction under Listing Rules. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during the Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

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

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

* Mr. Hu Haifeng resigned as an executive Director on 18 April 2019 in order to further develop his personal business.

CHAIRMAN AND GENERAL MANAGER

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. They serve actively on the Board and Board Committees to provide their independent and objective views. All the independent non-executive Directors are subject to a specific term of 3 years.

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

Each independent non-executive Director has submitted annual confirmation of his/her independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

BOARD COMMITTEES

The Board is supported by a number of Board Committees, including the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Loan Approval Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. The terms of reference of the Audit Committee, Remuneration and Appraisal Committee and Nomination Committee are respectively available on the Company's website.

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

(i) Audit Committee

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

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

The Audit Committee has reviewed the combined financial statements of the Group for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group, report prepared by the external auditors covering major findings in the course of the audit, and selection and appointment of the external auditors.

(ii) Remuneration and Appraisal Committee

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

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

(iii) Nomination Committee

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

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

(iv) Loan Approval Committee

The Loan Approval Committee comprises three Directors, namely Mr. Yang Sheng (executive Director), Mr. Zheng Xuegen (executive Director), and Ms. Hu Fangfang (executive Director). Mr. Yang Sheng is the chairman of the Loan Approval Committee.

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

ATTENDANCE RECORD OF DIRECTORS

The attendance record of each of the current Directors at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2019 is set out in the table below. The Directors did not authorize any alternate Director to attend the Board or Board Committee meetings.

	Attendance/Number of Meetings					
Name of Directors	Board	Nomination Committee	Remuneration and Appraisal Committee	Audit Committee	Loan Approval Committee	General Meeting
Yu Yin	5/5	2/2	1/1	N/A	N/A	1/1
Zheng Xuegen	5/5	N/A	N/A	N/A	1/1	1/1
Yang Sheng	5/5	N/A	N/A	N/A	1/1	1/1
Hu Haifeng* (resigned on 18 April 2019)	2/5	N/A	N/A	N/A	N/A	N/A
Hu Fangfang	3/5	N/A	N/A	N/A	1/1	1/1
Pan Zhongmin	5/5	N/A	N/A	N/A	N/A	1/1
Ho Yuk Ming, Hugo	5/5	N/A	1/1	4/4	N/A	1/1
Jin Xuejun	5/5	2/2	1/1	4/4	N/A	1/1
Huang Lianxi	5/5	2/2	N/A	4/4	N/A	1/1

* Mr. Hu Haifeng resigned as an executive Director on 18 April 2019 in order to further develop his personal business.

BOARD PROCEEDINGS

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

The quorum for a Board meeting is the presence of more than half of the total number of Directors. A Director may attend the Board meeting in person, or appoint another Director in writing as his proxy to attend the Board meeting. The secretary to the Board of the Company is responsible for preparing and keeping the minutes of Board meetings and ensuring that such minutes are available for inspection by any Director.

During the year ended 31 December 2019, there were five Board meetings held and the attendance of the Directors is set out in the above section headed "Attendance Record of Directors".

GENERAL MEETINGS

During the year ended 31 December 2019, the Company convened a general meeting of the Company held on 28 June 2019. All Directors attended the meeting that they were required to attend.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "**Board Diversity Policy**") in March 2015 in accordance with the requirement set out in the CG Code. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

NOMINATION POLICY

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

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

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

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

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

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

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

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

BOARD OF SUPERVISORS

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

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, there is no change in the information of the Directors required to be disclosed since the Company's last published interim 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. After specific enquiry with all members of the Board, they have confirmed full compliance with the relevant standards stipulated in the Model Code throughout the year ended 31 December 2019.

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

COMPANY SECRETARY

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

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

During the year ended 31 December 2019, Ms. Ho complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

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

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

EXTERNAL AUDITOR

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

In 2019, fee payable to KPMG for the annual audit services was RMB1.8 million (2018: RMB1.7 million); and RMB100,000 (2018: RMB100,000) for the non-audit services of limited assurance on the ESG Report of the Group and continuing connected transaction of the Company for the year ended 31 December 2019.

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

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

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

(i) Participation at general meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the Shareholders no less than 45 days before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

(ii) Enquiries and proposals to the Board

The Company encourages Shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board Committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the principal place of business of the Company in Hong Kong situated at 33rd Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

(iii) Convening extraordinary general meetings

Pursuant to the Articles of Association, the Board shall convene an extraordinary general meeting within two months where the Shareholders with 10% or more voting right individually or jointly request to convene an extraordinary general meeting in writing. Two or more than two Shareholders in aggregate holding no less than 10% of shares carrying voting right may request the Board to convene an extraordinary general meeting or class Shareholders' meeting through a written request or several copies of such request in the same form and to illustrate the subject of the meeting. The Board shall convene an extraordinary general meeting or class Shareholders' meeting as soon as practicably upon receipt of the foresaid written request. The aforesaid number of Share holdings shall be calculated as of the date of the submission of the written request by the Shareholder(s). A Shareholder's general meeting shall be convened in accordance with the Articles of Association.

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

(iv) Procedures for putting forward proposals at a general meeting

In overseeing and monitoring the business operation of the Company, the Shareholders have the right to put forward proposals and raise inquiries. Shareholders holding 3% or more of the Company's voting shares have the right to put up ad hoc proposals in writing to the Company, and the Company shall include such ad hoc proposals into the agenda for such general meeting if they are matters falling within the functions and powers of general meeting.

DIVIDEND POLICY

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

CONSTITUTIONAL DOCUMENTS

Pursuant to resolutions of the Shareholders passed on 19 May 2014, 8 August 2014, 18 October 2014, 4 November 2014, 21 November 2014 and 18 December 2014, the Articles of Association were adopted with effect from the Listing Date and were for the amended pursuant to the resolution of the Shareholders passed on 30 June 2015, 7 April 2016, 28 April 2017 and 28 June 2018. There was no change made to the Articles of Association during the year ended 31 December 2019.

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

RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 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 Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. For the year ended 31 December 2019, the Board has reviewed the effectiveness of the Company's and its subsidiaries' risk management and internal control systems, and the systems are considered to be effective and adequate. The Board has been conducted such review on an annual basis and the Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Zuoli Kechuang Micro-finance Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 87 to 156, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Allowances for impairment of loans and advances to customers

Refer to Note 11 to the consolidated financial statements and the accounting policies on page 102 to page 105.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019, the Group's loans and advances to customers amounted to RMB2,520.0 million in total, with allowances for impairment totalling RMB155.5 million. The Group uses the expected credit loss ("ECL") model to calculate the loss allowance in accordance with HKFRS 9, *Financial instruments* ("HKFRS 9"). The determination of allowances for impairment of loans and advances to customers using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions. In particular, the determination of the allowances for impairment of loans and advances to customers is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for loans and advances to customers are derived from estimates whereby management takes into consideration historical overdue data, the credit grading, the historical loss experience for loans and advances to customers and other adjustment factors. Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of allowances for impairment as at the end of the reporting period.	Our audit procedures to assess the allowances for impairment of loans and advances to customers included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and advances to customers, the credit grading process and the measurement of allowances for impairment of loans and advances to customers; • assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, the identification of loss stages, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other management adjustments; • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of loan and advances to customers used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and advances to customers information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and advances to customers. For key parameters derived from external data, we assessed the accuracy of such data by comparing them with public resources;

KEY AUDIT MATTERS (Continued)

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

Refer to note 11 to the consolidated financial statements and the accounting policies on page 102 to page 105.

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

KEY AUDIT MATTERS (Continued)

Assessing potential impairment of goodwill

Refer to Note 13 to the consolidated financial statements and the accounting policies on page 108 to page 109.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019 the carrying value of the Group's goodwill, which arose from the acquisition of two subsidiaries in the previous years, was RMB22.5 million. There is a risk that the carrying value of goodwill may not be recoverable in full through the future cash flows to be generated from the related cash-generating unit (the "CGU") to which the goodwill has been allocated. The recoverable amount of the CGU was determined by the management using the value-in-use model whereby a discounted cash flow forecast at the CGU level was prepared by management. We identified the potential impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because determining whether any impairment is required involves a significant degree of management judgement and estimation in forecasting future cash flows, including the annual growth rate, the perpetual growth rate, interest rates and the amount of bad debts, all of which can be inherently uncertain and could be subject to management bias.	Our audit procedures to assess the potential impairment of goodwill included the following: • evaluating the methodology used by management in the preparation of the discounted cash flow forecast with reference to the requirements of the prevailing accounting standards; • challenging the assumptions and critical judgements made by management in the preparation of the discounted cash flow forecast by comparing key inputs, including the annual growth rate, the perpetual growth rate, interest rates and the amount of bad debts with the historical performance of the relevant acquired subsidiaries, management's budgets and forecasts and industry reports; • performing a retrospective review by comparing the prior year's discounted cash flow forecast with the current year's results to assess the reliability and historical accuracy of management's forecasting process; • evaluating the discount rate used in the discounted cash flow forecast by benchmarking the discount rate against the discount rates for similar companies; • obtaining management's sensitivity analyses for the key assumptions, including the annual growth rate and the discount rate adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions to the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements in respect of impairment testing of goodwill with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Siu Tung.

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

20 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Renminbi ("RMB") '000, unless otherwise stated)

	Note	2019 RMB'000	2018 (Note) RMB'000
Interest income		**320,349**	337,536
Interest and commission expenses		**(49,553)**	(43,468)
Net interest income	2	**270,796**	294,068
Other net income	3	**14,172**	13,356
Impairment losses	4	**(36,725)**	(47,394)
Administrative expenses		**(59,761)**	(68,818)
Profit before taxation	5	**188,482**	191,212
Income tax	6	**(47,694)**	(48,312)
Profit and total comprehensive income for the year		**140,788**	142,900
Attributable to:			
Equity shareholders of the Company		**131,587**	136,968
Non-controlling interests		**9,201**	5,932
Profit for the year		**140,788**	142,900
Earnings per share			
Basic and diluted (RMB)	9	**0.11**	0.12

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

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019
(Expressed in RMB'000, unless otherwise stated)

	Note	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Assets			
Cash and cash equivalents	10(a)	**55,310**	41,707
Interests receivables		**83**	4,229
Loans and advances to customers	11	**2,364,579**	2,282,082
Intangible assets	12	**1,753**	3,141
Goodwill	13	**22,502**	22,502
Fixed assets	15	**44,045**	43,589
Deferred tax assets	20(b)	**37,943**	28,383
Other assets	16	**1,198**	1,838
Total assets		**2,527,413**	2,427,471
Liabilities			
Interest-bearing borrowings	17	**715,972**	580,079
Lease liabilities	18	**1,274**	—
Accruals and other payables	19	**22,613**	50,618
Current taxation	20(a)	**41,249**	43,757
Total liabilities		**781,108**	674,454
NET ASSETS		**1,746,305**	1,753,017
CAPITAL AND RESERVES	21		
Share capital		**1,180,000**	1,180,000
Reserves		**456,968**	472,881
Total equity attributable to equity shareholders of the Company		**1,636,968**	1,652,881
Non-controlling interests	14	**109,337**	100,136
TOTAL EQUITY		**1,746,305**	1,753,017

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

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 21(c)	Capital reserve RMB'000 Note 21(d)(i)	Surplus reserve RMB'000 Note 21(d)(ii)	General reserve RMB'000 Note 21(d)(iii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2018 and 1 January 2019 (Note)	**1,180,000**	**980**	**43,692**	**58,749**	**369,460**	**1,652,881**	**100,136**	**1,753,017**
Changes in equity for year ended 31 December 2019:								
Profit and total comprehensive income for the year	**—**	**—**	**—**	**—**	**131,587**	**131,587**	**9,201**	**140,788**
Appropriation to surplus reserve	**—**	**—**	**356**	**—**	**(356)**	**—**	**—**	**—**
Reversal to general reserve	**—**	**—**	**—**	**(22)**	**22**	**—**	**—**	**—**
Dividends approved in respect of the previous year (Note 21(b))	**—**	**—**	**—**	**—**	**(147,500)**	**(147,500)**	**—**	**(147,500)**
Balance at 31 December 2019	**1,180,000**	**980**	**44,048**	**58,727**	**353,213**	**1,636,968**	**109,337**	**1,746,305**
Balance at 31 December 2017	1,180,000	—	39,580	44,526	253,846	1,517,952	101,917	1,619,869
Impact on initial application of HKFRS 9	—	—	—	—	(3,019)	(3,019)	(333)	(3,352)
Adjusted balance at 1 January 2018	1,180,000	—	39,580	44,526	250,827	1,514,933	101,584	1,616,517
Changes in equity for year ended 31 December 2018:								
Acquisition of interest in subsidiary (Note 14)	—	980	—	—	—	980	(980)	—
Profit and total comprehensive income for the year	—	—	—	—	136,968	136,968	5,932	142,900
Appropriation to surplus reserve	—	—	4,112	—	(4,112)	—	—	—
Appropriation to general reserve	—	—	—	14,223	(14,223)	—	—	—
Dividends approved in respect of the previous year (Note 21(b))	—	—	—	—	—	—	(6,400)	(6,400)
Balance at 31 December 2018 (Note)	1,180,000	980	43,692	58,749	369,460	1,652,881	100,136	1,753,017

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

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019
(Expressed in RMB'000, unless otherwise stated)

	Note	2019 RMB'000	2018 (Note) RMB'000
Operating activities			
Cash generated from operations	10(b)	**152,437**	30,450
PRC income tax paid	20(a)	**(59,762)**	(39,833)
Net cash generated from/(used in) operating activities		**92,675**	(9,383)
Investing activities			
Proceeds from disposal of investments		**2,516,928**	2,677,710
Proceeds from disposal of fixed assets		**196**	—
Payment for the purchase of fixed assets and intangible assets		**(8,587)**	(15,657)
Payments on acquisition of investments		**(2,516,372)**	(2,649,914)
Net cash (used in)/generated from investing activities		**(7,835)**	12,139
Financing activities			
Proceeds from new bank loans	10(c)	**310,000**	180,000
Proceeds from borrowings from third parties	10(c)	**633,641**	589,541
Proceeds from convertible notes	10(c)	**73,939**	—
Proceeds from Euro zone	10(c)	**58,389**	—
Repayment of bank loans	10(c)	**(340,000)**	(180,000)
Repayment of borrowings from third parties	10(c)	**(610,862)**	(552,308)
Interest paid	10(c)	**(38,311)**	(35,515)
Capital element of lease rentals paid	10(c)	**(2,606)**	—
Interest element of lease rentals paid	10(c)	**(194)**	—
Dividends paid to equity shareholders of the company		**(148,752)**	—
Dividends paid to non-controlling interests		**(6,400)**	—
Net cash (used in)/generated from financing activities		**(71,156)**	1,718
Net increase in cash and cash equivalents		**13,684**	4,474
Cash and cash equivalents at 1 January	10(a)	**41,707**	37,235
Effect of foreign exchange rate changes		**(81)**	(2)
Cash and cash equivalents at 31 December	10(a)	**55,310**	41,707

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

The accompanying notes form part of the financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

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

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

(i) HKFRS 16, Leases

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

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

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has recognised right-of-use assets based on lease liabilities. Therefore, there is no adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 16, Leases (Continued)

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property as disclosed in Note 15. For an explanation of how the Group applies lessee accounting, see Note 1(h)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 9.90%.

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 16, Leases (Continued)

b. Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in Note 23(a) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	At 1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	4,200
Less: effect of value-added tax	(358)
	3,842
Less: total future interest expenses	(204)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	3,638
Total lease liabilities recognised at 1 January 2019	3,638

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 16, Leases (Continued)

b. Lessee accounting and transitional impact (Continued)

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

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease Contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS16:			
Fixed assets	43,589	3,005	46,594
Total assets	2,427,471	3,005	2,430,476
Accruals and other payables	50,618	(633)	49,985
Lease liabilities	—	3,638	3,638
Total liabilities	674,454	3,005	677,459
Net assets	1,753,017	—	1,753,017

c. Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit for the year in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 10(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see Note 10(d)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) *HKFRS 16, Leases (Continued)*

c. *Impact on the financial result and cash flows of the Group (Continued)*

	2019				2018
	Amounts reported under HKFRS 16 (A) RMB'000	Add back: HKFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (Note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B–C) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Interest and commission expenses	(49,553)	194	–	(49,359)	(43,468)
Administrative expenses	(59,761)	2,001	(2,141)	(59,901)	(68,818)
Profit before taxation	188,482	2,195	(2,141)	188,536	191,212
Profit for the year	140,788	2,195	(2,141)	140,842	142,900

	2019			2018
	Amounts reported under HKFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under HKAS 17 (Notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) RMB'000	Compared to amounts reported under HKAS 17 RMB'000
Line items in the condensed consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	152,437	(2,800)	149,637	30,450
Net cash generated from/(used in) operating activities	92,675	(2,800)	89,875	(9,383)
Capital element of lease rentals paid	(2,606)	2,606	–	–
Interest element of lease rentals paid	(194)	194	–	–
Net cash (used in)/generated from financing activities	(71,156)	2,800	(68,356)	1,718

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 16, Leases (Continued)

c. Impact on the financial result and cash flows of the Group (Continued)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

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

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

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(f) Fixed assets

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fixed assets (Continued)

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

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

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

(g) Intangible assets (other than goodwill)

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

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

— computer software 5 years

The period and method of amortisation are reviewed annually.

(h) Leased assets

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(i) As a lessee

(A) Policy applicable from 1 January 2019

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

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

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 1(f) and 1(m)):

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019

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

Operating lease charges

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

(ii) As a lessor

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

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

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 1(h)(i), then the Group classifies the sub-lease as an operating lease.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

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

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

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

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

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

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

(ii) Credit loss and impairment of financial assets

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

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

Measurement of ECLs

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

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

Significant increases in credit risk

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

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

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

Basis of calculation of interest income

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

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

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

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

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

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

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

Write-off policy

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(iii) Fair value measurement principles

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

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

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

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

(iv) Derecognition of financial assets and financial liabilities

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

(v) Offsetting

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

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 1(t)).

(k) Convertible notes

(i) Convertible notes that contain an equity component

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

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

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

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

(ii) Other convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host liability component. Transaction costs that relate to the issue of the convertible note are allocated to the host liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the host liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Convertible notes (Continued)

(ii) *Other convertible notes (Continued)*

The derivative component is recognised at fair value. At the end of each reporting period the fair value of derivative financial instruments is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged. The host liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the host liability component is calculated using the effective interest method.

If the notes are converted, the shares issued are measured at fair value and any difference between the fair value of shares issued and the carrying amounts of the derivative and liability components are recognised in profit or loss. If the notes are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(l) Cash and cash equivalents

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

(m) Impairment of non-financial assets

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

— fixed assets, including right-of-use assets;

— intangible assets;

— goodwill; and

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of non-financial assets (Continued)

— *Calculation of recoverable amount*

The recoverable amount of an asset is greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

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

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

(n) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

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

(o) Income tax

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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

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

  — the same taxable entity; or

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

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

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

(q) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

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

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

(ii) Contingent liabilities assumed in business combinations

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue and other income

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

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

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

(i) Interest income

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

(ii) Government grants

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

(s) Translation of foreign currencies

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Borrowing costs

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

(u) Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Segment reporting

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

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

2 NET INTEREST INCOME

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

	2019 RMB'000	2018 RMB'000
Interest income arising from		
Loans and advances to customers	**320,064**	336,799
Cash at banks	**285**	737
	320,349	337,536
Interest and commission expenses arising from		
Borrowings from banks	**(9,030)**	(9,606)
Borrowings from non-bank institutions	**(40,222)**	(33,264)
Lease liabilities	**(194)**	—
Bank charges	**(107)**	(598)
	(49,553)	(43,468)
Net interest income	**270,796**	294,068

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's net interest income during the years ended 31 December 2019 and 2018. Details of concentration of credit risk are set out in Note 22(a).

2 NET INTEREST INCOME (Continued)

For the years ended 31 December 2019 and 2018, the directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing lending services which is the basis to allocate resources and assess performance of the Group.

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

3 OTHER NET INCOME

	2019 RMB'000	2018 RMB'000
Government grants (Note)	15,110	13,218
Investment income from wealth managements products	556	276
Exchange losses	(1,394)	(2)
Others	(100)	(136)
Total	14,172	13,356

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

4 IMPAIRMENT LOSSES

	2019 RMB'000	2018 RMB'000
Loans and advances to customers (Note 11)	34,252	47,056
Interest receivables	2,473	338
Total	36,725	47,394

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2019 RMB'000	2018 RMB'000
Salaries, bonuses and allowance	**16,570**	18,043
Contribution to retirement scheme	**1,593**	1,129
Social insurance and other benefits	**4,740**	4,894
Total	**22,903**	24,066

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

(b) Other items

	2019 RMB'000	2018 RMB'000
Depreciation expenses (Note 15)		
— owned fixed assets	**5,219**	5,829
— right-of-used asset	**2,001**	—
Amortization of intangible assets	**1,388**	823
Operating lease charges	**43**	2,079
Auditors' remuneration		
— audit services	**3,049**	3,131
— other services	**94**	94

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

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

	2019 RMB'000	2018 RMB'000
Current tax (Note 20(a))		
Provision for PRC income tax for the year	**57,254**	57,295
Deferred tax (Note 20(b))		
Origination and reversal of temporary differences	**(9,560)**	(8,983)
Total	**47,694**	48,312

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	**188,482**	191,212
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (Notes)	**47,121**	47,803
Effect of non-deductible expenses	**573**	509
Actual income tax expense	**47,694**	48,312

Notes:

(i) The Company and the subsidiaries of the Group incorporated in the PRC are subject to PRC income tax at the statutory tax rate of 25% for the year ended 31 December 2019 (2018: 25%).

(ii) No provision for Hong Kong profit tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong profit tax for the year ended 31 December 2019 (2018: nil).

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2019				
	Director's fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Contribution to pension scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman					
Yu Yin (俞寅)	6	412	20	140	578
Executive directors					
Zheng Xuegen (鄭學根)	6	342	19	140	507
Yang Sheng (楊晟)	6	372	19	140	537
Hu Haifeng (胡海峰) (resigned on 18 April 2019)	3	–	–	–	3
Hu Fangfang (胡芳芳) (appointed on 28 June 2019)	3	167	10	55	235
Non-executive director					
Pan Zhongmin (潘忠敏)	6	–	–	–	6
Independent non-executive directors					
Ho Yuk Ming (何育明)	100	–	–	–	100
Jin Xuejun (金雪軍)	100	–	–	–	100
Huang Lianxi (黃廉熙)	100	–	–	–	100
Supervisors					
Dai Shengqing (戴勝慶)	6	–	–	–	6
Wang Peijun (王培軍)	6	–	–	–	6
Yang Zhenlan (楊振嵐)	6	71	5	4	86
	348	1,364	73	479	2,264

7 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	2018				
	Director's fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Pension scheme RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Chairman					
Yu Yin (俞寅)	6	347	17	140	510
Executive directors					
Zheng Xuegen (鄭學根)	6	228	17	140	391
Yang Sheng (楊晟)	6	227	17	140	390
Hu Haifeng (胡海峰)	6	140	11	—	157
Non-executive director					
Pan Zhongmin (潘忠敏)	6	—	—	—	6
Independent non-executive directors					
Ho Yuk Ming (何育明)	100	—	—	—	100
Jin Xuejun (金雪軍)	100	—	—	—	100
Huang Lianxi (黃廉熙)	100	—	—	—	100
Supervisors					
Shen Yamin (沈婭敏) (resigned on 15 May 2018)	2	13	3	—	18
Dai Shengqing (戴勝慶)	6	—	—	—	6
Wang Peijun (王培軍)	6	—	—	—	6
Yang Zhenlan (楊振嵐) (appointed on 15 May 2018)	4	—	—	—	4
	348	955	65	420	1,788

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, all (2018: four) are directors or supervisors of the Group for the year ended 31 December 2019, whose emoluments are disclosed in Note 7.

For the year ended 31 December 2018, the aggregate of the emoluments in respect of the other individual are as follow:

	2018 RMB'000
Salaries and other emoluments	245
Discretionary bonuses	100
	345

For the year ended 31 December 2018, the emoluments of the one individual with the highest emoluments are within the following bands:

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

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2019 and 2018.

9 EARNINGS PER SHARE

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

	2019	2018
Profit attributable to the equity shareholders of the Company (RMB'000)	**131,587**	136,968
Weighted average number of ordinary shares in issue ('000)	**1,180,000**	1,180,000
Basic earnings per share (RMB)	**0.11**	0.12

(a) Weighted average number of ordinary shares

	2019 '000	2018 '000
Issued ordinary shares at 1 January	**1,180,000**	1,180,000
Weighted average number of ordinary shares at 31 December	**1,180,000**	1,180,000

There were no dilutive potential ordinary shares during the years ended 31 December 2019 and 2018, and therefore, diluted earnings per share are the same as the basic earnings per share.

10 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Cash in hand	**2**	3
Cash at banks	**54,906**	41,176
Others	**402**	528
Cash and cash equivalents in the cash flow statement	**55,310**	41,707

10 CASH AND CASH EQUIVALENTS (Continued)

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

	2019 RMB'000	2018 (Note) RMB'000
Profit before taxation	**188,482**	191,212
Adjustment for:		
Impairment losses	**36,725**	47,394
Depreciation and amortisation	**8,608**	6,652
Exchange losses	**1,394**	2
Interest expenses	**49,446**	42,870
Investment income	**(556)**	(276)
Net (gains on)/loss from disposal of fixed assets	**(3)**	21
Changes in working capital:		
Increase in loans and advances to customers	**(116,749)**	(260,350)
Decrease/(increase) in interest receivables and other assets	**2,310**	(1,484)
(Decrease)/increase in accruals and other payables	**(17,220)**	4,409
Cash generated from operations	**152,437**	30,450

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB1.4 million were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see Note 10(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in Note 1(c).

10 CASH AND CASH EQUIVALENTS (Continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans RMB'000	Other borrowings from third parties RMB'000	Convertible notes RMB'000	Borrowings from Euro zone RMB'000	Lease liabilities RMB'000	Total RMB'000
At 31 December 2018	180,299	399,780	–	–	–	580,079
Impact on initial application of HKFRS 16	–	–	–	–	3,638	3,638
At 1 January 2019	180,299	399,780	–	–	3,638	583,717
Changes from financing cash flow						
Proceeds from bank loans	310,000	–	–	–	–	310,000
Repayment of bank loans	(340,000)	–	–	–	–	(340,000)
Proceeds from borrowings from third parties	–	633,641	–	–	–	633,641
Repayment of borrowings from third parties	–	(610,862)	–	–	–	(610,862)
Proceeds from convertible notes	–	–	73,939	–	–	73,939
Proceeds from borrowings from Euro zone	–	–	–	58,389	–	58,389
Capital element of lease rentals paid	–	–	–	–	(2,606)	(2,606)
Interest element of lease rentals paid	–	–	–	–	(194)	(194)
Interest paid	(9,090)	(29,221)	–	–	–	(38,311)
Total changes from financing cash flows	(39,090)	(6,442)	73,939	58,389	(2,800)	83,996
Exchange adjustments	–	–	–	61	–	61
Other changes:						
Interest expense (Note 2)	9,030	39,097	944	181	194	49,446
Commission payables related to obtaining other borrowings	–	(216)	–	–	–	(216)
Value-added tax	–	–	–	–	242	242
Total other changes	9,030	38,881	944	181	436	49,472
At 31 December 2019	150,239	432,219	74,883	58,631	1,274	717,246

10 CASH AND CASH EQUIVALENTS (Continued)

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

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

10 CASH AND CASH EQUIVALENTS (Continued)

(d) Total cash outflow for leases:

Amounts included in the cash flow statement for leases comprise the following:

	2019 RMB'000	2018 (Note) RMB'000
Within operating cash flows	**8**	1,438
Within financing cash flows	**2,800**	—
Cash flows of rentals paid on leases	**2,808**	1,438

Note: As explained in the Note 10(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 RMB'000	2018 RMB'000
Lease rentals paid	**2,808**	1,438

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2019 RMB'000	31 December 2018 RMB'000
Corporate loans	**878,370**	759,910
Retail loans	**1,566,901**	1,561,718
Micro-loans granted online	**37,442**	74,755
Sub-total	**2,482,713**	2,396,383
Accrued interest	**37,327**	18,868
Gross loans and advances to customers	**2,520,040**	2,415,251
Less: Allowances for impairment losses	**(155,461)**	(133,169)
Net loans and advances to customers	**2,364,579**	2,282,082

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Analysed by type of collateral

	31 December 2019 RMB'000	31 December 2018 RMB'000
Unsecured loans	**29,575**	53,584
Guaranteed loans	**2,401,778**	2,282,460
Collateralized loans	**43,360**	54,899
Pledged loans	**8,000**	5,440
Sub-total	**2,482,713**	2,396,383
Accrued interest	**37,327**	18,868
Gross loans and advances to customers	**2,520,040**	2,415,251
Less: Allowances for impairment losses	**(155,461)**	(133,169)
Net loans and advances to customers	**2,364,579**	2,282,082

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Analysed by industry sector

	31 December 2019		31 December 2018	
	RMB'000	%	RMB'000	%
Wholesale and retail	478,850	18%	314,812	13%
Manufacturing	95,600	4%	120,790	5%
Construction	94,900	4%	107,100	5%
Agriculture, forestry, animal husbandry and fishery	15,300	1%	53,500	2%
Others	193,720	8%	163,708	7%
Corporate loans	878,370	35%	759,910	32%
Retail loans	1,566,901	63%	1,561,718	65%
Micro-loans granted online	37,442	2%	74,755	3%
Sub-total	2,482,713	100%	2,396,383	100%
Accrued interest	37,327		18,868	
Gross loans and advances to customers	2,520,040		2,415,251	
Less: Allowances for impairment losses	(155,461)		(133,169)	
Net loans and advances to customers	2,364,579		2,282,082	

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

	31 December 2019				
	Overdue within 3 months (inclusive) RMB'000	Overdue more than 3 months to 6 months (inclusive) RMB'000	Overdue more than 6 months to one year (inclusive) RMB'000	Overdue more than one year RMB'000	Total RMB'000
Unsecured loans	377	377	1,192	16,226	18,172
Guaranteed loans	9,349	818	4,574	20,180	34,921
Collateralized loans	6,500	—	—	11,445	17,945
Total	16,226	1,195	5,766	47,851	71,038

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

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

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

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

	31 December 2019			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
Gross loans and advances to customers	**2,412,683**	**158**	**107,199**	**2,520,040**
Less: Allowances for impairment losses	**(65,718)**	**(51)**	**(89,692)**	**(155,461)**
Net loans and advances to customers	**2,346,965**	**107**	**17,507**	**2,364,579**

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

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Movements of allowances for impairment losses

	2019			
	12-month ECLs RMB'000	Lifetime ECLs non credit-impaired RMB'000	Lifetime ECLs credit-impaired RMB'000	Total RMB'000
At 1 January 2019	68,298	7,817	57,054	133,169
Transferred to				
— Lifetime ECLs non credit-impaired	(20)	20	—	—
— Lifetime ECLs credit-impaired	(677)	(2,110)	2,787	—
Charge for the period	(1,883)	(5,676)	41,811	34,252
Write off	—	—	(15,597)	(15,597)
Recoveries of loans and advances written off in previous years	—	—	3,637	3,637
At 31 December 2019	65,718	51	89,692	155,461

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

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality

	2019 RMB'000
Gross balance of loans and advances to customers that are assessed for 12-month ECLs	
— Neither overdue nor credit-impaired	2,412,683
Sub-total	2,412,683
Gross balance of loans and advances to customers that are assessed for lifetime ECLs non credit-impaired	
— Overdue but not credit-impaired	153
— Neither overdue nor credit-impaired	5
Sub-total	158
Gross balance of loans and advances to customers that are assessed for lifetime ECLs credit-impaired	
— Overdue and credit-impaired	70,885
— Not overdue but credit-impaired	36,314
Sub-total	107,199
Less: Allowances for impairment losses	(155,461)
Net value	2,364,579

11 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Analysed by credit quality (Continued)

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

12 INTANGIBLE ASSETS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Computer software	**1,753**	3,141

13 GOODWILL

	RMB'000
Cost:	
At 1 January and 31 December 2019	22,502
Accumulated impairment losses:	
At 31 December 2019 and 2018	—
Carrying amount:	
At 31 December 2019	22,502
At 31 December 2018	22,502

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance")	**18,005**	18,005
Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)興耀普匯小額貸款有限公司) ("Xingyao Micro-finance")	**4,497**	4,497
	22,502	22,502

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

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

(Expressed in RMB'000, unless otherwise stated)

13 GOODWILL (Continued)

Impairment test

The recoverable amount of the acquired subsidiaries are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for micro-finance operations. The cash flows are discounted using discount rates of 11.34% and 10.99% by Jinhui Micro-finance and Xingyao Micro-finance respectively at 31 December 2019 (2018: Jinhui Micro-finance: 11.54%; Xingyao Micro-finance: 11.34%). The discounted rates are pre-tax and reflect specific risks relating to the acquired subsidiaries.

14 INVESTMENTS IN SUBSIDIARIES

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

Name of Companies	Place of incorporation and business	Paid up capital	Proportion of ownership interest at 31 December 2019 and 31 December 2018: Group's effective interest	Held by the Company	Principal activities
Jinhui Micro-finance (Note (i))	Deqing, Zhejiang	1,228,000,000	99.4300%	99.4300%	Micro-finance
Zuoli Micro-finance Hong Kong International Investment Company Limited (佐力小貸香港國際投資有限公司) ("Zuoli HK") (Note (ii))	Hong Kong	–	100%	100%	Investment, trading
Xingyao Micro-finance	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

Notes:

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

(ii) On 18 August 2015 (date of incorporation), Zuoli HK's 1,000,000 shares with par value of HK$1 was allotted and issued to its sole shareholder, the Company. As at 31 December 2019, the issued shares had not been paid by the Company.

14 INVESTMENTS IN SUBSIDIARIES (Continued)

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

	2019 RMB'000	2018 RMB'000
NCI Percentage	**40%**	40%
Total assets	**259,317**	259,501
Total liabilities	**(6,972)**	(28,505)
Net assets	**252,345**	230,996
Carrying amount of NCI	**100,938**	92,398
Net interest income	**33,067**	37,530
Profit and total comprehensive income for the year	**21,348**	12,902
Profit allocated to NCI	**8,539**	5,161
Net cash generated from operating activities	**70,391**	43,546
Net cash (used in)/generated from investing activities	**(34,184)**	26,696
Net cash used in financing activities	**(20,222)**	(53,915)

15 FIXED ASSETS

(a) Reconciliation of carrying amount

	Construction in progress RMB'000	Premise RMB'000	Right-of-use assets RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost:								
At 1 January 2018	10,075	15,107	–	1,174	3,469	1,730	6,188	37,743
Additions	3,007	–	–	2,588	1,408	120	12,736	19,859
Transfers in/(out) of construction in progress	(13,082)	–	–	–	–	–	13,082	–
Disposal	–	–	–	–	(415)	–	–	(415)
At 31 December 2018	–	15,107	–	3,762	4,462	1,850	32,006	57,187
Impact on initial application of HKFRS 16	–	–	3,005	–	–	–	–	3,005
At 1 January 2019	–	15,107	3,005	3,762	4,462	1,850	32,006	60,192
Additions	–	–	–	181	827	5	3,851	4,864
Disposal	–	–	–	–	(203)	(5)	–	(208)
At 31 December 2019	–	15,107	3,005	3,943	5,086	1,850	35,857	64,848
Accumulated depreciation:								
At 1 January 2018	–	(232)	–	(919)	(1,903)	(866)	(4,243)	(8,163)
Charge for the year	–	(398)	–	(329)	(707)	(299)	(4,096)	(5,829)
Disposal	–	–	–	–	394	–	–	394
At 31 December 2018 and 1 January 2019	–	(630)	–	(1,248)	(2,216)	(1,165)	(8,339)	(13,598)
Charge for the year	–	(398)	(2,001)	(614)	(901)	(268)	(3,038)	(7,220)
Disposal	–	–	–	–	12	3	–	15
At 31 December 2019	–	(1,028)	(2,001)	(1,862)	(3,105)	(1,430)	(11,377)	(20,803)
Net book value:								
At 31 December 2019	–	14,079	1,004	2,081	1,981	420	24,480	44,045
At 31 December 2018	–	14,477	–	2,514	2,246	685	23,667	43,589

15 FIXED ASSETS (Continued)

(b) Right-of-use assets

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Premises leased for own use, carried at depreciated cost	**1,004**	3,005

16 OTHER ASSETS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Prepayment	**1,173**	1,282
Others	**25**	556
	1,198	1,838

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

17 INTEREST-BEARING BORROWINGS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Bank loans (Note (i))		
— Amortised cost	**150,000**	180,000
— Accrued interest	**239**	299
	150,239	180,299
Borrowings from third parties (Note (ii))		
— Amortised cost	**425,381**	393,910
— Accrued interest	**6,838**	5,870
	432,219	399,780
Convertible notes (Note (iii))		
— Amortised cost	**74,239**	—
— Accrued interest	**644**	—
	74,883	—
Borrowings from Euro zone — unsecured (Note (iv))		
— Amortised cost	**58,476**	—
— Accrued interest	**155**	—
	58,631	—
Total	**715,972**	580,079

Notes:

(i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2019 and 31 December 2018, none of the covenants relating to the bank loans had been breached.

(ii) In 2019, the Group obtained financings with nominal amount totaling RMB643.5 million at an interest rate ranging from 5.90%% to 8.50% per annum by issuing financing products on trading platforms located in the PRC which are due from March 2019 to November 2020. As at 31 December 2019, the remaining balance of these financial products was RMB432.2 million. The above transactions were guaranteed by certain shareholders and related parties.

17 INTEREST-BEARING BORROWINGS (Continued)

Notes: (Continued)

(iii) On 20 November 2019, Jinhui Micro-finance, a subsidiary of the Company, issued 5 tranches of convertible notes. The maturity date of each tranches is 20 November 2021. The total face value of the convertible notes amounted to RMB80.0 million. The notes bear interest ranging from 6.8% to 7.2% per annum and are guaranteed by certain shareholders and related parties.

— Jinhui Micro-finance may elect to repay all the convertible notes after 6 months since its issuance,

— Conversion rights are exercisable at the maturity date of the convertible notes.

— If a holder of the five tranches exercises its conversion rights, Jinhui Micro-finance is required to deliver ordinary shares at a rate of one ordinary share for every 1.22 notes converted. The conversion price will be subject to adjustments for reasons including but not limited to (1) bonus issue; (2) share capitalisation; (3) change in registered capital (excluding the increase in registered capital as a result of the issue of the convertible notes); (4) right issue; and (5) distribution of dividends.

Each tranches of the Notes, in respect of which conversion rights have not been exercised, will be redeemed at face value on 20 November 2021.

(iv) On 11 December 2019, the Group obtained financing with nominal amount totaling EUR7.8 million at an interest rate 4.38% per annum from a financial institution located in Euro zone which is due on 11 December 2022. The financing is subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratio, as are commonly found in the lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants.

18 LEASE LIABILITIES

	At 31 December 2019		At 1 January 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**1,274**	**1,284**	2,478	2,558
After 1 year but within 2 years	**—**	**—**	1,160	1,284
	1,274	**1,284**	3,638	3,842
Less: total future interest expenses		**(10)**		(204)
Present value of lease liabilities		**1,274**		3,638

19 ACCRUALS AND OTHER PAYABLES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Accrued staff costs	**5,788**	5,657
Value-added tax payable	**1,933**	1,826
Tax and surcharges and other taxation payable	**117**	674
Dividend payable to non-controlling interests	**—**	6,400
Other payables	**14,775**	36,061
	22,613	50,618

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Balance of income tax payable at the beginning of the year	**43,757**	26,295
Provision for PRC income tax for the year (Note 6(a))	**57,254**	57,295
Income tax paid during the year	**(59,762)**	(39,833)
Balance of income tax payable at the end of the year	**41,249**	43,757

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years ended 31 December 2018 and 2019 are as follows:

Deferred tax assets arising from:	**Provision for impairment losses** RMB'000	**Accrued expenses** RMB'000	**Total** RMB'000
At 1 January 2018	18,394	1,006	19,400
Charged to profit or loss	8,908	75	8,983
At 31 December 2018 and 1 January 2019	27,302	1,081	28,383
Charged to profit or loss (Note 6(a))	10,268	(708)	9,560
At 31 December 2019	37,570	373	37,943

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

	Share capital RMB'000 Note 21(c)	Surplus reserve RMB'000 Note 21(d)(ii)	General reserve RMB'000 Note 21(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 31 December 2018 and 1 January 2019	**1,180,000**	**43,692**	**24,067**	**265,649**	**1,513,408**
Changes in equity for 2019:					
Total comprehensive income for the year	**—**	**—**	**—**	**3,560**	**3,560**
Appropriation to surplus reserve	**—**	**356**	**—**	**(356)**	**—**
Reversal to general reserve	**—**	**—**	**(2,281)**	**2,281**	**—**
Dividends approved in respect of the previous year (Note 21(b))	**—**	**—**	**—**	**(147,500)**	**(147,500)**
Balance at 31 December 2019	**1,180,000**	**44,048**	**21,786**	**123,634**	**1,369,468**
Balance at 31 December 2017	1,180,000	39,580	30,402	222,711	1,472,693
Impact on initial application of HKFRS 9 (Note 1(c))	—	—	—	(400)	(400)
Adjusted balance at 1 January 2018	1,180,000	39,580	30,402	222,311	1,472,293
Changes in equity for 2018:					
Total comprehensive income for the year	—	—	—	41,115	41,115
Appropriation to surplus reserve	—	4,112	—	(4,112)	—
Reversal of general reserve	—	—	(6,335)	6,335	—
Balance at 31 December 2018	1,180,000	43,692	24,067	265,649	1,513,408

21 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.125 per share (2018: nil)	147,500	—

At the annual general meeting held on 28 June 2019, the cash dividend of RMB0.125 per share before tax in aggregation amount of RMB147.5 million was approved to declare to all equity shareholders. The dividend was attributable to the year of 2018 (2018: nil).

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

(c) Share capital

As at 31 December 2019, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1 each.

(d) Nature and purpose of reserves

(i) Capital reserve

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

(ii) Surplus reserve

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

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

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

21 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(iii) General risk reserve

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

(e) Appropriation of profits

(i) In accordance with the resolution of the Company's board of directors meeting on 20 March 2020, the proposed profit appropriations for the year ended 31 December 2019 are as follows:

— Appropriate RMB0.4 million (10% of the net profit of the Company) to surplus reserve;

— Reverse RMB2.3 million from general reserve to retained profits.

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

(ii) At the Annual General Meeting of shareholders held on 28 June 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018:

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

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

(f) Distributable reserves

At 31 December 2018 and 31 December 2019, the aggregate amounts of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Company Law of the PRC, were RMB265.6 million and RMB123.6 million respectively.

(g) Capital management

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

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

21 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(g) Capital management (Continued)

There were no changes in the Group's approach to capital management during the years ended 31 December 2018 and 2019.

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

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

Credit risk arising from micro-finance business

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

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

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

(a) Credit risk (Continued)

Credit risk arising from micro-finance business (Continued)

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

Stage 1

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

Stage 2

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

Stage 3

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

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

When a certain number of customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions. At 31 December 2019, 1.99% (31 December 2018: 2.09%) and 7.58% (31 December 2018: 7.80%) of the total loans and advances to customers was due from the Group's largest customer and the five largest customers respectively.

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

Other credit risk

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

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

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

(b) Liquidity risk

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

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

	31 December 2019					
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	55,310	—	—	—	55,310	55,310
Interest receivables	83	—	—	—	83	83
Loans and advances to customers	71,038	613,784	2,041,654	13,074	2,739,550	2,364,579
Other assets	1,198	—	—	—	1,198	1,198
Total	127,629	613,784	2,041,654	13,074	2,796,141	2,421,170
Liabilities						
Interest-bearing borrowings	—	(56,572)	(553,077)	(151,401)	(761,050)	(715,972)
leased liability	—	(1,400)	—	—	(1,400)	(1,274)
Accruals and other payables	(14,775)	—	—	—	(14,775)	(14,775)
Total	(14,775)	(57,972)	(553,077)	(151,401)	(777,225)	(732,021)
	112,854	555,812	1,488,577	(138,327)	2,018,916	1,689,149

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

(b) Liquidity risk (Continued)

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

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

(c) Interest risk

The Group is principally engaged in the provision of micro-finance services. Its interest rate risk arises primarily from deposits with banks, loans and advances to customers and interest-bearing borrowings.

(i) Interest rate profile

The following tables details the interest rate profile of the Group's assets and liabilities as at the end of the reporting periods:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Fixed interest rate		
Financial assets		
— Loans and advances to customers	**2,364,579**	2,282,082
Financial liabilities		
— Interest-bearing borrowings	**(715,972)**	(580,079)
— Leased liability	**(1,274)**	—
Net	**1,647,333**	1,702,003
Variable interest rate		
Financial assets		
— Cash and cash equivalent	**54,906**	41,176
Net	**54,906**	41,176
Net fixed rate borrowings as a percentage of total borrowings	**100.00%**	100.00%

(ii) Sensitivity analysis

At 31 December 2019 and 31 December 2018, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's net profit during the next 12 months by approximately RMB206,000 and RMB154,000 respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period.

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

(d) Currency risk

The Group is exposed to currency risk primarily through obtaining interest-bearing borrowings that are denominated in Euros. The currencies giving rise to this risk are primarily Euros.

(i) *Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

	Exposure to foreign currencies	
	2019 Euros RMB'000	2018 Euros RMB'000
Cash and cash equivalents	**1,954**	—
Interest-bearing borrowings	**(58,631)**	—
	(56,677)	—

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the list of foreign currency and the RMB would be materially unaffected by any changes in movement in value of the list of foreign currency against other currencies.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates bps	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates bps	Effect on profit after tax and retained profits RMB'000
Euros	**100**	**(425)**	100	—
	(100)	**425**	(100)	—

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the Group's profit after tax in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

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

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

At 31 December 2019 and 31 December 2018, no financial instruments were measured at fair value.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2018 and 31 December 2019.

23 COMMITMENTS

(a) Operating lease commitments

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	31 December 2018 RMB'000
Within 1 year	2,800
After 1 year but within 5 years	1,400
Total	4,200

Note: The Group is the lessee in respect of a certain properties which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognised lease liabilities relating to the leases at 1 January 2019 (see Note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 1(h), and the details regarding the Group's future lease payments are disclosed in Note 18.

(b) Capital commitments

As at 31 December 2019 and 31 December 2018, there is no capital commitment of the Group.

24 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	2019 RMB'000	2018 RMB'000
Key management personnel remuneration (Note (i))	**2,492**	2,357
Receiving guarantees for loans and advances to customers	**—**	1,000
Receiving guarantees for bank loans (Note (ii))	**310,000**	180,000
Receiving guarantees for borrowing from third parties (Note (iii))	**643,478**	594,132
Receiving guarantees for convertible notes (Note (iv))	**80,000**	—
Releasing guarantees for bank loans (Note (ii))	**(340,000)**	—
Releasing guarantees for loans and advances to customers	**—**	(1,000)
Releasing guarantees for borrowing from third parties (Note (iii))	**(610,862)**	(552,308)

24 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with key management personnel (Continued)

Notes:

(i) Remuneration of key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 7 and certain of the highest payment employs as disclosed in Note 8. Total remuneration is included in "Staff cost" (see Note 5(a)).

(ii) The guarantees for bank loans during the year ended 31 December 2019 were provided by the Chairman of the Board without charges. For the details of bank loans, please refer to Note 17(i).

(iii) The guarantees for borrowings from third parties during the year ended 31 December 2019 were provided by the Chairman of the Board without charges. For the details of other borrowings from third parties, please refer to Note 17(ii).

(iv) The guarantees for convertible notes during the year ended 31 December 2019 were provided by the Chairman of the Board without charges. For the details of convertible notes, please refer to Note 17(iii).

(b) Balances with key management personnel

	31 December 2019 RMB'000	31 December 2018 RMB'000
Guarantees received for borrowing from third parties	**429,440**	396,824
Guarantees received for bank loans	**150,000**	180,000
Guarantees received for convertible notes	**80,000**	—

(c) Other related party transactions

	2019 RMB'000	2018 RMB'000
Depreciation expense of right-of-use assets (Note (i))	**2,001**	—
Interest expense of lease liabilities (Note (i))	**194**	—
Operating lease charges (Note (i))	**—**	2,023
Receiving guarantees for bank loans (Note (ii))	**310,000**	180,000
Receiving guarantees for borrowing from third parties (Note (iii))	**643,478**	594,132
Receiving guarantees for convertible notes (Note (iv))	**80,000**	—
Releasing guarantees for bank loans (Notes (ii))	**(340,000)**	(180,000)
Releasing guarantees for borrowing from third parties (Note (iii))	**(610,862)**	(552,308)

24 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions (Continued)

Notes:

(i) On 6 July 2017, the Company and Zuoli Holdings Group Company Limited entered into a lease agreement, pursuant to which Zuoli Holdings Group Company Limited agreed to lease a property to the Group for a term of 3 years commencing from 7 July 2017 and ending on 6 July 2020.

The Group has initially applied HKFRS 16 as from 1 January 2019 and has recognised right-of-use assets based on lease liabilities. The Group recognised the depreciation expense of right-of-use assets and interest expense of lease liabilities during the year ended 31 December 2019. The Group recognised operating lease charges under HKAS 17 during the year ended 31 December 2019.

(ii) The guarantees for bank loans during the year ended 31 December 2019 were provided by other related parties of the Group without charges. For the details of bank loans, please refer to Note 17(i).

(iii) The guarantees for borrowings from third parties during the year ended 31 December 2019 were provided by other related parties of the Group without charges. For the details of other borrowings from third parties, please refer to Note 17(ii).

(iv) The guarantees for convertible notes during the year ended 31 December 2019 were provided by other related parties of the Group without charges. For the details of convertible notes, please refer to Note 17(iii).

(d) Balances with other related parties

	31 December 2019 RMB'000	31 December 2018 RMB'000
Operating lease payable	—	633
Lease liabilities	1,274	—
Guarantees received for bank loans	150,000	180,000
Guarantees received for borrowing from third parties	429,440	396,824
Guarantees received for convertible notes	80,000	—

25 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, the key sources of estimation uncertainty are as follows:

(a) Impairment of financial assets measured at amortised cost

The Group reviews portfolios of financial assets measured at amortised cost to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for financial assets measured at amortised cost. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for financial assets measured at amortised cost using the expected credit loss model is subjected to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. The expected credit losses for financial assets measured at amortised cost are derived from estimates whereby management takes into consideration historical data, the historical loss experience and other adjustment factors. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgment based on management's historical experience. Management reviews the selection of those parameters and the application of the assumptions regularly to reduce any difference between loss estimates and actual loss.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 1(m). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

25 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(c) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account estimated residual value. The useful lives and residual value are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation, the rate of depreciation is revised.

(d) Tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(e) Determining the lease term

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

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2019 RMB'000	31 December 2018 RMB'000
Assets			
Cash and cash equivalents		**5,791**	2,548
Interests receivables		**—**	1,201
Loans and advances to customers		**—**	8,967
Intangible assets		**1,649**	2,214
Fixed assets		**25,767**	27,814
Investments in subsidiary	14	**1,371,100**	1,371,100
Deferred tax assets		**5,758**	3,371
Other assets		**70,823**	218,427
Total assets		**1,480,888**	1,635,642
Liabilities			
Interest-bearing borrowings		**107,835**	100,038
Accruals and other payables		**3,523**	14,872
Current taxation		**—**	7,324
Lease liabilities		**62**	—
Total liabilities		**111,420**	122,234
NET ASSETS		**1,369,468**	1,513,408
CAPITAL AND RESERVES	21		
Share capital		**1,180,000**	1,180,000
Reserves		**189,468**	333,408
TOTAL EQUITY		**1,369,468**	1,513,408

27 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 1(c).

(Expressed in RMB'000, unless otherwise stated)

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

29 SUBSEQUENT EVENTS

Since the outbreak of the COVID-19 in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group will earnestly implement the requirements of the "Notice on Further Enhancing Financial Support for Prevention and Control of the COVID-19 (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》)" and other relevant policies and regulations jointly published by the People's Bank of China, the Ministry of Finance, the China Banking Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange, to strengthen financial support for epidemic prevention and control.

The COVID-19 will have certain impact on the operation of enterprise in Zhejiang province and some industries, and the overall economic operation, which may affect the asset quality or return on assets of the Group's credit assets to a certain extent. The degree of impact will depend on the situation, duration of the epidemic prevention and control, and the implementation of various control policies.

The Group will continue to closely monitor the development of the COVID-19, assess and actively respond to its impact on the financial condition, operating results and other aspects of the Group. Up to the approval date of the financial statement, the assessment is still in progress.

Up to the approval date of the financial statement, except for the above, the Group has no other significant subsequent events for disclosure.

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