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Quanzhou Huixin Micro-credit Co., Ltd.*

泉州匯鑫小額貸款股份有限公司

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

(Stock Code: 1577)

2020 ANNUAL RESULTS ANNOUNCEMENT

The board (the “**Board**”) of directors (the “**Director(s)**”) of Quanzhou Huixin Micro-credit Co., Ltd.* (the “**Company**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Company and its subsidiaries (the “**Group**”, “**we**” or “**our**”) for the year ended 31 December 2020 (the “**Reporting Period**”) prepared in accordance with the Hong Kong Financial Reporting Standards (the “**HKFRSs**”) promulgated by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The Board and the audit committee of the Company (the “**Audit Committee**”) have reviewed and confirmed the Annual Results. All amounts set out in this announcement are expressed in Renminbi (“**RMB**”) unless otherwise indicated.

ANNUAL RESULTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020

(Amounts expressed in RMB unless otherwise stated)

	Notes	2020	2019
Interest income	5	146,251,252	170,813,797
Interest expense	5	<u>(2,705,872)</u>	<u>(9,052,708)</u>
Interest income, net		143,545,380	161,761,089
Impairment losses on loans and accounts receivable, net	6	(69,124,865)	(37,828,797)
Operating and administrative expenses		(26,602,782)	(33,197,519)
Foreign exchange (loss)/gain, net		(350,124)	113,382
Net gains on financial assets	7	20,447,131	4,100,177
Other income and gains, net	8	2,875,099	2,459,878
Other expenses		(207)	(2,231,399)
Share of profit of an associate		<u>—</u>	<u>2,974,056</u>
PROFIT BEFORE TAX	9	70,789,632	98,150,867
Income tax expense	12	<u>(16,908,893)</u>	<u>(23,618,773)</u>
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>53,880,739</u>	<u>74,532,094</u>
Attributable to:			
Owners of the parent		41,096,184	64,421,947
Non-controlling interests		<u>12,784,555</u>	<u>10,110,147</u>
		<u>53,880,739</u>	<u>74,532,094</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		<u>0.06</u>	<u>0.09</u>
Diluted		<u>0.06</u>	<u>0.09</u>

Consolidated Statement of Financial Position

31 December 2020

(Amounts expressed in RMB unless otherwise stated)

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	15	31,876,542	36,118,840
Securities purchased under agreements to re-sell		3,800,000	29,900,000
Financial assets at fair value through profit or loss	16	362,839,515	118,278,528
Loans and accounts receivable	17	833,535,610	1,098,824,186
Property and equipment	18	8,522,484	920,820
Right-of-use assets	19	250,181	1,930,175
Goodwill	20	14,729,281	14,729,281
Other intangible assets	21	1,177,476	1,583,360
Deferred tax assets	22	10,763,785	3,182,693
Other assets	23	<u>42,791,685</u>	<u>15,320,526</u>
TOTAL ASSETS		<u>1,310,286,559</u>	<u>1,320,788,409</u>
LIABILITIES			
Interest-bearing bank borrowings	24	50,067,361	70,108,074
Lease liabilities	19	152,214	1,647,345
Income tax payable		3,974,827	7,440,617
Deferred tax liabilities	22	4,951,836	116,477
Other payables	25	<u>21,149,792</u>	<u>12,610,106</u>
TOTAL LIABILITIES		<u>80,296,030</u>	<u>91,922,619</u>
NET ASSETS		<u>1,229,990,529</u>	<u>1,228,865,790</u>
EQUITY			
Share capital	26	680,000,000	680,000,000
Reserves	27	145,756,111	143,154,528
Retained profits		<u>261,738,838</u>	<u>257,244,237</u>
Equity attributable to owners of the parent		1,087,494,949	1,080,398,765
Non-controlling interests		<u>142,495,580</u>	<u>148,467,025</u>
TOTAL EQUITY		<u>1,229,990,529</u>	<u>1,228,865,790</u>

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

(Amounts expressed in RMB unless otherwise stated)

	Attributable to owners of the parent							
		Reserves						
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 1 January 2019	680,000,000	69,383,972	52,231,032	15,355,594	233,006,220	1,049,976,818	16,249,963	1,066,226,781
Net profit and total comprehensive income for the year	—	—	—	—	64,421,947	64,421,947	10,110,147	74,532,094
Appropriation to surplus reserve	—	—	5,263,257	—	(5,263,257)	—	—	—
Appropriation to general reserve	—	—	—	920,673	(920,673)	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	122,465,293	122,465,293
Capital injection by a non-controlling shareholder	—	—	—	—	—	—	20,000,000	20,000,000
Capital return to a non-controlling shareholder	—	—	—	—	—	—	(20,000,000)	(20,000,000)
Distribution to shareholders (Note 13)	—	—	—	—	(34,000,000)	(34,000,000)	(358,378)	(34,358,378)
Balance as at 31 December 2019	<u>680,000,000</u>	<u>69,383,972</u>	<u>57,494,289</u>	<u>16,276,267</u>	<u>257,244,237</u>	<u>1,080,398,765</u>	<u>148,467,025</u>	<u>1,228,865,790</u>
Balance as at 1 January 2020	680,000,000	69,383,972	57,494,289	16,276,267	257,244,237	1,080,398,765	148,467,025	1,228,865,790
Net profit and total comprehensive income for the year	—	—	—	—	41,096,184	41,096,184	12,784,555	53,880,739
Appropriation to surplus reserve	—	—	2,601,583	—	(2,601,583)	—	—	—
Distribution to shareholders (Note 13)	—	—	—	—	(34,000,000)	(34,000,000)	(18,756,000)	(52,756,000)
Balance as at 31 December 2020	<u>680,000,000</u>	<u>69,383,972</u>	<u>60,095,872</u>	<u>16,276,267</u>	<u>261,738,838</u>	<u>1,087,494,949</u>	<u>142,495,580</u>	<u>1,229,990,529</u>

Consolidated Statement of Cash Flows

Year ended 31 December 2020

(Amounts expressed in RMB unless otherwise stated)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		70,789,632	98,150,867
Adjustments for:			
Share of profit of an associate		—	(2,974,056)
Depreciation of property and equipment		736,923	790,537
Depreciation of repossessed assets		673,292	296,791
Depreciation of right-of-use assets		1,738,111	1,826,685
Coronavirus disease 2019 (“COVID-19”) — related rent concessions from lessors		(101,533)	—
Amortisation of other intangible assets		1,591,732	1,451,662
Impairment of loans and accounts receivable	6	69,124,865	37,828,797
Impairment of goodwill		—	2,221,017
Accreted interest on impaired loans		(22,311,384)	(8,626,419)
Foreign exchange loss/(gain), net		350,124	(113,382)
Gains/(losses) on disposals of items of property and equipment		136,138	(21,559)
Interest expense	5	<u>2,705,872</u>	<u>9,052,708</u>
Increase in financial assets at fair value through profit or loss		(244,560,987)	(38,446,416)
Decrease/(Increase) in securities purchased under agreements to re-sell		26,100,000	(29,900,000)
Decrease in loans and accounts receivable		218,331,097	103,204,559
(Increase)/Decrease in other assets		(41,397,384)	512,621
Increase/(Decrease) in other payables		<u>8,868,766</u>	<u>(3,671,666)</u>
Net cash flows from operating activities before tax		92,775,264	171,582,746
Income tax paid		<u>(24,031,601)</u>	<u>(30,917,650)</u>
Net cash flows from operating activities		<u>68,743,663</u>	<u>140,665,096</u>

	<i>Notes</i>	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		(9,736,823)	(443,610)
Disposal of items of property and equipment		1,864,157	29,648
Acquisition of subsidiaries		—	12,503,825
Dividends received from an associate		<u>—</u>	<u>7,185,000</u>
Net cash flows (used in)/from investing activities		<u>(7,872,666)</u>	<u>19,274,863</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		50,000,000	70,000,000
Repayment of bank borrowings		(70,000,000)	(200,000,000)
Interest paid		(2,720,167)	(9,120,483)
Principal portion of lease payments		(1,478,133)	(2,173,451)
Dividends paid	13	(34,000,000)	(34,000,000)
Dividends paid to non-controlling shareholders		(18,756,000)	—
Capital injection by a non-controlling shareholder		—	20,000,000
Capital return and distribution to a non-controlling shareholder		<u>—</u>	<u>(20,358,378)</u>
Net cash flows used in financing activities	28	<u>(76,954,300)</u>	<u>(175,652,312)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(16,083,303)	(15,712,353)
Cash and cash equivalents at beginning of year		36,118,840	51,717,811
Effect of foreign exchange rate changes, net		<u>(350,124)</u>	<u>113,382</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	15	<u>19,685,413</u>	<u>36,118,840</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2020

(Amounts expressed in RMB unless otherwise stated)

1. CORPORATE AND GROUP INFORMATION

The Company was established as a limited liability company in the People's Republic of China (the "PRC") on 8 January 2010. The Company is a joint stock company incorporated in the PRC and its registered office is located at 12th Floor, Former Finance Building, No. 361, Feng Ze Street, Quanzhou City, Fujian Province, the PRC.

During the year, the principal activities of the Company and its subsidiaries were the provision of loans to small and medium enterprises ("SMEs"), microenterprises and entrepreneurial individuals, as well as automobile finance leasing, treasury operations and investment consulting services.

Information about subsidiaries

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

Name	Place of incorporation, and kind of legal entity	Registered capital	Paid-up capital	Percentage of ownership interest held by the Company		Principal activities and place of operation
				Direct	Indirect	
Quanzhou Huixinxing Investment Co., Ltd.	Quanzhou, China Corporation	RMB50,000,000	RMB50,000,000	100.0%	—	Investment advisory service, Quanzhou
Quanzhou Lianche Finance Leasing Co., Ltd.* (泉州連車融資租賃有限公司) ("Lianche")	Quanzhou, China Corporation	United States dollars ("USD") 10,000,000	USD10,000,000	—	75.0%	Finance leasing, Quanzhou
Jinjiang Huixin Microfinance Co., Ltd.* (晉江市匯鑫小額貸款有限公司) ("JJHX")	Jinjiang, China Corporation	RMB200,000,000	RMB200,000,000	47.9%*	—	Provision of micro-credit, Jinjiang
Jinjiang Qiding Building Materials Co., Ltd.	Jinjiang, China Corporation	RMB5,000,000	RMB500,000	—	100.0%	Wholesale of building materials, Jinjiang
Jinjiang Houdexin Information Service Co., Ltd.	Jinjiang, China Corporation	RMB5,000,000	RMB500,000	—	100.0%	Information technology advisory services, Jinjiang
Hong Kong Huixinhang Co., Limited	Hong Kong, China Corporation	Hong Kong dollars ("HKD") 10,000,000	—	—	100.0%	Investment advisory services, Hong Kong
Fujian Huichangfu Real Estate Agency Co., Ltd.	Jinjiang, China Corporation	RMB10,000,000	RMB500,000	—	100.0%	Estate brokerage services, Jinjiang
Xiamen Anshenghe Trading Co., Ltd.	Xiamen, China Corporation	RMB5,078,000	RMB5,078,000	—	100.0%	Wholesale, Xiamen
Jinjiang Qinyuan Investment Consulting Co., Ltd.	Jinjiang, China Corporation	RMB5,000,000	RMB500,000	—	100.0%	Investment advisory services, Jinjiang

* JJHX is accounted for as a subsidiary of the Group even though the Group has only a 47.9% equity interest in this company because of the agreement the Company entered into with another shareholder, whereby two parties agreed to act in concert in the exercise of the voting and other rights in relation to their shareholdings.

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

3.1 Changes in Accounting Policies and Disclosures

The Group has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs are described below:

- (a) Conceptual Framework for Financial Reporting 2018 (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered as business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“**RFR**”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB101,533 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3.2 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{3, 6}</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{3, 5}</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract²</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41²</i>

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

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

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

3.3 Summary of Significant Accounting Policies

Investment in an associate

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

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

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

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

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

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

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

Fair value measurement

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

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

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

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

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.

or

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property and equipment and depreciation

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

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

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

Categories	Estimated useful life	Estimated residual rate	Annual depreciation rate
Buildings	20 years	5%	5%
Motor vehicles	4 years	5%	24%
Fixtures and furniture	3 to 10 years	0–5%	10% to 33%
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets	0%	Over the shorter period of the lease term and the useful life of the assets

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

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

Intangible assets (other than goodwill)

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

The estimated useful lives of intangible assets are as follows:

Category	Estimated useful life
Software	1 to 3 years

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

(b) Lease liabilities

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

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

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income on the net investment in the lease is recognised in profit or loss so as to provide a constant periodic rate of return over the lease terms.

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

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

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

Derecognition of financial assets

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

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

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

Impairment of financial assets

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

General approach

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

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

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

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

- | | | |
|---------|---|--|
| Stage 1 | — | Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs |
| Stage 2 | — | Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs |
| Stage 3 | — | Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs |

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

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

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

Securities purchased under agreements to re-sell

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

Provisions

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

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

Income tax

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

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

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

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

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

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

Revenue recognition

Interest income

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

Dividend income

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

Employee benefits

Employee retirement scheme

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

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

Repossessed assets

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

3.4 Significant Accounting Judgements and Estimates

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

Judgements

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

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

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

Estimation uncertainty

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

Provision for expected credit losses on loans and accounts receivable

The Group's ECL calculations for loans and accounts receivable are outputs of internal models with a number of underlying assumptions regarding the choice of variable inputs. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns probability of default ("PD") to the individual grades;
- The Group's criteria for assessing whether there has been a significant increase in credit risk;
- The segmentation of loans and accounts receivable when their ECL is assessed on a collective basis;
- The development of ECL models, including the various formulas and the choice of inputs; and
- The selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

Deferred tax assets and liabilities and current income tax charge

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

Impairment of goodwill

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

Fair values of financial instruments determined using valuation techniques

If the market for a financial instrument is not active, the Group estimates the fair value by using valuation techniques. These include the use of recent arm's length transactions, option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments. For the description of valuation techniques, please refer to note 35. Using different valuation techniques and parameter assumptions may lead to some differences of fair value estimations.

4. SEGMENT REPORTING

In previous years, for management purposes, the Group was organised into business units based on their products and services and had two reportable operating segments as follows:

- (a) The micro-credit business provides credit facilities to SMEs, microenterprises and entrepreneurial individuals; and
- (b) The finance lease business is primarily engaged in providing automobile leasing service for individuals.

During the year, management decided to cease the operations in finance leasing in response to the increasing credit risk, and therefore almost all of the Group's revenue was generated from the micro-credit business. And the Company's chief operating decision makers focus on the operating results of the Group as a whole. Accordingly, no segment analysis or information about the Group's products and services is presented.

Geographical information

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

5. INTEREST INCOME

	2020	2019
Interest income on:		
Loans and accounts receivable	146,251,252	170,813,797
Interest expense on:		
Bank loans	(2,679,454)	(8,891,732)
Lease liabilities	<u>(26,418)</u>	<u>(160,976)</u>
Interest income, net	<u><u>143,545,380</u></u>	<u><u>161,761,089</u></u>

6. IMPAIRMENT LOSSES ON LOANS AND ACCOUNTS RECEIVABLE

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

Year ended 31 December 2020

	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Loans and accounts receivable	<u>(855,261)</u>	<u>(3,497,734)</u>	<u>73,477,860</u>	<u>69,124,865</u>
Total impairment loss	<u><u>(855,261)</u></u>	<u><u>(3,497,734)</u></u>	<u><u>73,477,860</u></u>	<u><u>69,124,865</u></u>

Year ended 31 December 2019

	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Loans and accounts receivable	<u>(10,473,528)</u>	<u>8,692,011</u>	<u>39,610,314</u>	<u>37,828,797</u>
Total impairment loss	<u><u>(10,473,528)</u></u>	<u><u>8,692,011</u></u>	<u><u>39,610,314</u></u>	<u><u>37,828,797</u></u>

7. NET GAINS ON FINANCIAL ASSETS

	2020	2019
Dividend and other income	7,027,698	3,295,856
Net realised gains	3,087,404	209,516
Unrealised gains	<u>10,332,029</u>	<u>594,805</u>
Total	<u><u>20,447,131</u></u>	<u><u>4,100,177</u></u>

8. OTHER INCOME AND GAINS, NET

	2020	2019
Government grants	1,669,513	1,260,000
(Losses)/gains on disposals of items of property and equipment	(136,138)	21,559
Interest from bank deposits	177,895	151,774
Others	<u>1,163,829</u>	<u>1,026,545</u>
Total	<u><u>2,875,099</u></u>	<u><u>2,459,878</u></u>

9. PROFIT BEFORE TAX

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

	2020	2019
Depreciation and amortisation	4,740,058	4,365,675
Staff costs:		
Salaries, bonuses and allowances	11,999,135	13,650,209
Other social welfare	1,517,103	2,341,737
Impairment losses on loans and accounts receivable	69,124,865	37,828,797
Impairment losses on goodwill	—	2,221,017
Auditor's remuneration	1,367,925	1,366,934

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Year ended 31 December 2020			
Name	Fees	Salaries, allowances and benefits in kind	Contributions to a defined contribution scheme	Total
Executive Directors				
Zhou Yongwei	—	—	—	—
Wu Zhirui	—	945,826	37,443	983,269
Yan Zhijiang	—	533,100	38,451	571,551
Liu Aiqin	—	393,694	38,451	432,145
Non-executive Directors				
Cai Rongjun	—	—	—	—
Jiang Haiying	—	—	—	—
Independent Non-executive Directors				
Zhang Lihe	89,829	—	—	89,829
Sun Leland Li Hsun	89,829	—	—	89,829
Lin Jianguo	89,829	—	—	89,829
Supervisors				
Li Jiancheng	—	—	—	—
Hong Lijun	10,000	282,240	30,193	322,433
Ruan Cen	10,000	142,108	19,711	171,819
Wu Lindi	20,000	—	—	20,000
Chen Jinzhu	20,000	—	—	20,000
	329,487	2,296,968	164,249	2,790,704

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

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

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three Directors (2019: three Directors and one supervisor), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining two (2019: one) highest paid employees who are neither a Director nor supervisor of the Company are as follows:

	2020	2019
Salaries, allowances and benefits in kind	890,300	481,015
Contributions to a defined contribution scheme	<u>55,075</u>	<u>38,849</u>
Total	<u>945,375</u>	<u>519,864</u>

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

	Number of individuals	
	2020	2019
Nil to RMB1,000,000	<u>2</u>	<u>1</u>

12. INCOME TAX EXPENSE

	2020	2019
Current income tax	19,654,626	23,363,520
Deferred income tax	<u>(2,745,733)</u>	<u>255,253</u>
Total	<u>16,908,893</u>	<u>23,618,773</u>

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

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

	2020	2019
Profit before tax	70,789,632	98,150,867
Tax at the applicable tax rate of 25%	17,697,408	24,537,717
Lower tax rate for specific provinces or enacted by local authority	(1,048,594)	(659,115)
Adjustments in respect of current tax of previous periods	255,833	(95,270)
Tax effect of income not subject to tax	(133,804)	(960,237)
Tax effect of expenses not deductible for tax purposes	46,880	739,532
Tax losses utilised from previous periods	—	(32,940)
Tax losses not recognised	<u>91,170</u>	<u>89,086</u>
Total tax expense for the year at the Group's effective tax rate	<u>16,908,893</u>	<u>23,618,773</u>

13. DIVIDENDS

Pursuant to the resolution of annual general meeting of the Company held on 12 June 2020, the Company distributed cash dividends of RMB34.0 million to its shareholders for the year ended 31 December 2019.

Pursuant to the resolution of the Board passed on 26 March 2021, a final dividend of approximately RMB34.0 million (equivalent to RMB0.05 per share (including tax)) was proposed after the appropriation of the statutory surplus reserve and general reserve and is subject to approval by shareholders at the forthcoming annual general meeting.

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

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

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

	2020	2019
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	<u>41,096,184</u>	<u>64,421,947</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>680,000,000</u>	<u>680,000,000</u>
Basic and diluted earnings per share	<u>0.06</u>	<u>0.09</u>

15. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash on hand	49,727	32,932
Cash at banks	31,366,248	36,052,503
Cash equivalents	<u>460,567</u>	<u>33,405</u>
Cash and cash equivalents in the statement of financial position	31,876,542	36,118,840
Less: restricted current deposit	<u>(12,191,129)</u>	<u>—</u>
Cash and cash equivalents in the statement of cash flow	<u>19,685,413</u>	<u>36,118,840</u>

At the end of the Reporting Period, the cash and bank balances of the Group denominated in USD amounted to RMB 6,268,141 (2019: RMB9,138,624). Cash at banks earns interest at floating rates based on daily bank deposit rates.

As at 31 December 2020, restricted current deposit represents deposit frozen by a court in connection with a pending lawsuit as disclosed in note 30.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	31 December 2020	31 December 2019
At fair value through profit or loss			
Wealth management products	(a)	131,435,292	47,820,000
Listed equity investments	(b)	203,497,188	44,528,525
Listed funds		8,817,839	6,000,000
Designated as at fair value through profit or loss			
Other unlisted investments	(c)	<u>19,089,196</u>	<u>19,930,003</u>
Total		<u>362,839,515</u>	<u>118,278,528</u>

- (a) Wealth management products purchased from time to time, which are held for a relatively short period of time, offered by licensed commercial banks in the PRC. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.
- (b) The listed equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.
- (c) The unlisted equity investments were designated as at fair value through profit or loss on the basis that they are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Group.

17. LOANS AND ACCOUNTS RECEIVABLE

	31 December 2020	31 December 2019
Loans receivable	876,020,275	1,129,136,307
Lease receivables	11,210,561	39,228,856
Less: Unearned finance income	(735,504)	(3,746,939)
Net lease receivables	10,475,057	35,481,917
Less: Allowance for impairment		
— Individually assessed	(34,957,275)	(43,438,596)
— Collectively assessed	<u>(18,002,447)</u>	<u>(22,355,442)</u>
Total	<u>833,535,610</u>	<u>1,098,824,186</u>

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

The Group's loans receivable consisted of credit loans, guaranteed loans and collateral-backed loans. As at 31 December 2020, 34.6% (31 December 2019: 38.8%) of loans receivable were guaranteed loans, and 64.8% (31 December 2019: 60.7%) of loans receivable were collateral-backed loans.

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

	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
Gross carrying amount				
as at 1 January 2019	969,949,014	48,481,169	54,950,910	1,073,381,093
New	2,941,661,963	—	—	2,941,661,963
Derecognised				
(excluding write-off)	(2,942,741,008)	(101,344,191)	(22,244,705)	(3,066,329,904)
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(303,537,467)	303,537,467	—	—
Transfer to Stage 3	(3,762,095)	(23,106,078)	26,868,173	—
Write-off	—	—	(31,387,529)	(31,387,529)
Acquisition of a subsidiary	<u>106,317,668</u>	<u>95,671,599</u>	<u>45,303,334</u>	<u>247,292,601</u>
At 31 December 2019	<u>767,888,075</u>	<u>323,239,966</u>	<u>73,490,183</u>	<u>1,164,618,224</u>
New	1,098,464,816	—	—	1,098,464,816
Derecognised				
(excluding write-off)	(1,260,431,475)	(51,773,106)	(4,735,330)	(1,316,939,911)
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(61,979,464)	61,979,464	—	—
Transfer to Stage 3	(7,719,090)	(166,153,948)	173,873,038	—
Write-off	—	—	(60,647,797)	(60,647,797)
Recovery of loans and accounts receivable written off	<u>—</u>	<u>—</u>	<u>1,000,000</u>	<u>1,000,000</u>
At 31 December 2020	<u>536,222,862</u>	<u>167,292,376</u>	<u>182,980,094</u>	<u>886,495,332</u>

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

	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
ECL allowance as at 1 January 2019	13,203,251	4,232,102	18,960,642	36,395,995
Net charge/(reversal) of the impairment	(6,189,087)	(8,193,623)	37,104,932	22,722,222
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(4,231,765)	4,231,765	—	—
Transfer to Stage 3	(52,676)	(284,673)	337,349	—
Accreted interest on impaired loans	—	—	(8,626,419)	(8,626,419)
Impact on year end ECLs of exposures transferred between stages during the year	—	12,938,542	2,168,033	15,106,575
Write-off and transfer out	—	—	(31,387,529)	(31,387,529)
Acquisition of a subsidiary	<u>1,516,207</u>	<u>5,185,399</u>	<u>24,881,588</u>	<u>31,583,194</u>
At 31 December 2019	<u>4,245,930</u>	<u>18,109,512</u>	<u>43,438,596</u>	<u>65,794,038</u>
Net charge/(reversal) of the impairment	(515,008)	566,079	47,081,878	47,132,949
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	(302,321)	302,321	—	—
Transfer to Stage 3	(37,932)	(9,762,287)	9,800,219	—
Accreted interest on impaired loans	—	—	(22,311,384)	(22,311,384)
Impact on year end ECLs of exposures transferred between stages during the year	—	5,396,153	16,595,763	21,991,916
Write-off	—	—	(60,647,797)	(60,647,797)
Recovery of loans and accounts receivable written off	<u>—</u>	<u>—</u>	<u>1,000,000</u>	<u>1,000,000</u>
At 31 December 2020	<u>3,390,669</u>	<u>14,611,778</u>	<u>34,957,275</u>	<u>52,959,722</u>

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

	31 December 2020	31 December 2019
Lease receivables		
Due within 1 year	10,389,311	26,465,686
Due in 1 to 2 years	821,250	11,913,752
Due in 2 to 3 years	<u>—</u>	<u>849,418</u>
	<u>11,210,561</u>	<u>39,228,856</u>
	31 December 2020	31 December 2019
Net lease receivables		
Due within 1 year	9,696,680	23,469,421
Due in 1 to 2 years	778,377	11,193,980
Due in 2 to 3 years	<u>—</u>	<u>818,516</u>
	<u>10,475,057</u>	<u>35,481,917</u>

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

18. PROPERTY AND EQUIPMENT

	Buildings	Motor vehicles	Fixtures and furniture	Leasehold improvements	Total
Cost:					
At 1 January 2019	—	986,809	1,436,280	2,725,356	5,148,445
Additions	—	—	30,608	421	31,029
Acquisition	—	703,268	109,944	—	813,212
Disposals	—	(157,176)	(4,600)	—	(161,776)
At 31 December 2019	—	1,532,901	1,572,232	2,725,777	5,830,910
Additions	6,917,546	—	1,433,416	—	8,350,962
Disposals	—	—	(57,401)	—	(57,401)
At 31 December 2020	<u>6,917,546</u>	<u>1,532,901</u>	<u>2,948,247</u>	<u>2,725,777</u>	<u>14,124,471</u>
Accumulated depreciation:					
At 1 January 2019	—	745,830	788,108	2,065,657	3,599,595
Depreciation charge for the year	—	112,717	355,018	322,802	790,537
Acquisition	—	573,794	99,851	—	673,645
Disposals	—	(149,317)	(4,370)	—	(153,687)
At 31 December 2019	—	1,283,024	1,238,607	2,388,459	4,910,090
Depreciation charge for the year	24,182	93,426	281,997	337,318	736,923
Disposals	—	—	(45,026)	—	(45,026)
At 31 December 2020	<u>24,182</u>	<u>1,376,450</u>	<u>1,475,578</u>	<u>2,725,777</u>	<u>5,601,987</u>
Net carrying amount:					
At 31 December 2020	<u>6,893,364</u>	<u>156,451</u>	<u>1,472,669</u>	<u>—</u>	<u>8,522,484</u>
At 31 December 2019	<u>—</u>	<u>249,877</u>	<u>333,625</u>	<u>337,318</u>	<u>920,820</u>

As at 31 December 2020, the certificates of the buildings with cost of RMB6,917,546 (31 December 2019: Nil) were still in process by the local authority and have not been obtained yet.

19. LEASES

The Group as a lessee

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

(a) *Right-of-use assets*

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

	Properties
At 1 January 2019	3,269,227
Additions	304,398
Acquisition of a subsidiary	183,235
Depreciation charge	<u>(1,826,685)</u>
At 31 December 2019	1,930,175
Additions	58,117
Depreciation charge	<u>(1,738,111)</u>
At 31 December 2020	<u>250,181</u>

(b) *Lease liabilities*

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

	Lease liabilities
Carrying amount at 1 January 2019	3,287,322
New leases	250,363
Additions as a result of acquisition of a subsidiary	122,135
Accretion of interest recognised during the year	160,976
Payments	<u>(2,173,451)</u>
Carrying amount at 31 December 2019	1,647,345
New leases	58,117
Accretion of interest recognised during the year	26,418
COVID-19-related rent concessions from lessors	(101,533)
Payments	<u>(1,478,133)</u>
Carrying amount at 31 December 2020	<u>152,214</u>

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

As disclosed in note 3.1 to the financial statements, the Group has early adopted the amendment to HKFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

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

	2020	2019
Interest on lease liabilities	26,418	160,976
Depreciation charge for right-of-use assets	1,738,111	1,826,685
Expense relating to short-term leases	201,019	—
COVID-19-related rent concessions from lessors	<u>(101,533)</u>	<u>—</u>
Total amount recognised in profit or loss	<u><u>1,864,015</u></u>	<u><u>1,987,661</u></u>

(d) The total cash outflow for leases is disclosed in note 28(c) to the financial statements. At 31 December 2020, there were no future cash outflows relating to leases that have not yet commenced.

20. GOODWILL

At 1 January 2019	
Cost and net carrying amount	<u>2,221,017</u>
Cost at 1 January 2019, net of accumulated impairment	2,221,017
Acquisition of a subsidiary	14,729,281
Impairment during the year	<u>(2,221,017)</u>
At 31 December 2019	<u><u>14,729,281</u></u>
At 31 December 2019:	
Cost	16,950,298
Accumulated impairment	<u>(2,221,017)</u>
Net carrying amount	<u><u>14,729,281</u></u>
Cost at 1 January 2020, net of accumulated impairment	14,729,281
Impairment during the year	<u>—</u>
At 31 December 2020	<u><u>14,729,281</u></u>
At 31 December 2020:	
Cost	16,950,298
Accumulated impairment	<u>(2,221,017)</u>
Net carrying amount	<u><u>14,729,281</u></u>

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the acquired subsidiaries as the cash-generating unit for impairment testing.

- Finance lease cash-generating unit; and
- Micro-credit cash-generating unit.

Finance lease cash-generating unit

As at 31 December 2019, the Group assessed the impairment of goodwill and determined that the carrying amount of goodwill of RMB2,221,017 arising from the acquisition of Lianche was higher than its recoverable amount. As a result, an impairment loss of approximately RMB2,221,017 was recognised.

As at 31 December 2020, considering the fact that the actual interest income from financial leases was still below originally expected financial budget, no impairment was reversed.

Micro-credit cash-generating unit

The recoverable amount of the micro-credit cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13%. As at 31 December 2020, the Group assessed that the impairment of goodwill and the recoverable amount exceeded the carrying amount, and hence the goodwill was not regarded as impaired.

The carrying amounts of goodwill are as follows:

	31 December 2020	31 December 2019
Finance lease	—	—
Micro-credit	<u>14,729,281</u>	<u>14,729,281</u>
	<u>14,729,281</u>	<u>14,729,281</u>

Assumptions were used in the value-in-use calculation for 31 December 2020. The following describes the key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rate — The discount rate used reflects specific risks relating to the relevant unit.

The values assigned to discount rates are comparable with external information sources.

21. OTHER INTANGIBLE ASSETS

Software

Cost:

At 1 January 2019	1,234,400
Additions	2,895,022
Acquisition of a subsidiary	<u>22,700</u>

At 31 December 2019	4,152,122
Additions	1,185,848
Disposals	<u>(280,000)</u>

At 31 December 2020	<u>5,057,970</u>
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Accumulated amortisation:

At 1 January 2019	1,094,400
Acquisition of subsidiaries	22,700
Charge for the year	<u>1,451,662</u>

At 31 December 2019	2,568,762
Charge for the year	1,591,732
Disposals	<u>(280,000)</u>

At 31 December 2020	<u>3,880,494</u>
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Net carrying amount:

At 31 December 2020	<u>1,177,476</u>
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At 31 December 2019	<u>1,583,360</u>
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22. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Gross deferred tax assets

	Impairment allowance on loans	Fair value adjustments of financial assets at fair value through profit or loss	Recoverable loss	Total
At 1 January 2019	2,116,411	—	—	2,116,411
Recognised in profit or loss	(172,158)	33,382	380	(138,396)
Acquisition of subsidiaries	<u>1,205,058</u>	<u>—</u>	<u>—</u>	<u>1,205,058</u>
At 31 December 2019	3,149,311	33,382	380	3,183,073
Recognised in profit or loss	<u>4,550,791</u>	<u>3,030,301</u>	<u>(380)</u>	<u>7,580,712</u>
At 31 December 2020	<u>7,700,102</u>	<u>3,063,683</u>	<u>—</u>	<u>10,763,785</u>

Gross deferred tax liabilities

	Fair value adjustments of financial assets at fair value through profit or loss	Total
At 1 January 2019	—	—
Recognised in profit or loss	<u>116,857</u>	<u>116,857</u>
At 31 December 2019	116,857	116,857
Recognised in profit or loss	<u>4,834,979</u>	<u>4,834,979</u>
At 31 December 2020	<u>4,951,836</u>	<u>4,951,836</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020	2019
Net deferred tax assets recognised in the consolidated statement of financial position	10,763,785	3,182,693
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>4,951,836</u>	<u>116,477</u>

The Group has tax losses arising in Mainland China of RMB400,787 (2019: RMB36,104) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

23. OTHER ASSETS

	<i>Note</i>	31 December 2020	31 December 2019
Reposessed assets	(a)	10,505,899	12,855,969
Prepaid tax		1,243,280	—
Deposit payment	(b)	30,000,000	—
Other receivables		604,807	1,691,324
Deferred and prepaid expenses		437,699	773,233
		42,791,685	15,320,526

Notes:

- (a) Repossessed assets are properties located at Quanzhou City, Fujian Province and Weihai City, Shandong Province in the PRC. The contracts which effect the repossession of the properties have been signed and registered with the local authority. The certificates of some properties with a carrying amount of RMB8,060,000 (31 December 2019: RMB8,060,000) have not been obtained because these properties are still under development.
- (b) In 2020, the Group entered into an agreement to purchase a non-performing loan (“NPL”) portfolio from a third party and paid a deposit of RMB30,000,000. At the same time, the Group transferred part of the to-be-acquired NPL portfolio to some individual investors and received deposits of RMB12,870,000 as disclosed in note 25.

24. INTEREST-BEARING BANK BORROWINGS

	31 December 2020	31 December 2019
Guaranteed bank loans repayable:		
Within one year	50,067,361	70,108,074

As at 31 December 2020, the annual interest rate of the loans above was 4.850% (31 December 2019: 5.434%).

The interest-bearing bank borrowings of RMB50.0 million as at 31 December 2020 were guaranteed by one of the shareholders, Fujian Septwolves Group Co., Ltd.* (福建七匹狼集團有限公司) (“Septwolves Group”).

25. OTHER PAYABLES

	31 December 2020	31 December 2019
Payrolls payable	3,507,443	4,888,981
Value-added tax, and surcharges payable	1,850,489	1,646,239
Deposits received	13,670,000	3,739,241
Others	2,121,860	2,335,645
	21,149,792	12,610,106

* As at 31 December 2020, the balance includes deposits of RMB12,870,000 received in connection with the transfer of part of the NLP portfolio, as disclosed in note 23(b).

26. SHARE CAPITAL

	31 December 2020	31 December 2019
Issued and fully paid ordinary shares of RMB1 each	<u>680,000,000</u>	<u>680,000,000</u>

27. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity.

Capital reserve

The capital reserve comprises share premium, which represents the difference between the par value of the shares of the Group and the proceeds received from the issuance of the shares of the Company.

Surplus reserve

The surplus reserve comprises the statutory surplus reserve and the discretionary surplus reserve.

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

Subject to the approval of equity holders of the entities established in the PRC, the statutory surplus reserve may be used to net off against accumulated losses, if any, and may be converted into capital, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

After making the appropriation to the statutory surplus reserve, the Company and its subsidiaries may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders. Subject to the approval of shareholders, the discretionary surplus reserve may be used to make good previous years' losses, if any, and may be converted into capital.

General reserve

In accordance with the relevant regulations, the Company is required to set aside a general reserve through appropriations of profit after tax on an annual basis, and the balance of the general reserve should reach 1.5% of its risk assets. Such reserve is not available for profit distribution or transfer to capital. As at 31 December 2020, the balance of the general reserve of the Company was RMB16.3 million (31 December 2019: RMB16.3 million), which is not lower than 1.5% of its risk assets.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB58,117 (2019: RMB304,398) and RMB58,117 (2019: RMB250,363), respectively, in respect of lease arrangements for properties.

(b) Changes in liabilities arising from financing activities

	Bank borrowings and interest payable	Lease liabilities	Amounts due to shareholders	Amounts due to non- controlling shareholders
At 1 January 2020	70,108,074	1,647,345	—	—
Changes from financing cash flows	(22,720,167)	(1,478,133)	(34,000,000)	(18,756,000)
New leases	—	58,117	—	—
COVID-19-related rent concessions from lessors	—	(101,533)	—	—
2019 final dividends payable	—	—	34,000,000	18,756,000
Interest expense	2,679,454	26,418	—	—
At 31 December 2020	50,067,361	152,214	—	—
	Bank borrowings and interest payable	Lease liabilities	Amounts due to shareholders	
At 31 December 2018		200,336,825	—	—
Effect of adoption of HKFRS 16		—	3,287,322	—
At 1 January 2019 (restated)		200,336,825	3,287,322	—
Changes from financing cash flows		(139,120,483)	(2,173,451)	(34,000,000)
2018 final dividends payable		—	—	34,000,000
New leases		—	250,363	—
Acquisition of subsidiaries		8,891,732	122,135	—
Interest expense		—	160,976	—
At 31 December 2019		70,108,074	1,647,345	—

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020	2019
Within financing activities	1,478,133	2,173,451

29. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel of the Group

	2020	2019
Salaries and other short-term employee benefits	<u>2,177,349</u>	<u>2,693,393</u>

Further details of non-executive Directors' and supervisors' emoluments are included in note 10 to the consolidated financial statements.

(b) Loan guarantee

The interest-bearing bank borrowings of RMB50.0 million as at 31 December 2020 (31 December 2019: RMB70.1 million) were guaranteed by Septwolves Group. The guarantee fee of RMB204,616 (2019: RMB672,830) was accrued during the year, which was based on a fixed rate of the balance of the interest-bearing borrowings.

(c) Loan facilitation services

During the year, the Group provided loan facilitation service to a related party, Fujian Yuanheng Pegadaian Co., Ltd., and received a fee of revenue of RMB34,608 (2019: RMB261,001).

(d) Lease and property management fee

The Group has signed a lease agreement with Xiamen Septwolves Asset Management Co., Ltd.* (廈門七匹狼資產管理有限公司) ("Septwolves AMC"), a subsidiary of Septwolves Group. During the year, the Group paid Septwolves AMC RMB128,250 (2019: RMB126,000) for the rent.

During the year, the property management fee of RMB56,447 (2019: RMB32,934) was paid to Xiamen Huakaifugui Property Management Co., Ltd., a subsidiary of Septwolves Group.

(e) Outstanding balances with related parties

As at 31 December 2020, the Group prepaid guarantee fee to Septwolves Group, with the outstanding balance of RMB171,516 (31 December 2019: balance due to Septwolves Group of RMB11,132). The balance is both unsecured and interest-free.

30. CONTINGENT LIABILITIES

As at 31 December 2020, the Company was subject to one pending civil litigation proceedings as one of the defendants in relation to the shareholder obligation of capital commitment with an amount of approximately RMB12.0 million for the Company. As of/at the date of this announcement, no hearing has been held. The directors, based on the advice from PRC legal adviser, believe that no provisions were needed and the proceeding would not have any material adverse effect on the Group's business, financial position or results of operations.

31. COMMITMENTS

(a) The Group had the following capital commitments at the end of the Reporting Period:

	31 December 2020	31 December 2019
Contracted, but not provided for:		
Leasehold Improvements	203,248	—
Software	<u>680,000</u>	<u>767,000</u>
	<u>883,248</u>	<u>767,000</u>

(b) The Group has various lease contracts that have not yet commenced as at 31 December 2020. The future lease payments for these non-cancellable lease contracts are RMB126,000 due within one year.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the Reporting Period are as follows:

	31 December 2020	31 December 2019
Financial assets		
Financial assets at fair value through profit or loss	362,839,515	118,278,528
Financial assets at amortised cost		
— Cash and cash equivalents	31,876,542	36,118,840
— Securities purchased under agreements to re-sell	3,800,000	29,900,000
— Loans and accounts receivable	833,535,610	1,098,824,186
— Other receivables	<u>30,604,807</u>	<u>1,691,324</u>
	<u>1,262,656,474</u>	<u>1,284,812,878</u>
Financial liabilities		
Financial liabilities at amortised cost		
— Interest-bearing bank borrowings	50,067,361	70,108,074
— Lease liabilities	152,214	1,647,345
— Other payables	<u>15,791,860</u>	<u>5,545,483</u>
	<u>66,011,435</u>	<u>77,300,902</u>

33. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments include credit risk, foreign currency risk, interest rate risk, price risk and liquidity risk. The Group has no significant exposures to other financial risks except as disclosed below. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. The Group manages the loans granted to SMEs, microenterprises and entrepreneurial individuals with the same policies and procedures.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures; and
- Risk management policies and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit assessment, granting of credit limits, loan evaluation, loan review and approval, granting of loans and post-disbursement loan monitoring.

In the lending business, the Group adopts a loan classification approach to manage its loan portfolio risk. The Group's loans are categorised as "normal", "special-mention", "substandard", "doubtful" or "loss" according to their levels of risk. The core definitions of the five categories of loans receivable are set out below:

- Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
- Special-mention: Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
- Substandard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay the principal and interest. Losses may ensue even when collateral or guarantees are invoked.
- Doubtful: Borrowers cannot repay the principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
- Loss: The principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

To strengthen the credit risk management practices, the Group also launches training programmes periodically for credit officers at different levels.

The Group is exposed to credit risk primarily associated with cash at banks, securities purchased under agreements to re-sell, loans and accounts receivable and other receivables. The credit risk of these assets mainly arises from the counterparties' failure to discharge their contractual obligations and the maximum exposure equals the carrying amount.

Impairment assessment

The main consideration for the loan impairment assessment includes whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

The Group conducts an assessment of ECLs according to forward-looking information and uses complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECLs according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial assets
- Parameters for measuring ECLs
- Forward-looking information

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and supportable information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, internal rating grade, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of each reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk mainly when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in the remaining lifetime probability of default is considered significant comparing with the one at initial recognition.

Qualitative criteria

- Significant adverse change in debtors' operation or financial status.
- Be classified into the Special Mention category within the five-tier loan classification.

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due.

Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under HKFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Internal rating of the borrower indicating default or near-default;
- Significant financial difficulty of the issuer or the customer;
- The debtor leaves any of the loans receivable of the Group overdue for more than 90 days; and
- It is becoming probable that the customer will enter bankruptcy or other financial restructuring.

The credit impairment of a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event. For credit-impaired financial assets, the Group mainly evaluate the future cash flow (including the recoverable value of the collateral held) in different circumstances on an individual basis. Expected credit losses are measured as the differences between the present value of estimated cash flows discounted at the original effective interest rate and the asset's gross carrying amount. Any adjustment is recognised in profit or loss as an impairment gain or loss.

Parameters of ECL measurement

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

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the internal rating grade, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time PD under the current macroeconomic environment.
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of the counterparty, the method and priority of the recourse, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime.
- EAD is the amount that the Group should reimburse at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

Both of the assessment of a significant increase in credit risk and the calculation of ECLs involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECLs, such as GDP growth, central bank base rates and price indices.

Collateral and other credit enhancements

The amount and the type of collateral required depend on the assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The collateral obtained by the Group mainly consists of mortgages on land use rights, building ownership rights or equipment and pledges of shares. All collateral is registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of the collateral regularly.

Although collateral can mitigate credit risk to a certain extent, the Group mostly grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flows, instead of the value of collateral. The necessity of collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

The tables below summarise the impaired loans by type of collateral, guarantee and overdue period.

31 December 2020					
	Not overdue	Overdue within 3 months	Overdue more than 3 to 12 months	Overdue more than 1 year	Total
Guaranteed loans	—	11,133,473	72,000,000	4,925,446	88,058,919
Collateral-backed loans with guarantees	—	62,659,018	14,164,746	18,097,411	94,921,175
Total	—	73,792,491	86,164,746	23,022,857	182,980,094
31 December 2019					
	Not overdue	Overdue within 3 months	Overdue more than 3 to 12 months	Overdue more than 1 year	Total
Guaranteed loans	—	650,000	5,410,000	44,841,797	50,901,797
Collateral-backed loans with guarantees	—	183,975	—	22,404,411	22,588,386
Total	—	833,975	5,410,000	67,246,208	73,490,183

Credit quality of loans receivable

A loan or advance is identified as an impaired loan if there is objective evidence indicating that the loan's estimated future cash flows are influenced by one or several factors and the impact can be estimated reliably. The Group closely monitors the credit quality of the loans, and uses measures such as disposal of impaired loans to mitigate the overall credit risk exposure.

The Group manages the credit quality of financial assets using credit ratings. The table below shows the credit quality of loans receivable exposed to credit risk, based on the Group's credit rating system. The amounts presented are gross of impairment allowances.

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
31 December 2020	<u>693,095,238</u>	<u>10,420,000</u>	<u>182,980,094</u>	<u>886,495,332</u>
31 December 2019	<u>1,009,318,041</u>	<u>81,810,000</u>	<u>73,490,183</u>	<u>1,164,618,224</u>

As at 31 December 2020 and 31 December 2019, loans neither past due nor impaired were related to various diversified customers with no recent default history.

As at 31 December 2020 and 31 December 2019, loans past due but not impaired are related to the individual customers with no default history. According to past experience, the Group does not recognise individual allowance for these loans receivables since there is no significant change in credit quality and the amount is expected to be recovered in full.

Analysis of risk concentration

Since the loans are granted to third parties whose creditworthiness has been assessed by the Group, no collateral is required in certain cases. The Group manages its exposure to the concentration of credit risk by diversifying its portfolio in terms of customer type and industry. Because its business operations are subject to the geographic restrictions of its operating licence, the Group is exposed to the credit risk of geographic concentration. However, although its customers are concentrated in Quanzhou City, the Group provides loans to a wide variety of customers that operate in different industries in order to mitigate its exposure to such risk.

Maximum exposure to credit risk before collateral held or other enhancements

The table below shows the maximum exposure to credit risk based on the Group's credit policy.

	31 December 2020	31 December 2019
Cash and cash equivalents*	31,826,815	36,085,908
Securities purchased under agreements to re-sell	3,800,000	29,900,000
Loans and accounts receivable	833,535,610	1,098,824,186
Other receivables	30,604,807	1,691,324
Total	<u>899,767,232</u>	<u>1,166,501,418</u>

* Excluding cash on hand

The table above represents the worst-case scenario of credit risk exposure of the Group as at 31 December 2020 and 2019, without taking into account any collateral held, or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

(b) Foreign currency risk

The Group operates principally in the PRC with only limited exposure to foreign exchange rate risk arising primarily from certain bank deposits denominated in HKD and USD.

The following table demonstrates the sensitivity at the end of the Reporting Period to a reasonably possible change in the HKD and USD exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets) and the Group's equity.

2020

Changes in exchange rates	Impact on profit before tax	Impact on equity
+5%	4,510,747	4,510,747
-5%	<u>(4,510,747)</u>	<u>(4,510,747)</u>

2019

Changes in exchange rates	Impact on profit before tax	Impact on equity
+5%	714,315	714,315
-5%	<u>(714,315)</u>	<u>(714,315)</u>

The above impact on equity represents adjustments to profit before tax.

(c) Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its cash at banks, securities purchased under agreements to re-sell, loans and accounts receivable, interest-bearing bank borrowings and lease liabilities. The majority of the Group's loans and accounts receivable bear interest at fixed rates. They are mostly influenced by the mismatch of the repricing dates of interest-generating assets and interest-bearing liabilities. The Group does not use derivative financial instruments to manage its interest rate risk.

The table below analyses the Group's interest rate risk exposure on financial assets and liabilities.

The assets and liabilities are included at the carrying amount and categorised by the earlier of the contractual repricing or maturity date.

	31 December 2020					Total
	Overdue	Less than 3 months	3 to 12 months	1 to 5 years	Floating rate	
Financial assets:						
Cash and cash equivalents	—	—	—	—	31,826,815	31,826,815
Securities purchased under agreements to re-sell	—	3,800,000	—	—	—	3,800,000
Loans and accounts receivable	<u>157,482,830</u>	<u>117,722,340</u>	<u>520,246,026</u>	<u>38,084,414</u>	<u>—</u>	<u>833,535,610</u>
Subtotal	<u>157,482,830</u>	<u>121,522,340</u>	<u>520,246,026</u>	<u>38,084,414</u>	<u>31,826,815</u>	<u>869,162,425</u>
Financial liabilities:						
Interest-bearing bank borrowings	—	—	—	—	50,067,361	50,067,361
Lease liabilities	<u>—</u>	<u>137,385</u>	<u>14,829</u>	<u>—</u>	<u>—</u>	<u>152,214</u>
Subtotal	<u>—</u>	<u>137,385</u>	<u>14,829</u>	<u>—</u>	<u>50,067,361</u>	<u>50,219,575</u>
Exposure to interest sensitivity	<u>157,482,830</u>	<u>121,384,955</u>	<u>520,231,197</u>	<u>38,084,414</u>	<u>(18,240,546)</u>	<u>818,942,850</u>

31 December 2019						
	Overdue	Less than 3 months	3 to 12 months	1 to 5 years	Floating rate	Total
Financial assets :						
Cash and cash equivalents	—	—	—	—	36,085,908	36,085,908
Securities purchased under agreements to re-sell	—	29,900,000	—	—	—	29,900,000
Loans and accounts receivable	<u>37,915,481</u>	<u>228,360,987</u>	<u>633,746,370</u>	<u>198,801,348</u>	<u>—</u>	<u>1,098,824,186</u>
Subtotal	<u>37,915,481</u>	<u>258,260,987</u>	<u>633,746,370</u>	<u>198,801,348</u>	<u>36,085,908</u>	<u>1,164,810,094</u>
Financial liabilities:						
Interest-bearing bank borrowings	—	—	—	—	70,108,074	70,108,074
Lease liabilities	<u>—</u>	<u>245,467</u>	<u>1,222,157</u>	<u>179,721</u>	<u>—</u>	<u>1,647,345</u>
Subtotal	<u>—</u>	<u>245,467</u>	<u>1,222,157</u>	<u>179,721</u>	<u>70,108,074</u>	<u>71,755,419</u>
Exposure to interest sensitivity	<u>37,915,481</u>	<u>258,015,520</u>	<u>632,524,213</u>	<u>198,621,627</u>	<u>(34,022,166)</u>	<u>1,093,054,675</u>

The following table demonstrates the sensitivity as at the end of the Reporting Period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate instruments). The Group's equity is not affected, other than the consequential effect on retained profits (a component of the Group's equity) by the changes in profit before tax.

Changes in variables	2020 Impact on profit before tax	2019 Impact on profit before tax
+50 basis points	(90,866)	(169,570)
-50 basis points	<u>90,866</u>	<u>169,570</u>

(d) Price risk

Equity price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Group is exposed to equity price risk arising from financial assets at fair value through profit or loss (Note 16). As at 31 December 2020, a 10% increase in the fair value of the financial assets, with all other variables held constant, would increase financial assets at fair value through profit or loss by RMB36.3 million (31 December 2019: RMB11.8 million).

(e) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with financial liabilities.

The Group seeks to manage its liquidity risk by circulating liquidity facilities. The facilities take into account the maturity dates of financial instruments and estimated cash flows from operation.

The tables below present the cash flows of the Group of financial assets and financial liabilities that will be settled on a net basis and on a gross basis by the remaining contractual maturities at the financial reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

31 December 2020							
	On demand	Overdue	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Financial assets:							
Cash and cash equivalents*	19,685,413	—	—	—	—	—	19,685,413
Securities purchased under agreements to re-sell	—	—	3,800,000	—	—	—	3,800,000
Financial assets at fair value through profit or loss	131,435,292	—	—	—	—	231,404,223	362,839,515
Loans and accounts receivable	—	193,400,094	142,856,718	564,168,853	42,506,988	—	942,932,653
Other assets	137,833	—	30,159,446	188,668	118,860	—	30,604,807
Subtotal	<u>151,258,538</u>	<u>193,400,094</u>	<u>176,816,164</u>	<u>564,357,521</u>	<u>42,625,848</u>	<u>231,404,223</u>	<u>1,359,862,388</u>
Financial liabilities:							
Interest-bearing bank borrowings	—	—	50,673,611	—	—	—	50,673,611
Lease liabilities	—	—	181,720	29,213	—	—	210,933
Other payables	—	—	14,507,367	984,294	300,000	—	15,791,861
Subtotal	<u>—</u>	<u>—</u>	<u>65,362,878</u>	<u>1,013,507</u>	<u>300,000</u>	<u>—</u>	<u>66,676,405</u>
Net	<u>151,258,538</u>	<u>193,400,094</u>	<u>111,453,266</u>	<u>563,344,014</u>	<u>42,325,848</u>	<u>231,404,223</u>	<u>1,293,185,983</u>

* Excluding a current deposit in a restricted account

31 December 2019							
	On demand	Overdue	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Financial assets:							
Cash and cash equivalents	36,118,840	—	—	—	—	—	36,118,840
Securities purchased under agreements to re-sell	—	—	29,900,000	—	—	—	29,900,000
Financial assets at fair value through profit or loss	47,820,000	—	—	—	—	70,458,528	118,278,528
Loans and accounts receivable	—	80,340,183	277,500,222	687,508,853	233,777,628	—	1,279,126,886
Other assets	533,817	—	374,779	441,053	341,675	—	1,691,324
Subtotal	<u>84,472,657</u>	<u>80,340,183</u>	<u>307,775,001</u>	<u>687,949,906</u>	<u>234,119,303</u>	<u>70,458,528</u>	<u>1,465,115,578</u>
Financial liabilities:							
Interest-bearing bank borrowings	—	—	20,964,014	51,262,056	—	—	72,226,070
Lease liabilities	—	—	268,461	1,258,278	182,300	—	1,709,039
Other payables	—	—	2,445,483	—	3,100,000	—	5,545,483
Subtotal	<u>—</u>	<u>—</u>	<u>23,677,958</u>	<u>52,520,334</u>	<u>3,282,300</u>	<u>—</u>	<u>79,480,592</u>
Net	<u>84,472,657</u>	<u>80,340,183</u>	<u>284,097,043</u>	<u>635,429,572</u>	<u>230,837,003</u>	<u>70,458,528</u>	<u>1,385,634,986</u>

(f) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2020.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, and lease liabilities, less cash and cash equivalents. Management regards total equity, which includes share capital, reserves and retained profits, as capital. The gearing ratios as at the end of the Reporting Periods were as follows:

	31 December 2020	31 December 2019
Interest-bearing bank borrowings	50,067,361	70,108,074
Lease liabilities	152,214	1,647,345
Less: Cash and cash equivalents	<u>31,876,542</u>	<u>36,118,840</u>
Net debt	18,343,033	35,636,579
Share capital	680,000,000	680,000,000
Reserves	145,756,111	143,154,528
Retained profits	<u>261,738,838</u>	<u>257,244,237</u>
Capital	<u>1,087,494,949</u>	<u>1,080,398,765</u>
Capital and net debt	<u>1,105,837,982</u>	<u>1,116,035,344</u>
Gearing ratio	<u>1.7%</u>	<u>3.2%</u>

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed into relevant maturity groupings based on the remaining period from the financial reporting date to the contractual maturity date. For purposes of the tables set forth, “Loans and accounts receivable” are considered overdue only if principal payments are overdue. In addition, for loans and accounts receivable that are repayable by instalments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity:

	31 December 2020					Total
	On demand	Overdue	Less than 3 months	3 to less than 12 months	After 12 months	
Assets:						
Cash and cash equivalents*	19,685,413	—	—	—	—	19,685,413
Securities purchased under agreements to re-sell	—	—	3,800,000	—	—	3,800,000
Financial assets at fair value through profit or loss	131,435,292	—	—	—	231,404,223	362,839,515
Loans and accounts receivable	—	48,843,643	202,617,544	501,001,298	81,073,125	833,535,610
Property and equipment	—	—	—	—	8,522,484	8,522,484
Right-of-use assets	—	—	—	—	250,181	250,181
Goodwill	—	—	—	—	14,729,281	14,729,281
Other intangible assets	—	—	—	—	1,177,476	1,177,476
Deferred tax assets	—	—	—	—	10,763,785	10,763,785
Other assets	137,833	—	30,268,233	1,760,861	10,624,758	42,791,685
Subtotal	151,258,538	48,843,643	236,685,777	502,762,159	358,545,313	1,298,095,430
Liabilities:						
Interest-bearing bank borrowings	—	—	50,067,361	—	—	50,067,361
Lease liabilities	—	—	137,385	14,829	—	152,214
Income tax payable	—	—	3,974,827	—	—	3,974,827
Deferred tax liabilities	—	—	—	—	4,951,836	4,951,836
Other payables	—	—	19,865,498	984,294	300,000	21,149,792
Subtotal	—	—	74,045,071	999,123	5,251,836	80,296,030
Net	151,258,538	48,843,643	162,640,706	501,763,036	353,293,477	1,217,799,400

* Excluding a current deposit in a restricted account

31 December 2019						
	On demand	Overdue	Less than 3 months	3 to less than 12 months	After 12 months	Total
Assets:						
Cash and cash equivalents	36,118,840	—	—	—	—	36,118,840
Securities purchased under agreements to re-sell	—	—	29,900,000	—	—	29,900,000
Financial assets at fair value through profit or loss	47,820,000	—	—	—	70,458,528	118,278,528
Loans and accounts receivable	—	37,915,481	228,360,987	633,746,370	198,801,348	1,098,824,186
Property and equipment	—	—	—	—	920,820	920,820
Right-of-use assets	—	—	—	—	1,930,175	1,930,175
Goodwill	—	—	—	—	14,729,281	14,729,281
Other intangible assets	—	—	—	—	1,583,360	1,583,360
Deferred tax assets	—	—	—	—	3,182,693	3,182,693
Other assets	533,817	—	525,321	1,063,744	13,197,644	15,320,526
Subtotal	84,472,657	37,915,481	258,786,308	634,810,114	304,803,849	1,320,788,409
Liabilities:						
Interest-bearing bank borrowings	—	—	20,108,074	50,000,000	—	70,108,074
Lease liabilities	—	—	245,467	1,222,157	179,721	1,647,345
Income tax payable	—	—	7,440,617	—	—	7,440,617
Deferred tax liabilities	—	—	—	—	116,477	116,477
Other payables	—	—	9,510,106	—	3,100,000	12,610,106
Subtotal	—	—	37,304,264	51,222,157	3,396,198	91,922,619
Net	84,472,657	37,915,481	221,482,044	583,587,957	301,407,651	1,228,865,790

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group's financial assets mainly include cash at banks, securities purchased under agreements to re-sell, financial assets at fair value through profit or loss and loans and accounts receivable.

The Group's financial liabilities mainly include interest-bearing bank borrowings, lease liabilities and other payables.

Due to the short remaining period or periodical repricing to reflect the market price, the carrying amounts of these financial assets and liabilities approximate to their fair values.

The Group's finance department headed by the finance director is responsible for determining the policies and procedures for the fair value measurements of financial instruments. The finance director reports directly to the general manager and the audit committee. At each reporting date, the Group analyses the movements in the values of financial instruments. The valuation is reviewed and approved by the general manager.

The fair values of unlisted equity investments were determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; making reference to the current market value of another instrument that is substantially the same and net assets making as much use of available and supportable market data as possible. The Directors believe that the estimated fair values resulting from the valuation techniques, which are recorded in the consolidated statement of financial position, and the related changes in fair values, are reasonable, and that they were the most appropriate values at the end of the Reporting Period.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Financial assets at fair value through profit or loss	<u>343,750,319</u>	<u>—</u>	<u>19,089,196</u>	<u>362,839,515</u>

As at 31 December 2019

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Financial assets at fair value through profit or loss	<u>92,348,525</u>	<u>6,000,000</u>	<u>19,930,003</u>	<u>118,278,528</u>

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 (31 December 2019: Nil).

In 2020, financial assets measured at fair value of RMB6,000,000 were transferred from Level 2 to Level 1 (2019: Nil). There were no transfers into or out of Level 3 for the financial assets measured at fair value (2019: Nil).

Important unobservable input value in fair value measurement of Level 3

As at 31 December 2020	Fair value	Valuation techniques and key inputs	Significant unobservable inputs	Relationship between unobservable inputs and fair value
Other unlisted investment	1,750,592	Adjusted recent transaction price	N/A	N/A
Other unlisted investment	7,338,604	Adjusted net asset value	Discount for lack of liquidity	The lower the discount, the higher the fair value
Other unlisted investment	10,000,000	Recent transaction price	N/A	N/A

<u>As at 31 December 2019</u>	<u>Fair value</u>	<u>Valuation techniques and key inputs</u>	<u>Significant unobservable inputs</u>	<u>Relationship between unobservable inputs and fair value</u>
Other unlisted investment	12,727,300	Recent transaction price	N/A	N/A
Other unlisted investment	7,202,703	Adjusted net asset value	Discount for lack of liquidity	The lower the discount, the higher the fair value

The movements in fair value measurements within Level 3 during the year are as follows:

	2020	2019
Financial assets at fair value through profit or loss		
At 1 January	19,930,003	—
Total (losses)/gains recognised in profit or loss	(10,840,807)	437,892
Purchases	10,000,000	—
Acquisition of a subsidiary	—	6,764,811
Reposessed unlisted investments	<u>—</u>	<u>12,727,300</u>
At 31 December	<u>19,089,196</u>	<u>19,930,003</u>

36. EVENT AFTER THE REPORTING PERIOD

Other than as disclosed in other notes, the Group had no significant event after the Reporting Period.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the Reporting Period is as follows:

	31 December 2020	31 December 2019
ASSETS		
Cash and cash equivalents	23,939,178	4,810,669
Financial assets at fair value through profit or loss	36,912,036	12,727,300
Loans and accounts receivable	612,082,011	845,096,485
Property and equipment	192,105	611,017
Right-of-use assets	187,846	1,541,987
Investments in subsidiaries	177,322,133	177,322,133
Intangible assets	124,528	1,583,360
Deferred tax assets	9,640,687	2,339,106
Other assets	253,867,698	103,906,663
TOTAL ASSETS	1,114,268,222	1,149,938,720
LIABILITIES		
Interest-bearing bank borrowings	50,067,361	70,108,074
Lease liabilities	107,368	1,379,032
Income tax payable	—	2,130,731
Other payables	3,890,806	8,134,023
TOTAL LIABILITIES	54,065,535	81,751,860
NET ASSETS	1,060,202,687	1,068,186,860
EQUITY		
Share capital	680,000,000	680,000,000
Reserves	145,756,111	143,154,528
Retained profits	234,446,576	245,032,332
TOTAL EQUITY	1,060,202,687	1,068,186,860

A summary of the Company's reserves is as follows:

	Capital reserve	Surplus reserve	General reserve	Total
Balance as at 1 January 2019	69,383,972	52,231,032	15,355,594	136,970,598
Appropriation to surplus reserve	—	5,263,257	—	5,263,257
Appropriation to general reserve	<u>—</u>	<u>—</u>	<u>920,673</u>	<u>920,673</u>
Balance as at 31 December 2019 and 1 January 2020	69,383,972	57,494,289	16,276,267	143,154,528
Appropriation to surplus reserve	—	2,601,583	—	2,601,583
Appropriation to general reserve	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance as at 31 December 2020	<u>69,383,972</u>	<u>60,095,872</u>	<u>16,276,267</u>	<u>145,756,111</u>

38. IMPACT OF COVID-19 PANDEMIC

The World Health Organisation declared the outbreak of Covid-19 pandemic as a global pandemic in March 2020. The Covid-19 pandemic has had far-reaching economic and social consequences around the world. The Covid-19 pandemic has affected the ability of certain of the Group's customers to fulfill their obligations of repayment to the Group, which in turn, has negatively affected the estimates of expected credit loss in the Group's financial statement, and hence the results of operations for the year ended 31 December 2020. The management is continuing closely monitoring the situation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board on 26 March 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

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

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

Business Overview

Our Group is principally engaged in loan business and finance lease business. We conduct our loan business primarily through the Company and JJHX. Based in Quanzhou city, we are the largest licensed microfinance company in Fujian province in terms of revenue in 2020, according to the statistics of the Fujian Financial Supervision Bureau (福建省地方金融监督管理局). We are primarily dedicated to providing local entrepreneurial individuals, SMEs and microenterprises with practical and flexible short-term financing solutions to support their continued development and address their ongoing liquidity needs. Since October 2018, we commenced our finance leasing business principally engaged in the provision of automobile finance leasing services for SMEs and individuals in the PRC. The COVID-19 epidemic in 2020 has caused a significant impact on the global economy. Part of our operations were affected by the epidemic. In order to better cope with the changing economic and social environment, we decreased our loan size and carefully developed our finance lease business in response to the increasing credit risk.

During the Reporting Period, we generated substantially all of our income by charging interest on the loans extended to our customers. For the year ended 31 December 2020, the total loans granted to our customers amounted to RMB1,112.8 million. Our interest income from loans receivable was RMB143.5 million for the year ended 31 December 2020. Our interest income from finance lease receivables was RMB2.7 million for the year ended 31 December 2020.

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

	As of 31 December	
	2020	2019
Share capital (<i>RMB in millions</i>)	680.0	680.0
Net capital (<i>RMB in millions</i>) ⁽¹⁾	1,230.0	1,228.9
Principal amount of outstanding loans (<i>RMB in millions</i>)	869.9	1,108.7
Lease receivables (<i>RMB in millions</i>)	11.2	39.2
Loan and finance lease/Net capital ratio ⁽²⁾	0.72 Times	0.93 Times

Notes:

- (1) Represents the aggregate of our share capital, reserves and retained profits of our Group.
- (2) Represents the principal amount of our outstanding loans and the total amount of our lease receivables divided by our net capital.

Our Loan Business

Loan Portfolio

The principal amount of our outstanding loans decreased from RMB1,108.7 million as of 31 December 2019 to RMB869.9 million as of 31 December 2020, primarily due to the adjustment of our strategy by decreasing our loan size to against the increasing credit risk of the market.

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

	As of 31 December			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Manufacturing	238,353	27.4	358,926	32.4
Wholesale and retail	271,327	31.2	349,104	31.5
Financial	66,110	7.6	46,380	4.2
Construction	106,610	12.3	189,728	17.1
Public facilities and commercial service	158,398	18.2	131,444	11.9
Agriculture	—	—	1,500	0.1
Transportation, warehousing and post	2,100	0.2	2,050	0.2
Others	27,040	3.1	29,543	2.7
Total	<u>869,938</u>	<u>100.0</u>	<u>1,108,675</u>	<u>100.0</u>

Revolving Loans and Term Loans

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

	As of 31 December			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Principal amount of outstanding loans:				
Revolving loans	628,525	72.2	785,082	70.8
Term loans	241,413	27.8	323,593	29.2
Total	<u>869,938</u>	<u>100.0</u>	<u>1,108,675</u>	<u>100.0</u>

Loan Portfolio by Security

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

	As of 31 December			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Principal amount of outstanding loans:				
Credit loans	5,000	0.6	6,000	0.5
Guaranteed loans	301,169	34.6	425,777	38.4
Collateral-backed loans				
— with guarantee	543,768	62.5	452,356	40.8
— without guarantee	20,001	2.3	224,542	20.3
Total	<u>869,938</u>	<u>100.0</u>	<u>1,108,675</u>	<u>100.0</u>

Our guaranteed loans decreased from RMB425.8 million as of 31 December 2019 to RMB301.2 million as of 31 December 2020 mainly because we enhanced the approval standard for guaranteed loans.

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

	As of 31 December			
	2020		2019	
	<i>% (lowest)</i>	<i>% (highest)</i>	<i>% (lowest)</i>	<i>% (highest)</i>
Credit loans	15.6	18.0	12.0	19.9
Guaranteed loans	15.0	21.6	8.4	24.0
Collateral-backed loans				
— with guarantee	8.0	24.0	12.0	24.0
— without guarantee	8.0	24.0	13.6	24.0

Collateral-backed Loans

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

	As of 31 December	
	2020	2019
	RMB'000	RMB'000
Building ownership rights	349,788	460,807
Building and land use rights	45,380	65,800
Shares	165,000	144,000
Equipment and share pledge	—	6,291

Maturity Profile of Loan Portfolio

As of 31 December 2020, our maturity profiles within one year and over one year accounted for 81.4% and 10.5% of the total principal amount of outstanding loans, respectively. The following table sets forth the maturity profile of our loans based on the contractual maturity date of the principal amount as of the dates indicated:

	As of 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Principal amount of outstanding loans:				
Past due	70,741	8.1⁽¹⁾	80,156	7.2 ⁽¹⁾
Due within three months	177,534	20.4	207,318	18.8
Due between three months and one year	530,355	61.0	597,946	53.9
Due over one year	91,308	10.5	223,255	20.1
Total	869,938	100.0	1,108,675	100.0

Note:

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

Past Due Loans

The principal amount of our past due loans was RMB80.2 million and RMB70.7 million as of 31 December 2019 and 2020, respectively, accounting for 7.2% and 8.1% of the total principal amount of our outstanding loans as of the same dates.

We had 23 past due loans with an aggregate amount of RMB80.2 million as of 31 December 2019. As of 31 December 2020, RMB7.4 million of the principal amount of these past due loans as of 31 December 2019 had been settled and RMB51.8 million of the principal amount of these past due loans as of 31 December 2019 had been written off. As of 31 December 2020, the remaining portion of principal amount of past due loans as of 31 December 2019 was RMB20.9 million and the allowance for impairment losses for these loans was RMB15.0 million.

As of 31 December 2020, we had 20 past due loans with an aggregate principal amount of RMB70.7 million, and our allowance for impairment losses for these past due loans as of the same date was RMB22.4 million.

The principal amount of our past due loans decreased from RMB80.2 million as of 31 December 2019 to RMB70.7 million as of 31 December 2020, mainly due to (i) the addition of 11 past due loans with an aggregate amount of RMB49.8 million, which is partly offset by the collection of 5 past due loans with an aggregate amount of RMB7.4 million, and (ii) the write-off of 9 past due loans in 2019 with an aggregate amount of RMB51.8 million, of which RMB1.0 million was later recovered and collected after being written off.

Loan Portfolio by Exposure Size

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

	As of 31 December					
	2020			2019		
	<i>Number of borrower⁽¹⁾</i>	<i>RMB'000</i>	<i>%⁽²⁾</i>	<i>Number of borrower⁽¹⁾</i>	<i>RMB'000</i>	<i>%⁽²⁾</i>
Principal amount of outstanding loans:						
Up to RMB1.0 million	2,942	67,444	7.8	3,088	134,420	12.1
Over RMB1.0 million to RMB3.0 million (inclusive)	84	146,127	16.8	108	203,801	18.4
Over RMB3.0 million to RMB5.0 million (inclusive)	98	443,754	51.0	101	476,474	43.0
Over RMB5.0 million to RMB10.0 million (inclusive)	15	123,755	14.2	21	160,980	14.5
Over RMB10.0 million	<u>6</u>	<u>88,858</u>	<u>10.2</u>	<u>9</u>	<u>133,000</u>	<u>12.0</u>
Total	<u>3,145</u>	<u>869,938</u>	<u>100.0</u>	<u>3,327</u>	<u>1,108,675</u>	<u>100.0</u>

Notes:

- (1) Loans granted to a single borrower under multiple loan agreements are aggregated for the purpose of the calculation of loan exposure size to such customer.
- (2) Represents the principal amount of outstanding loans of each category divided by the total principal amount of our outstanding loans.

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

	As of 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Normal	523,786	60.3	730,870	65.9
Special-mention	259,218	29.8	304,499	27.5
Substandard	69,865	8.0	13,333	1.2
Doubtful	2,769	0.3	46,723	4.2
Loss	<u>14,300</u>	<u>1.6</u>	<u>13,250</u>	<u>1.2</u>
Total	<u>869,938</u>	<u>100.0</u>	<u>1,108,675</u>	<u>100.0</u>

We assess impairment either collectively or individually as appropriate. We assess our loans for impairment at the end of each relevant period, determine a level of allowance, and recognize any related provisions using the concept of impairment under HKFRS 9. For the loans in stage 1 and stage 2 for measurement of ECL which were the “normal” loans and part of the “special-mention” loans, given that they are not impaired, we make collective assessment based primarily on factors including prevailing general market and industry conditions and historical impaired ratio. For the remaining loans, the impairment losses are assessed individually by evaluating the loss that we expect to incur on the balance sheet date.

Our “substandard” loans increased from RMB13.3 million as of 31 December 2019 to RMB69.9 million as of 31 December 2020 mainly because part of the loans of the Company categorized as “special-mention” in 2019 with aggregate amount of RMB50.0 million were downgraded to “substandard” due to the borrowers’ ability to repay the loans being in doubt. Our “doubtful” loans decreased from RMB46.7 million as of 31 December 2019 to RMB2.8 million as of 31 December 2020

mainly because RMB33.0 million of principal amount of the past due loans were written off as a result of the increasing credit risk. Meanwhile, part of the loans categorized as “doubtful” in 2019 with aggregate amount of RMB12.0 million were downgraded to “loss” in 2020.

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

	As of/For the year ended	
	31 December	
	2020	2019
	<i>(RMB'000, except for percentage)</i>	
Non-performing loan ratio⁽¹⁾	9.9%	6.5%
Balance of non-performing loans receivable	86,933	73,306
Balance of gross loans receivable	876,020	1,129,136
Allowance coverage ratio⁽²⁾	60.3%	89.0%
Allowance for non-performing loans losses ⁽³⁾	52,434	65,262
Balance of non-performing loans receivable	86,933	73,306
Provision for impairment losses ratio⁽⁴⁾	6.0%	5.8%
Loss ratio⁽⁵⁾	48.2%	23.0%
Net charge of impairment allowance on loans receivable	69,131	38,042
Interest income	143,540	165,400

Notes:

- (1) Represents the balance of non-performing loans receivable divided by the balance of gross loans receivable. Non-performing loan ratio indicates the quality of our loan portfolio.
- (2) Represents the allowance for non-performing loans losses for all loans divided by the balance of non-performing loans receivable. The allowance for non-performing loans losses for all loans includes allowances provided for performing loans which are assessed collectively and allowances provided for non-performing loans receivable which are assessed individually. Allowance coverage ratio indicates the level of allowance we set aside to cover probable loss in our loan portfolio.
- (3) Allowance for non-performing loans losses reflects our management’s estimate of the probable loss in our loan portfolio.
- (4) Represents the allowance for non-performing loans losses divided by the balance of gross loans receivable. Provision for non-performing loans losses ratio measures the cumulative level of provisions.
- (5) Represents the net charge of impairment allowance on loans receivable divided by our interest income. Loss ratio is a benchmark which our management uses to monitor our financial results in relation to impairment losses incurred.

Our non-performing loans receivable increased from RMB73.3 million as of 31 December 2019 to RMB86.9 million as of 31 December 2020. Our non-performing loan ratio increased from 6.5% as of 31 December 2019 to 9.9% as of 31 December 2020. Such increases were primarily due to 24 loans of the Company being recognized as non-performing loans during the Reporting Period.

Finance Leasing Business

Finance Lease Receivables by Security

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

	As of 31 December			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Collateral-backed leases:				
— with guarantee	7,033	62.7	21,899	55.8
— without guarantee	4,177	37.3	17,330	44.2
Total	11,210	100.0	39,229	100.0

Gross and Net Amounts of Lease Receivables

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

	As of 31 December	
	2020	2019
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Lease receivables	11,210	39,229
— Due within one year	10,389	26,466
— Due in one year to two years	821	11,914
— Due in two years to three years	—	849
Net lease receivables	10,475	35,482
— Due within one year	9,697	23,469
— Due in one year to two years	778	11,194
— Due in two years to three years	—	819

We categorize our lease receivables according to our “Five-Tier Principle”. As of 31 December 2020, the past due portion of our lease receivables was categorized as “substandard”, and the remaining lease receivables were categorized as “normal”.

Our lease receivables and net lease receivables decreased respectively from RMB39.2 million and RMB35.5 million as of 31 December 2019 to RMB11.2 million and RMB10.5 million as of 31 December 2020, mainly because the repayments of the previously financial leases have been gradually received.

Compliance with Key Regulatory Requirements

The following table summarizes the key statutory capital requirements and lending restrictions applicable to us and our compliance status for the year ended 31 December 2020:

Key requirements	Compliance status
The registered capital of a microfinance company in Fujian province shall not be lower than RMB100 million.	Our Group complied with such requirement for the year ended 31 December 2020.
The debt to net capital ratio of a microfinance company in Quanzhou city is capped at 100%.	Our Group complied with such requirement for the year ended 31 December 2020.
The <i>Provision on Issues Concerning Applicable Legal Norms for the Court's Trial of Lending Cases (Amended in December 2020)</i> (最高人民法院關於審理民間借貸案件適用法律若干問題的規定(2020年12月修訂)) (the “ 2020 Judicial Interpretation ”) promulgated by the Supreme People's Court (最高人民法院) on 29 December 2020 which became effective on 1 January 2021 provides that: (i) the interest on a loan accruing from the effective date of the loan agreement to 19 August 2020 calculated pursuant to the then judicial interpretation; and (ii) the interest on a loan accruing from 20 August 2020 to the repayment date of the loan calculated pursuant to the 2020 Judicial Interpretation, shall be supported by the court if the loan agreement took effect before 20 August 2020 and the lending case in relation to such loan agreement accepted by the court after 20 August 2020.	Our Group complied with such applicable requirement for the year ended 31 December 2020.
A microfinance company shall not grant loans to its own shareholders, directors, senior management and their related parties.	Our Group complied with such requirement for the year ended 31 December 2020.
The outstanding amount of loan made to the same borrower by a microfinance company cannot exceed 5% of the net capital of such microfinance company.	Our Group complied with such requirement for the year ended 31 December 2020.

Key requirements

Upon the listing of the H shares of the Company on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 30 September 2016, the ratio of the balance of outstanding loans of up to a maximum of RMB5.0 million to a single borrower to the total balance of outstanding loans that is applicable to the Company shall not be lower than 70% (the “**Amended 70% Requirement**”).

Risk assets of a finance leasing company shall not exceed eight times of its total net assets.

Compliance status

Our Group complied with the Amended 70% Requirement for the year ended 31 December 2020.

Our Group complied with such requirement for the year ended 31 December 2020.

Financial Overview

Interest Income, Net

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

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

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on:		
Loans receivable	143,540	165,400
Finance lease receivables	2,710	5,414
Interest expense on:		
Bank loans	(2,679)	(8,892)
Lease Liabilities	<u>(26)</u>	<u>(161)</u>
Interest income, net	<u>143,545</u>	<u>161,761</u>

Interest Income

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

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

	Year ended 31 December	
	2020	2019
Average balance:		
— outstanding performing loans ⁽¹⁾ (RMB'000)	830,943	1,097,755
— interest-generating finance lease receivables (RMB'000)	23,620	49,332
Average effective interests rate per annum:		
— performing loans ⁽²⁾	14.26%	15.07%
— interest-generating finance lease receivables ⁽³⁾	11.48%	10.97%

Notes:

- (1) Calculated as the average balance of the principal amount of our outstanding performing loans at the end of each month for the years indicated.
- (2) Calculated by dividing the interest income for the year by the average balance of outstanding performing loans for the years indicated.
- (3) Calculated by dividing the annualised interest income derived from our interest-generating finance lease receivables for the period by the average balance of our finance lease receivables not impaired for the relevant period.

Our loan business and finance leasing business are primarily funded by our share capital as well as our bank borrowings. Our interest income decreased by 14.4% from RMB170.8 million for the year ended 31 December 2019 to RMB146.2 million for the year ended 31 December 2020. The average balance of our outstanding performing loans decreased by 24.3% from RMB1,097.8 million in 2019 to RMB830.9 million in 2020 primarily because we adjusted our strategy by decreasing our loan size to guard against the increasing credit risk of the market. The average balance of our finance lease receivables decreased by 52.1% from RMB49.3 million for the year ended 31 December 2019 to RMB23.6 million for the year ended 31 December 2020 mainly because we carefully developed our finance lease business in response to the increasing credit risk. For the years ended 31 December 2019 and 2020, our average

effective interest rate per annum on our performing loans decreased from 15.1% to 14.3%. Such decrease was primarily due to (i) the increase of the proportion of collateral-backed loans with lower interest rates; and (ii) the charging of lower interest rates to our high-quality customers.

Interest Expense

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

	Year ended 31 December	
	2020	2019
Average balance of bank borrowings ⁽¹⁾ (RMB'000)	54,389	150,194
Effective interests rate per annum ⁽²⁾	4.98%	5.92%

Notes:

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

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

Our average balance of bank borrowings decreased from RMB150.2 million as of 31 December 2019 to RMB54.4 million as of 31 December 2020, which was generally in line with our business development.

Net Charge of Impairment Allowance on Loans and Accounts Receivable

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

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

Our net charge of impairment allowance on loans and accounts receivable for the years ended 31 December 2019 and 2020 were RMB37.8 million and RMB69.1 million, respectively. Such increase was primarily because we charged impairment allowance on the loans which were granted to the customer whose repayment ability reduced due to the increase in the market credit risk and were categories as impaired loans receivable accordingly.

Operating and Administrative Expenses

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Tax and surcharges	986	1,783
Staff costs:		
Salaries, bonuses and allowances	11,999	13,650
Other social welfare	1,517	2,342
Depreciation and amortization	4,740	4,366
Auditor's remuneration	1,368	1,367
Others	5,993	9,690
Total operating and administrative expenses	<u>26,603</u>	<u>33,198</u>

Our tax and surcharges primarily comprise city maintenance and construction tax and additional education fee, accounting for 5.4% and 3.7% of our operating and administrative expenses for the years ended 31 December 2019 and 2020, respectively. Staff costs, including salaries, bonuses and allowances paid to employees, other social welfare insurance and benefits, accounted for 48.2% and 50.8% of our operating and administrative expenses for the years ended 31 December 2019 and 2020, respectively.

Our operating and administrative expenses decreased from RMB33.2 million for the year ended 31 December 2019 to RMB26.6 million for the year ended 31 December 2020 mainly because of the decrease in staff costs and other expenses during the COVID-19 epidemic.

Net Gains on Financial Assets

Our net gains on financial assets consist of gains on financial assets at fair value through profit or loss, gains on disposal of financial assets and dividend and other income. Our net gains on financial assets increased from RMB4.1 million for the year ended 31 December 2019 to RMB20.4 million for the year ended 31 December 2020 mainly due to (i) the increase in the gains on the financial assets at fair value through profit or loss of RMB9.7 million; (ii) the increase in the dividend income of RMB3.7 million; and (iii) the increase in gains on the disposal of financial assets of RMB2.9 million.

Other Income and Gains, Net

Our net other income and gains consist of government grants, interest from bank deposits, gains/losses on disposal of items of property and equipment and other gains and losses. Our net other income and gains slightly increased from RMB2.5 million for the year ended 31 December 2019 to RMB2.9 million for the year ended 31 December 2020 mainly due to the increase in governments grants.

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Government grants	1,670	1,260
Interest from bank deposits	178	152
(Losses)/gains on disposal of items of property and equipment	(136)	22
Others	1,163	1,026
Total	<u>2,875</u>	<u>2,460</u>

Income Tax Expense

During the years ended 31 December 2019 and 2020, we were subject to the general tax rate of 25% pursuant to the *Enterprise Income Tax Law* (企業所得稅法) which became effective from 1 January 2008, and was amended on 24 February 2017 and 29 December 2018. Our income tax expense for the years ended 31 December 2019 and 2020 was RMB23.6 million and RMB16.9 million, respectively, and our effective tax rate for the same years was 24.1% and 23.9%.

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

Net Profit and Total Comprehensive Income for the Year

As a result of the foregoing, we recorded net profit, defined as net profit and total comprehensive income, of RMB74.5 million and RMB53.9 million for the years ended 31 December 2019 and 2020, respectively.

Liquidity and Capital Resources

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

Our gearing ratio which presented the percentage of our net debt divided by the aggregate of our capital and net debt, decreased from 3.2% as of 31 December 2019 to 1.7% as of 31 December 2020, mainly because of the decrease in bank borrowings.

Cash Flows

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net cash flows from operating activities	68,744	140,665
Net cash flows (used in)/from investing activities	(7,873)	19,275
Net cash flows used in financing activities	(76,954)	(175,652)
Net decrease in cash and cash equivalents	(16,083)	(15,712)
Cash and cash equivalents at the beginning of year	36,119	51,718
Effect of foreign exchange rate changes, net	(350)	113
Cash and cash equivalents at the end of year	19,686	36,119

Net cash flows from operating activities

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

Our cash generated from operating activities primarily consists of loans repaid by our customers and interest income from loans we grant to customers. Our cash used in operating activities primarily consists of loans that we extend to our customers. Net cash flows from operating activities reflect: (i) our profit before tax adjusted for non-cash and non-operating items, such as charge on impairment, COVID-19-related rent concessions from lessors, interest expense, accreted interest on impaired loans, foreign exchange loss, loss on disposal of property and equipment, as well as depreciation and amortization; (ii) the effects of changes in working capital; and (iii) income tax paid.

Net cash flows from operating activities for the year ended 31 December 2020 was RMB68.7 million. Net cash flows generated from operating activities before working capital adjustment was RMB125.4 million. Cash outflows arising from changes in working capital primarily consisted of: (i) an increase in financial assets at fair value through profit or loss of RMB244.6 million; and (ii) an increase in other assets of RMB41.4 million mainly attributable to the increase in prepayment. Cash inflows primarily consisted of: (i) the decrease in securities purchased under agreements to re-sell of RMB26.1 million attributable to the maturity of such securities; and (ii) the decrease in loans and accounts receivable of RMB218.3 million as a result of the decrease in loan size.

Net cash flows used in investing activities

For the year ended 31 December 2020, our net cash flows used in investing activities was RMB7.9 million, which was mainly due to the purchase of properties.

Net cash flows used in financing activities

For the year ended 31 December 2020, our net cash flows used in financing activities was RMB77.0 million, which mainly consisted of: (i) the dividend paid to our shareholders of RMB34.0 million; (ii) the dividend paid to non-controlling shareholders of JJHX of RMB19.0 million; (iii) the net repayment of bank borrowings of RMB20.0 million; (iv) the payment of interest of RMB2.7 million; and (v) the principal portion lease payments of RMB1.5 million.

Cash management

We have established certain management measures to manage our liquidity. As our business relies primarily on its available cash, we normally set aside a sufficient amount of cash for general working capital needs, such as administrative expenses and payment of interests on bank borrowings, and use substantially all of the remainder for granting loans to our customers. As of 31 December 2019 and 2020, the total cash and cash equivalents amounted to RMB36.1 million and RMB19.7 million, respectively, which we consider to be adequate based on our actual working capital needs.

Selected Items of the Statements of Financial Position

	As of 31 December	
	2020	2019
	RMB'000	RMB'000
Assets		
Cash and cash equivalents	31,877	36,119
Securities purchased under agreements to re-sell	3,800	29,900
Financial assets at fair value through profit or loss	362,840	118,279
Loans and accounts receivable	833,536	1,098,824
Property and equipment	8,522	921
Right-of-use assets ⁽¹⁾	250	1,930
Goodwill	14,729	14,729
Other Intangible assets	1,177	1,583
Deferred tax assets	10,764	3,182
Other assets	42,792	15,321
Total assets	<u>1,310,287</u>	<u>1,320,788</u>
Liabilities		
Interest-bearing bank borrowings	50,067	70,108
Lease liabilities	152	1,647
Income tax payable	3,975	7,441
Deferred tax liabilities	4,952	116
Other payables	21,150	12,610
Total liabilities	<u>80,296</u>	<u>91,922</u>
Net assets	<u>1,229,991</u>	<u>1,228,866</u>

Note:

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

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of our cash in hand and cash at banks. As of 31 December 2019 and 2020, we had cash and cash equivalents of RMB36.1 million and RMB31.9 million, respectively. Such decrease in our cash and cash equivalents was primarily due to the decrease in our loan size of RMB265.3 million and the increase in financial assets at fair value through profit or loss of RMB244.6 million.

Loans and Accounts Receivable

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

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

	As of 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Net lease receivables	10,475	35,298
Loans receivable	<u>876,020</u>	<u>1,129,136</u>
Total loans and accounts receivable	<u>886,495</u>	<u>1,164,618</u>
Less: Allowance for impairment losses		
— Individual assessed	(34,957)	(43,439)
— Collective assessed	<u>(18,002)</u>	<u>(22,355)</u>
Total allowance for impairment losses	<u>(52,959)</u>	<u>(65,794)</u>
Net loans and accounts receivable	<u><u>833,536</u></u>	<u><u>1,098,824</u></u>

Our net loans receivable decreased from RMB1,098.8 million as of 31 December 2019 to RMB833.5 million as of 31 December 2020 due to the fact that we adjusted our strategy by decreasing our loan size to guard against the increasing credit risk of the market.

As of 31 December 2020, our maturity profiles within one year and over one year accounted for 81.4% and 10.5% of the total loans, respectively. The following table sets forth a maturity portfolio of our gross loans receivable as of the dates indicated:

	As of 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Past due	71,042	8.1	80,156	7.1
Due within three months	206,168	23.5	227,779	20.1
Due between three months and six months	255,162	29.1	311,509	27.6
Due between six months and one year	252,335	28.8	286,437	25.4
Due over one year	<u>91,313</u>	<u>10.5</u>	<u>223,255</u>	<u>19.8</u>
Total	<u>876,020</u>	<u>100.0</u>	<u>1,129,136</u>	<u>100.0</u>

The majority of our loans during the years ended 31 December 2019 and 2020 were guaranteed loans and collateral-backed loans, which accounted for 38.8% and 60.7% of our loans receivables as of 31 December 2019 and 34.6% and 64.8% of our loans receivables as of 31 December 2020, respectively. The following table sets forth the balance of our gross loans receivable as of the dates indicated:

	As of 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Credit loans	4,997	0.6	6,094	0.5
Guaranteed loans	303,072	34.6	437,676	38.8
Collateral-backed loans				
— with guarantee	547,371	62.5	461,062	40.8
— without guarantee	<u>20,580</u>	<u>2.3</u>	<u>224,304</u>	<u>19.9</u>
Total	<u>876,020</u>	<u>100.0</u>	<u>1,129,136</u>	<u>100.0</u>

Financial Assets at Fair Value through Profit or Loss

For the year ended 31 December 2020, our financial assets at fair value through profit or loss primarily consisted of wealth management products and listed securities.

We invest in wealth management products, listed securities and other unlisted investments with our laid-up capital, and the investment amount should match our capital structure in terms of scale and must not affect our ordinary business operations. All such financial assets, depending on their amounts and types, will be strictly reviewed and approved by our management at different levels. Our securities investment team conducts risk control and supervision over our investments to effectively manage the

investment procedures. All these investment activities are subject to applicable laws and regulations. As of 31 December 2020, the balance of our investments wealth management products, listed securities and other unlisted investments were RMB131.4 million, RMB212.3 million and RMB19.1 million, respectively.

Goodwill

Our goodwill remained at RMB14.7 million as of 31 December 2019 and 2020.

Other Intangible Assets

Other intangible assets decreased from RMB1.6 million as of 31 December 2019 to RMB1.2 million as of 31 December 2020, mainly due to the amortization of intangible assets.

Deferred Tax Assets

The deferred tax assets increased from RMB3.2 million as of 31 December 2019 to RMB10.8 million as of 31 December 2020, mainly due to (i) the increase in the deductible temporary differences before income tax arising from impairment losses on loans and accounts receivable of RMB4.6 million; and (ii) the increase in the fair value adjustments of financial assets at fair value through profit or loss of RMB3.0 million.

Other Assets

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

Our other assets increased from RMB15.3 million as of 31 December 2019 to RMB42.8 million as of 31 December 2020, mainly due to (i) the prepayment of purchase of non-performing loans of an independent third party; and (ii) prepaid income tax. The following table sets forth a breakdown of our other assets as of the dates indicated:

	As of 31 December	
	2020	2019
	RMB'000	RMB'000
Repossessed assets	10,506	12,856
Prepaid tax	1,243	—
Deposit payment	30,000	—
Other receivables	605	1,692
Deferred and prepaid expenses	438	773
Total other assets	<u>42,792</u>	<u>15,321</u>

Income tax payable

Our income tax payable, which represents our current income tax liabilities, was RMB7.4 million and RMB3.9 million, respectively, as of 31 December 2019 and 2020.

Other payables

Our other payables mainly include payrolls payable, value-added tax and surcharges payable, deposits received and others. As of 31 December 2019 and 2020, our other payables were RMB12.6 million and RMB21.1 million, respectively. Such increase was mainly due to the increase in deposits received from a non-performing loan of RMB12.9 million, partially offset by the decrease in payrolls payable of RMB1.4 million and the decrease in other deposits of RMB2.9 million.

Indebtedness

Interest-bearing bank borrowings

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

	As of 31 December	
	2020	2019
	RMB'000	RMB'000
Guaranteed bank loans	<u>50,067</u>	<u>70,108</u>
Total	<u><u>50,067</u></u>	<u><u>70,108</u></u>

Lease Liabilities

Our lease liabilities decreased from RMB1.6 million as of December 2019 to RMB0.2 million as of 31 December 2020 mainly because of the decrease in rental cost as we purchased a property as our office.

Contingent Liabilities

As of 31 December 2020, we were subject to one pending civil proceeding as one of the defendants in relation to the shareholder's obligation of capital contribution with an amount of approximately RMB12.0 million to the Company. As the date of this announcement, no hearing has been held. The Directors, based on the advice from PRC legal adviser, believe that no provisions were needed and this proceeding would not have any material adverse effect on our business, financial position or results of operations.

Asset-backed Securities

In 2019, we proposed to issue asset-backed securities in the PRC with an aggregated principal amount of not more than RMB300.0 million and obtained a 12-month's approval from the Shenzhen Stock Exchange. In October 2020, we applied for certain changes after the approval in relation to the change of the issuance size to RMB100.0 million by the Shenzhen Stock Exchange (the “**Changes**”).

As of the date hereof, the Changes have not been completed and no such asset-backed securities have been issued by the Company. For more details, please refer to the announcement of the Company dated 3 April 2019, the circular of the Company dated 24 April 2019, the poll results announcement of the Company dated 12 June 2019 and the 2019 annual report of the Company dated 23 April 2020.

Capital Expenditures

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Capital expenditures		
— Micro-credit business	<u>8,531</u>	<u>2,926</u>
Total	<u>8,531</u>	<u>2,926</u>

Related Party Transactions

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

Commitment and Contractual Obligations

Capital Commitments

Our capital commitment, which was contracted but not provided for in the financial statements, was in respect of a software and leasehold improvements during the Reporting Period. Our capital commitment increased from RMB767,000 as of 31 December 2019 to RMB883,248 as of 31 December 2020 mainly due to the development of software and leasehold improvements.

Key Financial Ratios

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

	As of/For the year ended	
	31 December	
	2020	2019
Return on equity ⁽¹⁾	3.8%	6.0%
Return on assets ⁽²⁾	4.1%	5.6%
Gross loans to total assets ⁽³⁾	67.7%	88.2%
Gearing ratio ⁽⁴⁾	1.7%	3.2%

Notes:

- (1) Return on equity is calculated by dividing net profit attributable to owners of the parent for the year by the balance of equity attributable to owners of the parent as of the indicated dates multiplied by 100%.
- (2) Return on assets is calculated by dividing net profit for the year by the balance of total assets as of the indicated dates multiplied by 100%.
- (3) Gross loans to total assets ratio equals the gross loans receivable amount as of the indicated dates divided by the total assets as of the same date and multiplied by 100%. Gross loans receivable represent our total loans receivable before the deduction of allowance for impairment.
- (4) Gearing ratio equals net debt as of the indicated date divided by the aggregate of our capital and net debt as of the same date multiplied by 100%. It reflects our financial leverage.

Our return on equity reflecting our financial performance decreased from 6.0% for the year ended 31 December 2019 to 3.8% for the year ended 31 December 2020 primarily due to the decrease in the net profit as a result of the increase in provision for loan impairment loss in 2020. Our return on assets reflecting our profitability decreased from 5.6% for the year ended 31 December 2019 to 4.1% for the year ended 31 December 2020 primarily due to the decrease in the average effective interest rate per annum. Our gross loans to total assets reflecting our high capital utilization ratio remained at a high level with a decrease from 88.2% as of 31 December 2019 to 67.7% as of 31 December 2020 primarily due to the decrease in gross loans. Our gearing ratio reflecting our financial leverage decreased from 3.2% as of 31 December 2019 to 1.7% as of 31 December 2020, mainly due to the decrease in the amount of outstanding bank borrowings.

Off-balance Sheet Arrangements

As of 31 December 2020, we did not have any off-balance sheet arrangements.

Foreign Currency Exposure

Our Group did not use any derivative financial instruments to hedge the risk of exchange rate changes since almost all of our revenue was from mainland China for the year ended 31 December 2020.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no material investments or acquisitions by our Group for the year ended 31 December 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

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

Save as disclosed above, our Group had no future plans for material investments or external financing as of 31 December 2020.

CHARGE ON OUR GROUP'S ASSETS

As of 31 December 2020, we did not have any charges on our assets.

EMPLOYMENT AND EMOLUMENTS

As of 31 December 2020, our Group had 67 employees, all of whom were based in Fujian province. Our employees' remuneration has been paid in accordance with relevant laws and regulations in the PRC. Appropriate salaries and bonuses were paid with reference to the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance.

CONTINUING DISCLOSURE REQUIREMENTS UNDER THE LISTING RULES

As of 31 December 2020, our Group was not involved in any circumstances that would give rise to a disclosure requirement under Rules 13.12 to 13.19 of the Listing Rules.

PROSPECTS

The COVID-19 epidemic in 2020 has caused a significant impact on the global economy. The epidemic expedited the penetration of the internet economy, making the public more acceptable and accustomed to online service model.

In 2020, part of our offline operations was affected by the epidemic. In order to better cope with the changing economic and social environment, we will gradually develop online approval based on our information system to carry out online business. After the epidemic abates, we will fully carry out our offline business and adopt both offline and online business model.

As a result of the epidemic, we have developed an online training system this year that allows employees to learn at their own time. In addition, we will gradually conduct offline training after the ease of the epidemic.

With the vision “To become China’s leading provider of microfinance services”, our Group is committed to assisting in adding value to customers with professional and efficient services.

Our business was affected by the worldwide economic downturn caused by the COVID-19 pandemic. We maintained sound operations in 2020 due to our timely adjustments to our strategy.

As for our business, we upgraded our risk control standards to ensure project quality and strictly controlled business risks. We also adopted a business strategy based on the mortgage of quality properties to cope with market risks. We strengthened our online information system, which is now available for business approval, making it easier to conduct business. We will continue to enrich the functions of our online information system in the future.

In order to further improve the service capability of our employees, we developed an online learning system, which offers different training courses based on the nature of the position and the development stage of the staff in a targeted manner. The online learning system is convenient and efficient as it enables employees to use fragmented time for learning, without the restriction of time and location.

In 2020, we understood the complexity and uncertainty in traditional businesses. We had been adjusting the capital structure of the Company gradually and had started to increase the proportion of our non-credit assets.

In addition, the Group won more supportive policies for the local micro-credit industry through local financial industry associations in Quanzhou, which mitigated the impact of the economic environment.

With the implementation of further strengthened financial regulations in China, in particular, the in-depth dealing with illegal and private lending, the industrial environment is more favorable to the sustainable development of licensed institutions in 2021. The global economy is recovering with the epidemic being under-control and the gradual rollout of vaccine, which is in favour of the profitability of enterprises and employment rate, therefore we expect our customers would further consolidate their business. We expect that the credit policy of the Central Bank of PRC will get back to normal accordingly, which will encourage some customers to apply for lending from licensed institutions instead of banks given the increasing credit risk of these customers.

2021 is a year of challenges and opportunities. We will stick to our steady development strategy for greater development.

CORPORATE GOVERNANCE

Our Group is committed to maintaining high standards of corporate governance and protecting the interests of its shareholders in an open manner. The Board and the management of the Company has adopted the code provisions (the “**Code Provisions**”) of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules and reviewed its corporate governance practice from time to time. During the Reporting Period, the Company has fully complied with the Code Provisions.

UPDATES ON DIRECTORS’ AND SUPERVISORS’ INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors and supervisors of the Company since the Company’s last published interim report up to the date of this announcement are as below:

- Mr. Zhou Yongwei resigned as the chairman of the Board on 18 January 2021.
- Mr. Wu Zhirui resigned as the general manager of the Company and was appointed as the chairman of the Board on 18 January 2021.
- Mr. Yan Zhijiang was appointed as the general manager of the Company on 18 January 2021.

For more details, please refer to the announcement on change of chairman and general manager of the Company dated 18 January 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct for carrying out securities transactions of the Company by the Directors and supervisors of the Company. After specific enquiry with all Directors and supervisors, they have confirmed fully compliance with the relevant requirements stipulated in the Model Code during the Reporting Period.

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

Our Group has not purchased, sold or redeemed any of the Company’s listed securities for the year ended 31 December 2020.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.05 per share for the year ended 31 December 2020 to shareholders whose names appear on the Company’s register of members on Friday, 25 June 2021 (the “**Proposed Final Dividend**”). Subject to the approval of the shareholders at the Company’s forthcoming annual general meeting to be held on Friday, 11 June 2021 (the “**AGM**”), the Proposed Final Dividend is expected to be paid on or around Monday, 16 August 2021.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain shareholder's entitlement to attend and vote at the AGM, the H share register of members of the Company will be closed from Wednesday, 12 May 2021 to Friday, 11 June 2021, both days inclusive, during which period no share transfers will be registered. In order to qualify for attending and voting at the AGM, holders of H shares of the Company shall lodge transfer documents with the Company's H share registrar in Hong Kong (the "**H Share Registrar**"), Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, or to the Company's registered office in the PRC (for holders of domestic shares), for registration no later than 4:30 p.m. on Tuesday, 11 May 2021.

For the purpose of determining the entitlement to the Proposed Final Dividend, the H share register of members of the Company will be closed from Monday, 21 June 2021 to Friday, 25 June 2021, both days inclusive, during which period no share transfers of H shares of the Company will be registered. In order to be entitled to the Proposed Final Dividend, unregistered holders of H shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the H Share Registrar or to the Company's registered office in the PRC (for holders of domestic shares), for registration no later than 4:30 p.m. on Friday, 18 June 2021.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in the notes to the consolidated financial statements, no event needs to be disclosed after the Reporting Period.

AGM

The AGM will be held at 22/F, Building 3, Finance Square, No. 267 Chongde Road, Qingyang Street, Jinjiang city, Fujian province, the PRC on Friday, 11 June 2021. Notice of the AGM will be issued and disseminated by the Company to shareholders in due course.

AUDIT COMMITTEE

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by our Group, auditing, internal controls and financial report matters, and our Group's policies and practices on corporate governance. The Audit Committee has reviewed and discussed with management and the Company's auditor, Ernst & Young, the audited financial statements for the year ended 31 December 2020.

This Annual Results announcement is based on our Group's audited consolidated financial statements for the year ended 31 December 2020 which has been agreed with the auditor of the Company.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The Annual Results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qzhuixin.net). The annual report for the year ended 31 December 2020 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and available on the same websites in due course.

By order of the Board
Quanzhou Huixin Micro-credit Co., Ltd.*
WU Zhirui
Chairman

Hong Kong, 26 March 2021

As at the date of this announcement, the executive Directors are Mr. WU Zhirui, Mr. ZHOU Yongwei, Mr. YAN Zhijiang and Ms. LIU Aiqin; the non-executive Directors are Mr. JIANG Haiying and Mr. CAI Rongjun; and the independent non-executive Directors are Mr. SUN Leland Li Hsun, Mr. ZHANG Lihe and Mr. LIN Jianguo.

* *For identification purpose only*