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

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

(Stock Code: 6866)

2018 ANNUAL RESULTS ANNOUNCEMENT

The board (the “**Board**”) of directors (the “**Directors**”) of 佐力科創小額貸款股份有限公司 (Zuoli Kechuang Micro-finance Company Limited*) (the “**Company**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2018, together with comparative figures for the corresponding period, prepared in accordance with the Hong Kong Financial Reporting Standards (the “**HKFRSs**”) promulgated by the Hong Kong Institute of Certified Public Accountants. The Board and the audit committee of the Company (the “**Audit Committee**”) have reviewed and confirmed the Annual Results.

ANNUAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Renminbi (“**RMB**”) ’000, unless otherwise stated)

	Note	2018 RMB’000	2017 (Note) RMB’000
Interest income		337,536	314,301
Interest and commission expenses		(43,468)	(43,464)
Net interest income	2	294,068	270,837
Other net income	3	13,356	5,349
Impairment losses	4	(47,394)	(17,361)
Administrative expenses		(68,818)	(49,443)
Profit before taxation	5	191,212	209,382
Income tax	6	(48,312)	(53,530)
Profit and total comprehensive income for the year		142,900	155,852
Attributable to:			
Equity shareholders of the Company		136,968	148,828
Non-controlling interests		5,932	7,024
Profit for the year		142,900	155,852
Earnings per share			
Basic and diluted (RMB)	9	0.12	0.13

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 1(c).

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

(Expressed in RMB'000, unless otherwise stated)

	<i>Note</i>	31 December 2018 <i>RMB'000</i>	31 December 2017 (<i>Note</i>) <i>RMB'000</i>
Assets			
Cash and cash equivalents	10(a)	41,707	37,235
Interests receivables		4,229	20,391
Loans and advances to customers	11	2,282,082	2,054,390
Intangible assets	12	3,141	3,964
Goodwill	13	22,502	22,502
Fixed assets	15	43,589	29,580
Available-for-sale financial assets	16	—	27,520
Deferred tax assets	20(b)	28,383	18,282
Other assets	17	1,838	3,398
Total assets		<u>2,427,471</u>	<u>2,217,262</u>
Liabilities			
Interest-bearing borrowings	18	580,079	532,500
Accruals and other payables	19	50,618	38,598
Current taxation	20(a)	43,757	26,295
Total liabilities		<u>674,454</u>	<u>597,393</u>
NET ASSETS		<u>1,753,017</u>	<u>1,619,869</u>
CAPITAL AND RESERVES	21		
Share capital		1,180,000	1,180,000
Reserves		472,881	337,952
Total equity attributable to equity shareholders of the Company		1,652,881	1,517,952
Non-controlling interests	14	100,136	101,917
TOTAL EQUITY		<u>1,753,017</u>	<u>1,619,869</u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 1(c).

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in RMB'000, unless otherwise stated)

	Attributable to equity shareholders of the Company					Non-controlling interests	Total equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained profits		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
	Note 21(c)	Note 21(d)(i)	Note 21(d)(ii)	Note 21(d)(iii)			
Balance at 31 December 2017 (note)	1,180,000	—	39,580	44,526	253,846	101,917	1,619,869
Impact on initial application of HKFRS 9 (Note 1(c))	—	—	—	—	(3,019)	(333)	(3,352)
Adjusted balance at 1 January 2018	<u>1,180,000</u>	<u>—</u>	<u>39,580</u>	<u>44,526</u>	<u>250,827</u>	<u>101,584</u>	<u>1,616,517</u>
Changes in equity for year ended 31 December 2018:							
Acquisition of interest in subsidiary (Note 14)	—	980	—	—	—	(980)	—
Profit and total comprehensive income for the year	—	—	—	—	136,968	5,932	142,900
Appropriation to surplus reserve	—	—	4,112	—	(4,112)	—	—
Appropriation to general reserve	—	—	—	14,223	(14,223)	—	—
Dividends approved in respect of the previous year (Note 21(b))	—	—	—	—	—	(6,400)	(6,400)
Balance at 31 December 2018	<u>1,180,000</u>	<u>980</u>	<u>43,692</u>	<u>58,749</u>	<u>369,460</u>	<u>100,136</u>	<u>1,753,017</u>

	Attributable to equity shareholders of the Company					Non-controlling interests	Total equity
	Share capital	Surplus reserve	General reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
	Note 21(c)	Note 21(d)(ii)	Note 21(d)(iii)				
Balance at 1 January 2017	1,180,000	25,122	35,781	128,221	1,369,124	95,451	1,464,575
Changes in equity for 2017:							
Profit and total comprehensive income for the year	—	—	—	148,828	148,828	7,024	155,852
Appropriation to surplus reserve	—	14,458	—	(14,458)	—	—	—
Appropriation to general reserve	—	—	8,745	(8,745)	—	—	—
Dividends approved in respect of the previous year	—	—	—	—	—	(558)	(558)
Balance at 31 December 2017 (Note)	<u>1,180,000</u>	<u>39,580</u>	<u>44,526</u>	<u>253,846</u>	<u>1,517,952</u>	<u>101,917</u>	<u>1,619,869</u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 1(c).

The accompanying notes form part of the financial statements.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**
(Expressed in RMB'000, unless otherwise stated)

	<i>Note</i>	2018 <i>RMB'000</i>	2017 (<i>Note</i>) <i>RMB'000</i>
Operating activities			
Cash generated from operations	10(b)	30,450	25,503
PRC income tax paid	20(a)	<u>(39,833)</u>	<u>(40,111)</u>
Net cash used in operating activities		<u>(9,383)</u>	<u>(14,608)</u>
Investing activities			
Proceeds from disposal of investments		2,677,710	5,567,992
Proceeds from disposal of fixed assets		—	2
Payment for the purchase of fixed assets and intangible assets		(15,657)	(16,739)
Payments on acquisition of subsidiary		—	(9,460)
Payments on acquisition of investments		(2,649,914)	(5,520,321)
Others		<u>—</u>	<u>(5,917)</u>
Net cash generated from investing activities		<u>12,139</u>	<u>15,557</u>
Financing activities			
Proceeds from new bank loans	10(c)	180,000	260,000
Proceeds from debt securities issued	10(c)	—	173,184
Proceeds from borrowings from third parties	10(c)	589,541	380,030
Repayment of bank loans	10(c)	(180,000)	(180,000)
Repayment of debt securities issued	10(c)	—	(425,000)
Repayment of borrowings from third parties	10(c)	(552,308)	(165,000)
Interest paid	10(c)	(35,515)	(35,574)
Dividends paid		<u>—</u>	<u>(558)</u>
Net cash generated from financing activities		<u>1,718</u>	<u>7,082</u>
Net increase in cash and cash equivalents		4,474	8,031
Cash and cash equivalents at 1 January	10(a)	37,235	29,208
Effect of foreign exchange rate changes		<u>(2)</u>	<u>(4)</u>
Cash and cash equivalents at 31 December	10(a)	<u>41,707</u>	<u>37,235</u>

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 1(c).

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the “Group”).

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

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

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

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

(c) **Changes in accounting policies**

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following development are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) ***HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation***

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	<i>RMB'000</i>
Additional expected credit losses on loans and advances to customers	4,470
Related tax	(1,118)
Non-controlling interests	<u>(333)</u>
Net decrease in retained earnings at 1 January 2018	<u><u>3,019</u></u>
Retained earnings	
Recognition of additional expected credit losses on loans and advances to customers	4,025
Related tax	<u>(1,006)</u>
Net decrease in retained earnings at 1 January 2018	<u><u>3,019</u></u>
Non-controlling interests	
Recognition of additional expected credit losses on loans and advances to customers and decrease in non-controlling interests at 1 January 2018	<u><u>333</u></u>

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

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets carried at amortised cost				
Loans and advances to customers	<u>2,054,390</u>	<u>—</u>	<u>(4,470)</u>	<u>2,049,920</u>
	<u><u>2,054,390</u></u>	<u><u>—</u></u>	<u><u>(4,470)</u></u>	<u><u>2,049,920</u></u>
Financial assets carried at FVPL				
Wealth management products (<i>Note</i>)	<u>—</u>	<u>27,520</u>	<u>—</u>	<u>27,520</u>
Financial assets classified as available-for-sale financial assets under HKAS 39	<u><u>27,520</u></u>	<u><u>(27,520)</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

Note: Under HKAS 39, wealth management products were classified as available-for-sale financial assets. They are classified as at FVPL under HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in Notes 1(i).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. *Credit losses*

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, loans and advances to customers and other receivables).

For further details on the Group’s accounting policy for accounting for credit losses, see Note 1(i).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	<i>RMB’000</i>
Loss allowance at 31 December 2017 under HKAS 39	90,553
Additional credit loss recognised at 1 January 2018 on loans and advances to customers	<u>4,470</u>
Loss allowance at 1 January 2018 under HKFRS 9	<u><u>95,023</u></u>

c. *Hedge accounting*

The Group currently does not have any hedge business and therefore the adoption of HKFRS 9 has not had a significant impact on the Group’s financial statements in this regard.

d. *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The following assessment has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):
 - the determination of the business model within which a financial asset is held.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) *HKFRS 15, Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transition impact to retained earnings.

(iii) *HK(IFRIC) 22, Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The Group currently does not have any foreign business and therefore the adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(d) *Subsidiaries and non-controlling interests*

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

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

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

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

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

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

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

(e) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

(f) Fixed assets

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

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

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

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

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

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

(g) Intangible assets (other than goodwill)

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

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

— computer software	5 years
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The period and method of amortisation are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges

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

(i) Financial instruments

(i) *Recognition and measurement of financial assets and liabilities*

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

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

a. *Policy applicable from 1 January 2018*

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

- amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method. (See Note (q)(i))
- fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial asset is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the financial asset does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial asset (including interest) are recognised in profit or loss.

b. *Policy applicable prior to 1 January 2018*

Financial assets and financial liabilities are categorized as follows:

— Loans and receivables

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- (a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;
- (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

— Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognised directly in other comprehensive income.

— Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

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

a. *Policy applicable from 1 January 2018*

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

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

Measurement of ECLs

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

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

Significant increases in credit risk

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

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

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

- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

Basis of calculation of interest income

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

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

b. *Policy applicable prior to 1 January 2018*

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

If the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

— Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The impairment losses are recognised in profit or loss.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

— Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provisions for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provisions for impairment losses upon necessary approval.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost net of any principal repayment and amortization and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income. Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognised at fair value.

Financial liabilities

The Group generally derecognises a financial liability when its contractual obligations expire or are discharged or cancelled. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iii) *Fair value measurement principles*

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

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

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

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

(iv) *Derecognition of financial assets and financial liabilities*

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

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

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

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially

different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

(v) *Offsetting*

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

(j) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 1(s)).

(k) *Cash and cash equivalents*

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

(l) *Impairment of non-financial assets*

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

- fixed assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

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

— ***Calculation of recoverable amount***

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

— ***Recognition of impairment losses***

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

— ***Reversals of impairment losses***

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

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

(m) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

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

(n) Income tax

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

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

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

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

from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Value-added-tax (“VAT”)

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

(p) Provisions and contingent liabilities

(i) *Provisions and contingent liabilities*

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

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

(ii) *Contingent liabilities assumed in business combinations*

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

(q) Revenue and other income

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

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

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

(i) *Interest income*

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

(ii) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a

systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(r) Translation of foreign currencies

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

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

(s) Borrowing costs

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

(t) Related parties

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

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

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

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

(u) Segment reporting

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

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

2 NET INTEREST INCOME

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

	2018 RMB'000	2017 <i>RMB'000</i>
Interest income arising from		
Loans and advances to customers	336,799	313,495
Cash at banks	<u>737</u>	<u>806</u>
	<u>337,536</u>	<u>314,301</u>
Interest and commission expenses arising from		
Borrowings from banks	(9,606)	(9,474)
Borrowings from non-bank institutions	(33,264)	(32,514)
Bank charges	<u>(598)</u>	<u>(1,476)</u>
	<u>(43,468)</u>	<u>(43,464)</u>
Net interest income	<u>294,068</u>	<u>270,837</u>

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's net interest income during the years ended 31 December 2018 and 2017. Details of concentration of credit risk are set out in Note 22(a).

For the years ended 31 December 2018 and 2017, the directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing lending services which is the basis to allocate resources and assess performance of the Group.

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

3 OTHER NET INCOME

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Government grants (<i>Note</i>)	13,218	1,891
Investment income from wealth managements products	276	2,491
Exchange losses	(2)	(4)
Gains on disposal of loans and advances to customers	—	1,084
Others	(136)	(113)
Total	13,356	5,349

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

4 IMPAIRMENT LOSSES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Loans and advances to customers (<i>Note 11</i>)	47,056	16,871
Interest receivables	338	289
Other assets	—	201
Total	47,394	17,361

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2018 RMB'000	2017 RMB'000
Salaries, bonuses and allowance	18,043	12,335
Contribution to retirement scheme	1,129	835
Social insurance and other benefits	<u>4,894</u>	<u>4,889</u>
Total	<u>24,066</u>	<u>18,059</u>

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

(b) Other items

	2018 RMB'000	2017 RMB'000
Amortization of intangible assets	823	226
Depreciation expenses (<i>Note 15</i>)	5,829	1,970
Operating lease charges in respect of building	2,079	2,262
Auditors' remuneration		
— audit services	3,131	2,871
— other services	94	377

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

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

	2018 RMB'000	2017 RMB'000
Current tax (<i>Note 20(a)</i>)		
Provision for PRC income tax for the year	57,295	54,831
Deferred tax (<i>Note 20(b)</i>)		
Origination and reversal of temporary differences	<u>(8,983)</u>	<u>(1,301)</u>
Total	<u>48,312</u>	<u>53,530</u>

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	<u>191,212</u>	<u>209,382</u>
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (<i>Notes</i>)	47,803	52,346
Under-provision in respect of prior years	—	983
Effect of non-deductible expenses	<u>509</u>	<u>201</u>
Actual income tax expense	<u>48,312</u>	<u>53,530</u>

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in the PRC are subject to PRC income tax at the statutory tax rate of 25% for the year ended 31 December 2018 (2017: 25%).
- (ii) No provision for Hong Kong profit tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong profit tax for the year ended 31 December 2018 (2017: nil).

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2018			
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Chairman				
Yu Yin (俞寅)	6	364	140	510
Executive directors				
Zheng Xuegen (鄭學根)	6	245	140	391
Yang Sheng (楊晟)	6	244	140	390
Hu Haifeng (胡海峰)	6	151	—	157
Non-executive director				
Pan Zhongmin (潘忠敏)	6	—	—	6
Independent non-executive directors				
Ho Yuk Ming (何育明)	100	—	—	100
Jin Xuejun (金雪軍)	100	—	—	100
Huang Lianxi (黃廉熙)	100	—	—	100
Supervisors				
Shen Yamin (沈婭敏)				
(resigned on 15 May 2018)	2	16	—	18
Dai Shengqing (戴勝慶)	6	—	—	6
Wang Peijun (王培軍)	6	—	—	6
Yang Zhenlan (楊振嵐)				
(appointed on 15 May 2018)	4	—	—	4
	<u>348</u>	<u>1,020</u>	<u>420</u>	<u>1,788</u>

	2017			
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Chairman				
Yu Yin (俞寅)	6	361	100	467
Executive directors				
Zheng Xuegen (鄭學根)	6	241	100	347
Hu Haifeng (胡海峰)	6	301	100	407
Yang Sheng (楊晟)	6	241	100	347
Non-executive director				
Pan Zhongmin (潘忠敏)	6	—	—	6
Independent non-executive directors				
Ho Yuk Ming (何育明)	100	—	—	100
Jin Xuejun (金雪軍)	100	—	—	100
Huang Lianxi (黃廉熙)	100	—	—	100
Supervisors				
Shen Yamin (沈婭敏)	6	85	54	145
Dai Shengqing (戴勝慶)	6	—	—	6
Wang Peijun (王培軍)	6	—	—	6
	<u>348</u>	<u>1,229</u>	<u>454</u>	<u>2,031</u>

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2017: four) are directors or supervisors of the Group for the year ended 31 December 2018, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other individual are as follow:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Salaries and other emoluments	245	242
Discretionary bonuses	<u>100</u>	<u>54</u>
	<u>345</u>	<u>296</u>

The emoluments of the one (2017: one) individual with the highest emoluments are within the following bands:

	2018	2017
	<i>Number of individuals</i>	<i>Number of individuals</i>
<i>Hong Kong dollar</i>		
Nil–1,000,000	1	1
1,000,001–1,500,000	—	—

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2018 and 2017.

9 EARNINGS PER SHARE

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

	2018	2017
Profit attributable to the equity shareholders of the Company (<i>RMB'000</i>)	136,968	148,828
Weighted average number of ordinary shares in issue (<i>'000</i>)	<u>1,180,000</u>	<u>1,180,000</u>
Basic earnings per share (<i>RMB</i>)	<u>0.12</u>	<u>0.13</u>

(a) Weighted average number of ordinary shares

	2018	2017
	<i>'000</i>	<i>'000</i>
Issued ordinary shares at 1 January	<u>1,180,000</u>	<u>1,180,000</u>
Weighted average number of ordinary shares at 31 December	<u>1,180,000</u>	<u>1,180,000</u>

There were no dilutive potential ordinary shares during the years ended 31 December 2018 and 2017, and therefore, diluted earnings per share are the same as the basic earnings per share.

10 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Cash in hand	3	1
Cash at banks	41,176	27,223
Others	<u>528</u>	<u>10,011</u>
Cash and cash equivalents in the cash flow statement	<u>41,707</u>	<u>37,235</u>

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	191,212	209,382
Adjustment for:		
Impairment losses	47,394	17,361
Depreciation and amortisation	6,652	2,196
Exchange losses	2	4
Interest expenses	42,870	41,988
Investment income	(276)	(2,491)
Net loss from disposal of fixed assets	21	16
Changes in working capital:		
Increase in loans and advances to customers	(260,350)	(264,097)
(Increase)/decrease in interest receivables and other assets	(1,484)	615
Increase in accruals and other payables	<u>4,409</u>	<u>20,529</u>
Cash generated from operations	<u>30,450</u>	<u>25,503</u>

(c) Reconciliation of liabilities arising from financing activities:

	Bank Loans <i>RMB'000</i>	Borrowings from third parties — a micro-finance company <i>RMB'000</i>	Other borrowings from third parties <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	180,000	25,000	327,500	532,500
Changes from financing cash flow				
Proceeds from bank loans	180,000	—	—	180,000
Repayment of bank loans	(180,000)	—	—	(180,000)
Proceeds from borrowings from third parties	—	50,000	539,541	589,541
Repayment of borrowings from third parties	—	(75,000)	(477,308)	(552,308)
Interest paid	(9,588)	(1,758)	(24,169)	(35,515)
Total changes from financing cash flows	(9,588)	(26,758)	38,064	1,718
Other changes:				
Interest expense (<i>Note 2</i>)	9,606	1,650	31,614	42,870
Changes of interest payable (<i>Note 19</i>)	281	108	4,727	5,116
Commission payables related to obtaining other borrowings	—	—	(2,125)	(2,125)
Total other changes	9,887	1,758	34,216	45,861
At 31 December 2018	180,299	—	399,780	580,079

	Bank Loans <i>RMB'000</i>	Borrowing from third parties under a repurchase agreement <i>RMB'000</i>	Borrowings from third parties — a micro-finance company <i>RMB'000</i>	Other borrowings from third parties <i>RMB'000</i>	Debt securities issued <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2017	100,000	150,000	—	—	278,283	528,283
Changes from financing cash flow						
Proceeds from bank loans	260,000	—	—	—	—	260,000
Repayment of bank loans	(180,000)	—	—	—	—	(180,000)
Proceeds from borrowings from third parties	—	—	55,000	325,030	—	380,030
Repayment of borrowings from third parties	—	(135,000)	(30,000)	—	—	(165,000)
Proceeds from debt securities issued	—	—	—	—	173,184	173,184
Repayment of debt securities issued	—	—	—	—	(425,000)	(425,000)
Interest paid	(9,367)	(6,628)	(852)	(5,786)	(12,941)	(35,574)
Total changes from financing cash flows	70,633	(141,628)	24,148	319,244	(264,757)	7,640
Other changes:						
Changes of restricted deposit	—	(15,000)	—	—	—	(15,000)
Interest expense (<i>Note 2</i>)	9,474	6,298	960	12,984	12,272	41,988
Changes of interest payable (<i>Note 19</i>)	(107)	330	(108)	(4,728)	—	(4,613)
Principal and interests of debts securities issued prepaid in prior year (<i>Note 17</i>)	—	—	—	—	(25,798)	(25,798)
Total other changes	9,367	(8,372)	852	8,256	(13,526)	(3,423)
At 31 December 2017	180,000	—	25,000	327,500	—	532,500

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2018 RMB'000	31 December 2017 RMB'000
Corporate loans	759,910	532,020
Retail loans	1,561,718	1,289,175
Micro-loans granted online	74,755	323,748
Sub-total	2,396,383	2,144,943
Accrued interest	18,868	—
Gross loans and advances to customers	2,415,251	2,144,943
Less: Allowances for impairment losses	(133,169)	(90,553)
Net loans and advances to customers	2,282,082	2,054,390

(b) Analysed by type of collateral

	31 December 2018 RMB'000	31 December 2017 RMB'000
Unsecured loans	53,584	269,879
Guaranteed loans	2,282,460	1,813,468
Collateralized loans	54,899	61,546
Pledged loans	5,440	50
Sub-total	2,396,383	2,144,943
Accrued interest	18,868	—
Gross loans and advances to customers	2,415,251	2,144,943
Less: Allowances for impairment losses	(133,169)	(90,553)
Net loans and advances to customers	2,282,082	2,054,390

(c) Analysed by industry sector

	31 December 2018		31 December 2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Wholesale and retail	314,812	13%	115,192	5%
Manufacturing	120,790	5%	33,363	2%
Construction	107,100	5%	42,100	2%
Agriculture, forestry, animal husbandry and fishery	53,500	2%	45,900	2%
Others	<u>163,708</u>	<u>7%</u>	<u>295,465</u>	<u>14%</u>
Corporate loans	759,910	32%	532,020	25%
Retail loans	1,561,718	65%	1,289,175	60%
Micro-loans granted online	<u>74,755</u>	<u>3%</u>	<u>323,748</u>	<u>15%</u>
Sub-total	<u>2,396,383</u>	<u>100%</u>	<u>2,144,943</u>	<u>100%</u>
Accrued interest	<u>18,868</u>		<u>—</u>	
Gross loans and advances to customers	2,415,251		2,144,943	
Less: Allowances for impairment losses	<u>(133,169)</u>		<u>(90,553)</u>	
Net loans and advances to customers	<u>2,282,082</u>		<u>2,054,390</u>	

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

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

	31 December 2017				
	Overdue within 3 months (inclusive) <i>RMB'000</i>	Overdue more than 3 months to 6 months (inclusive) <i>RMB'000</i>	Overdue more than 6 months to one year (inclusive) <i>RMB'000</i>	Overdue more than one year <i>RMB'000</i>	Total <i>RMB'000</i>
Unsecured loans	2,745	2,827	6,472	9,426	21,470
Guaranteed loans	1,619	635	4,335	4,790	11,379
Collateralized loans	—	—	1,655	29	1,684
Total	<u>4,364</u>	<u>3,462</u>	<u>12,462</u>	<u>14,245</u>	<u>34,533</u>

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

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

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

	As at 31 December 2017		
	Loans and advances for which allowances are collectively assessed <i>RMB'000</i>	Loans and advances for which allowances are individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
Gross loans and advances to customers	2,112,012	32,931	2,144,943
Less: Allowances for impairment losses	<u>(64,935)</u>	<u>(25,618)</u>	<u>(90,553)</u>
Net loans and advances to customers	<u>2,047,077</u>	<u>7,313</u>	<u>2,054,390</u>

(f) Movements of allowances for impairment losses

	2018			Total RMB'000
	12-month ECLs RMB'000	Lifetime ECLs non credit- impaired RMB'000	Lifetime ECLs credit- impaired RMB'000	
At 1 January 2018	60,897	4,495	29,631	95,023
Transferred to				
— Lifetime ECLs non credit-impaired	(677)	677	—	—
— Lifetime ECLs credit-impaired	(2,010)	(2,438)	4,448	—
Charge for the period	10,088	5,083	31,885	47,056
Write off	—	—	(10,414)	(10,414)
Recoveries of loans and advances written off in previous years	—	—	1,504	1,504
At 31 December 2018	<u>68,298</u>	<u>7,817</u>	<u>57,054</u>	<u>133,169</u>
2017				
	Provision for impairment losses which is collectively assessed RMB'000	Provision for impairment losses which is individually assessed RMB'000	Total RMB'000	
At 1 January 2017	64,884	17,472	82,356	
Charge for the year	25,657	20,394	46,051	
Reversal for the year	(25,606)	(3,574)	(29,180)	
Write off	—	(8,993)	(8,993)	
Recoveries of loans and advances written off in previous years	—	319	319	
At 31 December 2017	<u>64,935</u>	<u>25,618</u>	<u>90,553</u>	

(g) **Analysed by credit quality**

2018
RMB'000

Gross balance of loans and advances to customers that are assessed
for 12-month ECLs

— Neither overdue nor credit-impaired 2,314,865

Sub-total 2,314,865

Gross balance of loans and advances to customers that are assessed
for lifetime ECLs non credit-impaired

— Overdue but not credit-impaired 3,776

— Neither overdue nor credit-impaired 24,248

Sub-total 28,024

Gross balance of loans and advances to customers that are assessed
for lifetime ECLs credit-impaired

— Overdue and credit-impaired 72,362

Sub-total 72,362

Less: Allowances for impairment losses (133,169)

Net value 2,282,082

	2017 RMB'000
Gross balance of loans and advances to customers	
— Neither overdue nor impaired	2,108,043
— Overdue but not impaired	3,969
— Impaired	<u>32,931</u>
	----- 2,144,943
Less: Allowances for impairment losses	
— Neither overdue nor impaired	(64,428)
— Overdue but not impaired	(507)
— Impaired	<u>(25,618)</u>
	----- (90,553)
Net balance	
— Neither overdue nor impaired	2,043,615
— Overdue but not impaired	3,462
— Impaired	<u>7,313</u>
	<u><u>2,054,390</u></u>

12 INTANGIBLE ASSETS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Computer software	<u><u>3,141</u></u>	<u><u>3,964</u></u>

13 GOODWILL

	RMB'000
Cost:	
At 1 January and 31 December 2018	22,502
Accumulated impairment losses:	
At 31 December 2018 and 2017	----- —
Carrying amount:	
At 31 December 2018	<u><u>22,502</u></u>
At 31 December 2017	<u><u>22,502</u></u>

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Deqing Jinhui Micro-finance Company Limited (德清金匯小額貸款有限公司) ("Jinhui Micro-finance")	18,005	18,005
Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd. (杭州市高新區(濱江)興耀普匯小額貸款有限公司) ("Xingyao Micro-finance")	<u>4,497</u>	<u>4,497</u>
	<u>22,502</u>	<u>22,502</u>

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

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

Impairment test

The recoverable amount of the acquired subsidiaries are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for micro-finance operations. The cash flows are discounted using discount rates of 11.54% and 11.34% by Jinhui Micro-finance and Xingyao Micro-finance respectively at 31 December 2018(2017: Jinhui Micro-finance: 11.48%; Xingyao Micro-finance:11.74%). The discounted rates are pre-tax and reflect specific risks relating to the acquired subsidiaries.

14 INVESTMENTS IN SUBSIDIARIES

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

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

Name of Companies	Place of incorporation and business	Paid up capital	Proportion of ownership interest at 31 December 2017		Principal activities
			Group's effective interest	Held by the Company	
Jinhui Micro-finance (<i>Note (i)</i>)	Deqing, Zhejiang	228,000,000	96.9298%	96.9298%	Micro-finance
Zuoli HK (<i>Note (ii)</i>)	Hong Kong	—	100%	100%	Investment, trading
Xingyao Micro-finance	Hangzhou, Zhejiang	200,000,000	60%	60%	Micro-finance

Notes:

- (i) Pursuant to the assets restructuring agreement and the capital injection agreement entered into by the Company and Jinhui Micro-finance dated 14 November 2017, the Company has injected capital of RMB1,000,000,000 in the form of transferring assets and liabilities into Jinhui Micro-finance on 25 February 2018 after obtaining approvals from relevant authorities in the PRC. Upon the completion of the aforementioned capital injection, the Company held equity interest in Jinhui Micro-finance increased from approximately 96.93% to 99.43%. The difference between the capital injection and the carrying amount of the 2.5% equity interest in Jinhui Micro-finance amounted to RMB980 thousand was recorded as Reserves-Capital reserve on the consolidated statement of financial position.
- (ii) On 18 August 2015 (date of incorporation), Zuoli HK's 1,000,000 shares with par value of HK\$1 was allotted and issued to its sole shareholder, the Company. As at 31 December 2018, the issued shares had not been paid by the Company.

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

	2018 RMB'000	2017 RMB'000
NCI Percentage	40%	40%
Total assets	259,501	298,489
Total liabilities	(28,505)	(63,737)
Net assets	230,996	234,752
Carrying amount of NCI	92,398	93,901
Net interest income	37,530	30,618
Profit and total comprehensive income for the year	12,902	16,610
Profit allocated to NCI	5,161	6,644
Net cash generated from/(used in) operating activities	43,546	(26,181)
Net cash generated from/(used in) investing activities	26,696	(24,753)
Net cash (used in)/generated from financing activities	(53,915)	51,263

15 FIXED ASSETS

	Construction in progress <i>RMB'000</i>	Premise <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:							
At 1 January 2017	—	13,366	1,183	3,059	1,495	6,188	25,291
Additions	10,075	1,741	85	410	274	—	12,585
Disposal	—	—	(94)	—	(39)	—	(133)
At 31 December 2017 and 1 January 2018	10,075	15,107	1,174	3,469	1,730	6,188	37,743
Additions	3,007	—	2,588	1,408	120	12,736	19,859
Transfers in/(out) of construction in progress	(13,082)	—	—	—	—	13,082	—
Disposal	—	—	—	(415)	—	—	(415)
At 31 December 2018	—	15,107	3,762	4,462	1,850	32,006	57,187

	Construction in progress <i>RMB'000</i>	Premise <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Total <i>RMB'000</i>
Accumulated depreciation:							
At 1 January 2017	—	—	(874)	(1,458)	(629)	(3,347)	(6,308)
Charge for the year	—	(232)	(121)	(445)	(276)	(896)	(1,970)
Disposal	—	—	76	—	39	—	115
At 31 December 2017 and 1 January 2018	—	(232)	(919)	(1,903)	(866)	(4,243)	(8,163)
Charge for the year	—	(398)	(329)	(707)	(299)	(4,096)	(5,829)
Disposal	—	—	—	394	—	—	394
At 31 December 2018	—	(630)	(1,248)	(2,216)	(1,165)	(8,339)	(13,598)
Net book value:							
At 31 December 2018	—	14,477	2,514	2,246	685	23,667	43,589
At 31 December 2017	10,075	14,875	255	1,566	864	1,945	29,580

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2018 <i>RMB'000</i>	31 December 2017 <i>RMB'000</i>
Wealth management products (<i>Note</i>)	—	27,520

Note: Wealth management products were issued by banks in the PRC, which were unlisted securities.

17 OTHER ASSETS

	31 December 2018 <i>RMB'000</i>	31 December 2017 <i>RMB'000</i>
Prepayment	1,282	1,642
Others	556	1,756
	1,838	3,398

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

18 INTEREST-BEARING BORROWINGS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Bank loans (<i>Notes (i)</i>)		
— Amortised cost	180,000	180,000
— Accrued interest	<u>299</u>	<u>—</u>
	-----180,299	-----180,000
Borrowings from third parties (<i>Notes (ii)</i>)		
— Amortised cost	393,910	352,500
— Accrued interest	<u>5,870</u>	<u>—</u>
	-----399,780	-----352,500
Total	<u><u>580,079</u></u>	<u><u>532,500</u></u>

Notes:

- (i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2018 and 31 December 2017, none of the covenants relating to the bank loans had been breached.
- (ii) In 2018, the Group obtained financings with nominal amount totaling RMB594.1 million at an interest rate ranging from 5.2% to 8.5% per annum by issuing financing products on trading platforms located in the PRC which are due from 2018 to 2019. As at 31 December 2018, the remaining nominal amount of these financial products was RMB396.8 million. The above transactions were guaranteed by certain shareholders and related parties.

19 ACCRUALS AND OTHER PAYABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Dividend payable to non-controlling interests	6,400	—
Accrued staff costs	5,657	3,890
Value-added tax payable	1,826	1,638
Interest payable	—	5,116
Tax and surcharges and other taxation payable	674	242
Acquisition consideration payable	506	506
Other payables	<u>35,555</u>	<u>27,206</u>
	<u><u>50,618</u></u>	<u><u>38,598</u></u>

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Balance of income tax payable at the beginning of the year	<u>26,295</u>	<u>11,575</u>
Provision for PRC income tax for the year (<i>Note 6(a)</i>)	57,295	54,831
Income tax paid during the year	<u>(39,833)</u>	<u>(40,111)</u>
Balance of income tax payable at the end of the year	<u>43,757</u>	<u>26,295</u>

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years ended 31 December 2017 and 2018 are as follows:

Deferred tax assets arising from:	Provision for impairment losses (<i>Note</i>) RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2017	16,473	508	16,981
Charged to profit or loss	<u>803</u>	<u>498</u>	<u>1,301</u>
At 31 December 2017	17,276	1,006	18,282
Impact on initial application of HKFRS 9	<u>1,118</u>	<u>—</u>	<u>1,118</u>
At 1 January 2018	18,394	1,006	19,400
Charged to profit or loss (<i>Note 6(a)</i>)	<u>8,908</u>	<u>75</u>	<u>8,983</u>
At 31 December 2018	<u>27,302</u>	<u>1,081</u>	<u>28,383</u>

Note: Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional allowances for impairment losses of loans and advances to customers (see Note 1(c)(i)).

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

	Share capital RMB'000 Note 21(c)	Surplus reserve RMB'000 Note 22(d)(ii)	General reserve RMB'000 Note 22(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 31 December 2017	<u>1,180,000</u>	<u>39,580</u>	<u>30,402</u>	<u>222,711</u>	<u>1,472,693</u>
Impact on initial application of HKFRS 9 (Note 1(c))	<u>—</u>	<u>—</u>	<u>—</u>	<u>(400)</u>	<u>(400)</u>
Adjusted balance at 1 January 2018	<u>1,180,000</u>	<u>39,580</u>	<u>30,402</u>	<u>222,311</u>	<u>1,472,293</u>
Changes in equity for 2018:					
Total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>41,115</u>	<u>41,115</u>
Appropriation to surplus reserve	<u>—</u>	<u>4,112</u>	<u>—</u>	<u>(4,112)</u>	<u>—</u>
Reversal of general reserve	<u>—</u>	<u>—</u>	<u>(6,335)</u>	<u>6,335</u>	<u>—</u>
Balance at 31 December 2018	<u>1,180,000</u>	<u>43,692</u>	<u>24,067</u>	<u>265,649</u>	<u>1,513,408</u>
	Share capital RMB'000 Note 21(c)	Surplus reserve RMB'000 Note 21(d)(ii)	General reserve RMB'000 Note 21(d)(iii)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2017	<u>1,180,000</u>	<u>25,122</u>	<u>29,595</u>	<u>93,392</u>	<u>1,328,109</u>
Changes in equity for 2017:					
Total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>144,584</u>	<u>144,584</u>
Appropriation to surplus reserve	<u>—</u>	<u>14,458</u>	<u>—</u>	<u>(14,458)</u>	<u>—</u>
Appropriation to general reserve	<u>—</u>	<u>—</u>	<u>807</u>	<u>(807)</u>	<u>—</u>
Balance at 31 December 2017	<u>1,180,000</u>	<u>39,580</u>	<u>30,402</u>	<u>222,711</u>	<u>1,472,693</u>

(b) Dividends

In accordance with the resolution of the Company's board of directors meeting held on March 22, 2019, the proposed profit appropriations for the year ended December 31, 2018 is RMB147.5 million (2017: nil).

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

(c) Share capital

As at 31 December 2018, the share capital represented 1,180,000,000 ordinary shares of the Company at RMB1 each.

(d) Nature and purpose of reserves

(i) Capital reserve

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

(ii) Surplus reserve

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

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

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

(iii) General risk reserve

Pursuant to relevant regulations, the Company and its subsidiaries in the PRC engaged in micro-finance business are required to set aside a general reserve through appropriations of profit after tax according to 1.5% of the ending balance of gross risk-bearing assets to cover potential losses against these assets.

(e) Appropriation of profits

(i) In accordance with the resolution of the Company's board of directors meeting on 22 March 2019, the proposed profit appropriations for the year ended 31 December 2018 are as follows:

- Appropriate RMB4.1 million (10% of the net profit of the Company) to surplus reserve;
- Reverse RMB6.3 million from general reserve to retained profits.

The profit appropriation resolution mentioned above has yet to be approved by the Company's shareholders.

(ii) At the Annual General Meeting of shareholders held on 28 June 2018, the shareholders approved the following profit appropriations for the year ended 31 December 2017:

- Appropriate RMB14.5 million (10% of the net profit of the Company) to surplus reserve;
- Appropriate RMB0.8 million to general reserve.

(f) Distributable reserves

At 31 December 2017 and 31 December 2018, the aggregate amounts of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Company Law of the PRC, were RMB222.7 million and RMB265.6 million respectively.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and stability resulted from a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Group's approach to capital management during the years ended 31 December 2017 and 2018.

Particularly for credit loan business, the Group monitors regularly the residual balance of outstanding credit loans for single customers and multiples of the total outstanding credit loans in relation to share capital of the Group, so as to keep the capital risk within an acceptable limit. The decision to manage the share capital of the Group to meet the needs of developing credit loans business rests with the directors.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practice used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations or commitment to the Group provided. It arises primarily from the Group's micro-finance business and treasury business such as investment in wealth management products.

Credit risk arising from micro-finance business

The Group's credit risk mainly arises from micro-finance business. The Group has established relevant mechanism to cover credit risk in key operational phases of micro-finance business, including pre-lending evaluations, credit approval, and post-lending monitoring. The Group conducts customer acceptance and due diligence by business and marketing department and risk management department in pre-lending evaluations. In

the credit approval phase, all loan applications are subject to the assessment and approval of the Group's deputy general manager, general manager or loan assessment committee, depending on the amount of the loans. During the post-lending monitoring, the Group conducts on-site inspections and off-site inquiries to detect potential risks by evaluating various aspects, including but not limited to the customers' operational and financial conditions, status of collaterals and other sources of repayment.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss of the loan portfolio is assessed collectively or individually as appropriate.

After adopting HKFR 9 at 1 January 2018, loans and advances to customers are also categorised into the following stages by the Group:

Stage 1

Loans and advances to customers have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses (12-month ECLs).

Stage 2

Loans and advances to customers have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses (Lifetime ECLs non credit-impaired).

Stage 3

Loans and advances to customers that are in default and considered credit impaired (Lifetime ECLs credit-impaired).

The Group applies the new ECL model to measure the impairment loss of the loans and advances to customers.

When a certain number of customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular industry or geographic location. As the Group mainly conducts micro-finance business in Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions. At 31 December 2018, 2.09% (31 December 2017: 1.40%) and 7.80% (31 December 2017: 5.83%) of the total loans and advances to customers was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk of loans and advances to customers for each stage is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods. For details, please see Note 11.

Other credit risk

The Group adopts a credit rating approach in managing the credit risk of the treasury business, counterparties' rating are evaluated before transactions with reference to major rating agencies generally recognised by the People's Bank of China.

In respect of interest receivables and other assets, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

(b) Liquidity risk

Management regularly monitors the Group's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following tables provide an analysis of the remaining contractual maturities, which are based on contractual undiscounted cash flows (including interest payments, computed using contractual rates) of the financial assets and liabilities of the Group at the end of the reporting periods:

At 31 December 2018						
	Overdue/ Repayment on demand RMB'000	Within three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets						
Cash and cash equivalents	41,707	—	—	—	41,707	41,707
Interest receivables	4,229	—	—	—	4,229	4,229
Loans and advances to customers	76,138	881,294	1,610,976	505	2,568,913	2,282,082
Other assets	556	—	—	—	556	556
Total	122,630	881,294	1,610,976	505	2,615,405	2,328,574
Liabilities						
Interest-bearing borrowings	—	(109,135)	(489,826)	—	(598,961)	(580,079)
Accruals and other payables	(30,259)	(12,202)	—	—	(42,461)	(42,461)
Total	(30,259)	(121,337)	(489,826)	—	(641,422)	(622,540)
	92,371	759,957	1,121,150	505	1,973,983	1,706,034

31 December 2017

	Overdue/ Repayment on demand <i>RMB'000</i>	Within three months <i>RMB'000</i>	Between three months and one year <i>RMB'000</i>	Between one year and five years <i>RMB'000</i>	Total <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Assets						
Cash and cash equivalents	37,235	—	—	—	37,235	37,235
Interest receivables	396	14,147	5,848	—	20,391	20,391
Loans and advances to customers	34,533	774,842	1,637,785	18,163	2,465,323	2,054,390
Available-for-sale financial assets	27,520	—	—	—	27,520	27,520
Other assets	<u>270</u>	<u>1,486</u>	<u>—</u>	<u>—</u>	<u>1,756</u>	<u>1,756</u>
Total	<u>99,954</u>	<u>790,475</u>	<u>1,643,633</u>	<u>18,163</u>	<u>2,552,225</u>	<u>2,141,292</u>
Liabilities						
Interest-bearing borrowings	—	(27,662)	(523,290)	—	(550,952)	(532,500)
Accruals and other payables	<u>(6,330)</u>	<u>(24,203)</u>	<u>(2,295)</u>	<u>—</u>	<u>(32,828)</u>	<u>(32,828)</u>
Total	<u>(6,330)</u>	<u>(51,865)</u>	<u>(525,585)</u>	<u>—</u>	<u>(583,780)</u>	<u>(565,328)</u>
	<u>93,624</u>	<u>738,610</u>	<u>1,118,048</u>	<u>18,163</u>	<u>1,968,445</u>	<u>1,575,964</u>

(c) **Interest risk**

The Group is principally engaged in the provision of micro-finance services. Its interest rate risk arises primarily from deposits with banks, loans and advances to customers and interest-bearing borrowings.

(i) **Interest rate profile**

The following tables details the interest rate profile of the Group's assets and liabilities as at the end of the reporting periods:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Fixed interest rate		
Financial assets		
— Loans and advances to customers	2,282,082	2,054,390
Financial liabilities		
— Interest-bearing borrowings	(580,079)	(532,500)
Net	<u>1,702,003</u>	<u>1,521,890</u>
Variable interest rate		
Financial assets		
— Cash and cash equivalent	41,176	27,223
— Available-for-sale financial assets	—	27,520
Net	<u>41,176</u>	<u>54,743</u>
Net fixed rate borrowings as a percentage of total borrowings	<u>100.00%</u>	<u>100.00%</u>

(ii) **Sensitivity analysis**

At 31 December 2018 and 31 December 2017, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's net profit during the next 12 months by approximately RMB154,000 and RMB205,000 respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period.

(d) **Fair value measurement**

(i) ***Financial assets and liabilities measured at fair value***

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Fair value hierarchy:

	At 31 December 2017			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Available-for-sale financial assets				
Wealth management products	<u>—</u>	<u>27,520</u>	<u>—</u>	<u>27,520</u>

At 31 December 2018, no financial instruments were measured at fair value.

(ii) ***Valuation techniques and inputs used in Level 2 fair value measurements***

The fair value of wealth management products is determined with reference to the yield published by the issuing bank as at the end of the reporting period and period that the Group has held such wealth management products.

(iii) ***Fair value of financial assets and liabilities carried at other than fair value***

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2017 and 31 December 2018.

23 COMMITMENTS

(a) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 1 year	2,800	3,356
After 1 year but within 5 years	1,400	4,715
Total	4,200	8,071

Note: The Group is the lessee in respect of a certain properties held under operating leases. The leases typically run for an initial period of 1-3 years, at the end of which period all terms are renegotiated. None of the leases include contingent rentals.

(b) Capital commitments

As at the end of each of the reporting period, the Group's authorized capital commitments are as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Contracted but not paid for — Leasehold improvement	—	16,407

24 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	2018 RMB'000	2017 RMB'000
Key management personnel remuneration (<i>Note (i)</i>)	2,357	2,932
Operating lease charges	—	515
Receiving guarantees for loans and advances to customers	1,000	—
Receiving guarantees for bank loans (<i>Note (ii)</i>)	180,000	—
Receiving guarantees for borrowing from third parties (<i>Note (iii)</i>)	594,132	385,000
Receiving guarantees for debt securities issued	—	175,000
Releasing guarantees for loans and advances to customers	(1,000)	—
Releasing guarantees for debt securities issued	—	(450,000)
Releasing guarantees for borrowing from third parties (<i>Note (iii)</i>)	(552,308)	(180,000)

Notes:

- (i) Remuneration of key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 7 and certain of the highest payment employs as disclosed in Note 8. Total remuneration is included in "Staff cost" (see Note 5(a)).
- (ii) The guarantees for bank loans during the year ended 31 December 2018 were provided by the Chairman of the Board without charges. For the details of bank loans, please refer to Note 18(i).
- (iii) The guarantees for borrowings from third parties during the year ended 31 December 2018 were provided by the Chairman of the Board without charges. For the details of other borrowings from third parties, please refer to Note 18(ii).

(b) Balances with key management personnel

	31 December 2018 RMB'000	31 December 2017 RMB'000
Guarantees received for borrowing from third parties	396,824	355,000
Guarantees received for bank loans	180,000	—

(c) Other related party transactions

	2018 RMB'000	2017 RMB'000
Operating lease charges	2,023	1,254
Receiving guarantees for bank loans (<i>Note (i)</i>)	180,000	260,000
Receiving guarantees for borrowing from third parties (<i>Note (ii)</i>)	594,132	385,000
Receiving guarantees for debt securities issued	—	175,000
Releasing guarantees for bank loans (<i>Notes (i)</i>)	(180,000)	(180,000)
Releasing guarantees for debt securities issued	—	(450,000)
Releasing guarantees for borrowing from third parties (<i>Note (ii)</i>)	(552,308)	(180,000)

Notes:

- (i) The guarantees for bank loans during the year ended 31 December 2018 were provided by other related parties of the Group without charges. For the details of bank loans, please refer to Note 18(i).
- (ii) The guarantees for borrowings from third parties during the year ended 31 December 2018 were provided by other related parties of the Group without charges. For the details of other borrowings from third parties, please refer to Note 18(ii).

(d) **Balances with other related parties**

	31 December 2018 RMB'000	31 December 2017 RMB'000
Operating lease payable (<i>Note (i)</i>)	633	1,144
Guarantees received for bank loans (<i>Note (ii)</i>)	180,000	180,000
Guarantees received for borrowing from third parties	396,824	355,000

Notes:

- (i) On 6 July 2017, the Company and Zuoli Holdings Group Company Limited entered into a lease agreement, pursuant to which Zuoli Holdings Group Company Limited agreed to lease a property to the Group for a term of 3 years commencing from 7 July 2017 and ending on 6 July 2020.
- (ii) The guarantees for bank loans during the year ended 31 December 2018 were provided by other related parties of the Group without charges, which will be due during the period from 19 June 2019 to 3 July 2019.

25 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, the key sources of estimation uncertainty are as follows:

(a) Impairment of financial assets measured at amortised cost

The Group reviews portfolios of financial assets measured at amortised cost to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for financial assets measured at amortised cost. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for financial assets measured at amortised cost using the expected credit loss model is subjected to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. The expected credit losses for financial assets measured at amortised cost are derived from estimates whereby management takes into consideration historical data, the historical loss experience and other adjustment factors. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgment based on management's historical experience. Management reviews the selection of those parameters and the application of the assumptions regularly to reduce any difference between loss estimates and actual loss.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 1(l). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(c) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account estimated residual value. The useful lives and residual value are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation, the rate of depreciation is revised.

(d) Tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management’s judgement is required to assess the probability of future taxable profits. Management’s assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

		31 December 2018 RMB'000	31 December 2017 RMB'000
	Note		
Assets			
Cash and cash equivalents		2,548	19,711
Available-for-sale financial assets		—	4,720
Interests receivables		1,201	15,929
Loans and advances to customers		8,967	1,129,806
Intangible assets		2,214	3,964
Fixed assets		27,814	28,345
Investments in subsidiary	14	1,371,100	371,100
Deferred tax assets		3,371	11,014
Other assets		<u>218,427</u>	<u>438,187</u>
Total assets		<u>1,635,642</u>	<u>2,022,776</u>
Liabilities			
Interest-bearing borrowings		100,038	492,344
Accruals and other payables		14,872	34,799
Current taxation		<u>7,324</u>	<u>22,940</u>
Total liabilities		<u>122,234</u>	<u>550,083</u>
NET ASSETS		<u>1,513,408</u>	<u>1,472,693</u>
CAPITAL AND RESERVES	21		
Share capital		1,180,000	1,180,000
Reserves		<u>333,408</u>	<u>292,693</u>
TOTAL EQUITY		<u>1,513,408</u>	<u>1,472,693</u>

27 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 1(c).

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

Effective for accounting periods beginning on or after

HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to HKAS28, <i>Long-term interest in associates and joint ventures</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 16, *Leases*

As discussed in Note 1(h), currently the Group classifies the certain lease into operating lease and enters into as the lessee. Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of the lease for the certain office premise which is currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise right-of-use assets based on lease liabilities. Therefore, there is no adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As discussed in Note 23(a), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB4.2 million for the certain office premise. Upon the initial adoption of HKFRS 16, both of the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB3.6 million, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

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

Competition within the microfinance industry in Zhejiang remains intense. As of 31 December 2018, the number of microfinance companies in Zhejiang reached 330 in total. The average registered capital per microfinance company amounted to RMB0.175 billion. The average loan balance per microfinance company amounted to RMB0.206 billion.

As of 31 December 2018, apart from the Group, there were three other microfinance companies in Deqing. The accumulated aggregate amount of loans granted by the Group and the three microfinance companies for the year ended 31 December 2018 reached RMB5.8 billion (2017: RMB13.774 billion), out of which the accumulated aggregate amount of loans granted by the Group accounted for approximately 78.8% (2017: 85.4%). As of 31 December 2018, the balance of loans of the Group and these three microfinance companies reached RMB3.3 billion (2017: RMB3.595 billion), out of which the balance of loans of the Group accounted for approximately 72.6% (2017: 60%).

Business Overview

As at 31 December 2018, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to the Financial Work Office of the People's Government of Zhejiang Province. We have been providing financing solutions and loan services to customers with flexible terms through quick and comprehensive loan assessment and approval processes.

Our customer base primarily consists of customers engaged in agricultural business and/or rural development activities, and/or customers residing in rural areas (“**AFR (三農)**”), the small and medium-sized enterprises (as defined in the Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises (關於印發中小企業劃型標準規定的通知)) (“**SMEs**”), micro enterprises and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc.

Due to the increase in the size of our loan portfolio and strong demand for financing of our customers, our gross loan balance (excluding accrued interest) increased from RMB2,144.9 million as at 31 December 2017 to RMB2,396.4 million as at 31 December 2018.

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

	As at 31 December 2018	As at 31 December 2017
Registered capital (RMB'000)	1,180,000	1,180,000
Gross outstanding loans and advances to customers (excluding accrued interest, RMB'000)	2,396,383	2,144,943
Leverage ratio ⁽¹⁾	2.03	1.82

Note:

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

For the years ended 31 December 2017 and 2018, our average interest rates for loans were 15.4% and 14.8%, respectively. Our average loan interest rate decreased slightly during the aforesaid period mainly due to our continuous focus on serving customers with stronger repayment ability in 2018, to which we charged relatively low interest rates in order to effectively control the credit risk under the influence of the external economic environment.

We primarily served the SMEs and micro enterprises, customers engaged in AFR (三農) in Huzhou City and Hangzhou City and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc.

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

	As at 31 December 2018	As at 31 December 2017
Up to RMB500,000	4,074	10,543
Over RMB500,000 to RMB1 million (inclusive)	133	215
Over RMB1 million to RMB5 million (inclusive)	364	327
Over RMB5 million	<u>95</u>	<u>55</u>
Total number of outstanding loans and advances to customers	<u>4,666</u>	<u>11,140</u>

As at 31 December 2017 and 2018, approximately 96.6% and 90.2% of loan contracts were loan amount in our loan contracts up to RMB1 million, respectively. Among our loan contracts, the higher proportion of loans with amount up to RMB1 million was mainly due to our main targets of service, including the SMEs and micro enterprises, individuals in the agricultural, industrial and service sectors in Huzhou City and Hangzhou City and online retailers engaging in the businesses of lifestyle products, agricultural products, cultural supplies and industrial products, etc., the loan amount granted to whom are generally lower.

Loan Portfolio by Security

The following table sets out our loan portfolio by security as at the dates indicated:

	As at 31 December 2018		As at 31 December 2017	
	RMB'000	%	RMB'000	%
Unsecured loans ⁽¹⁾	53,584	2.2	269,879	12.6
Guaranteed loans	2,282,460	95.3	1,813,468	84.5
Collateralized loans	54,899	2.3	61,546	2.9
Pledged loans	<u>5,440</u>	<u>0.2</u>	<u>50</u>	<u>0.0</u>
Sub-total	2,396,383	100.0	2,144,943	100.0
Accrued interest	<u>18,868</u>		<u>—</u>	
Total gross outstanding loans and advances to customers	<u>2,415,251</u>		<u>2,144,943</u>	

Note:

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

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

	As at 31 December 2018		As at 31 December 2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Due within three months	14,377	0.6	137,347	6.4
Due between three months and six months	323,555	13.5	501,943	23.4
Due between six months and one year	2,029,895	84.7	1,475,071	68.8
Due more than one year	<u>28,556</u>	<u>1.2</u>	<u>30,582</u>	<u>1.4</u>
Sub-total	2,396,383	100.0	2,144,943	100.0
Accrued interest	<u>18,868</u>		<u>—</u>	
Total gross outstanding loans and advances to customers	<u>2,415,251</u>		<u>2,144,943</u>	

The following table sets out our loan portfolio by exposure size as at the dates indicated:

	As at 31 December 2018		As at 31 December 2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Up to RMB500,000	175,767	7.4	470,315	21.9
Over RMB500,000 to RMB1 million (inclusive)	120,486	5.0	193,218	9.0
Over RMB1 million to RMB5 million (inclusive)	1,054,540	44.0	910,510	42.5
Over RMB5 million	<u>1,045,590</u>	<u>43.6</u>	<u>570,900</u>	<u>26.6</u>
Sub-total	2,396,383	100.0	2,144,943	100.0
Accrued interest	<u>18,868</u>		<u>—</u>	
Total gross outstanding loans and advances to customers	<u>2,415,251</u>		<u>2,144,943</u>	

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

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

	As at 31 December 2017			
	Loans and	Loans and		
	advances	advances		
	for which	for which		
	allowances are	allowances are		Total
	collectively	individually		
	assessed	assessed		
	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>
Gross loans and advances to customers	2,112,012	32,931		2,144,943
Less: Allowances for impairment losses	<u>(64,935)</u>	<u>(25,618)</u>		<u>(90,553)</u>
Net loans and advances to customers	<u>2,047,077</u>	<u>7,313</u>		<u>2,054,390</u>

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

	As at 31 December 2018	As at 31 December 2017
Impaired loan ratio ⁽¹⁾	3.0%	1.5%
Balance of impaired loans (RMB'000)	72,362	32,931
Gross outstanding loans and advances to customers (excluding accrued interest, RMB'000)	2,396,383	2,144,943
Allowance coverage ratio ⁽²⁾	184%	275%
Allowances for impairment losses ⁽³⁾ (RMB'000)	133,169	90,553
Balance of impaired loans (RMB'000)	72,362	32,931
Provision for impairment losses ratio ⁽⁴⁾	5.6%	4.2%
Balance of overdue loans (RMB'000)	76,138	34,533
Gross outstanding loans and advances to customers (excluding accrued interest, RMB'000)	2,396,383	2,144,943
Overdue loan ratio ⁽⁵⁾	3.18%	1.61%

Notes:

- (1) Represents the balance of impaired loans divided by the gross outstanding loans and advances to customers (excluding accrued interest). Impaired loan ratio indicates the quality of our loan portfolio.
- (2) Represents the allowances for impairment losses on all loans divided by the balance of impaired loans. Allowance coverage ratio indicates the level of provisions we set aside to cover probable loss in our loan portfolio.
- (3) Allowances for impairment losses reflect our management's estimate of the probable losses in our loan portfolio.
- (4) Represents the allowances for impairment losses divided by the gross outstanding loans and advances to customers (excluding accrued interest). Provision for impairment losses ratio measures the cumulative level of provisions.
- (5) Represents the balance of overdue loans divided by the gross outstanding loans and advances to customers (excluding accrued interest).

Total impaired loans

Our balance of impaired loans increased from RMB32.9 million as of 31 December 2017 to RMB72.4 million as of 31 December 2018, which was mainly due to the increase of loan balance and the deterioration of the operating environment of some of our loan customers as at 31 December 2018.

Total overdue loans

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

	As at 31 December 2018 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Unsecured loans	19,046	21,470
Guaranteed loans	45,292	11,379
Collateralized loans	11,800	1,684
Total overdue loans	76,138	34,533

We had overdue loans of RMB34.5 million and RMB76.1 million as at 31 December 2017 and 31 December 2018, respectively, accounting for 1.61% and 3.18% of our gross loan balance as at the same dates. As at 22 March 2019, approximately RMB3.6 million out of the overdue loans as of 31 December 2018 was recovered.

Financial Overview

Net interest income

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

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interest income from		
Loans and advances to customers	336,799	313,495
Bank deposits	<u>737</u>	<u>806</u>
Total interest income	<u>337,536</u>	<u>314,301</u>
Interest and commission expenses from		
Borrowings from banks	(9,606)	(9,474)
Borrowings from non-bank financial institutions	(33,264)	(32,514)
Bank charges	<u>(598)</u>	<u>(1,476)</u>
Total interest and commission expenses	<u>(43,468)</u>	<u>(43,464)</u>
Net interest income	<u>294,068</u>	<u>270,837</u>

Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rate that we charge on loans to our customers. Our balance of loans increased during the reporting period, generally in line with the size of our capital base, which is in turn affected by the size of our net assets and financing. As at 31 December 2017 and 2018, our loan balance (excluding accrued interest) was RMB2,144.9 million and RMB2,396.4 million, respectively, and our average interest rates for loans were 15.4% and 14.8% for the year ended 31 December 2017 and 2018, respectively. Our average loan interest rate decreased slightly during the aforesaid period mainly due to our continuous focus on serving customers with stronger repayment ability in 2018, to which we charged relatively low interest rates in order to effectively control the credit risk under the influence of the external economic environment in the PRC.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions as well as bank charges, were RMB43.5 million and RMB43.5 million for the year ended 31 December 2017 and 2018, respectively. We incurred interest expenses primarily on the interest payment on bank borrowings and non-bank institutions borrowings, including debt securities issued, borrowing from third parties under a repurchase agreement and borrowings from other third parties, which were principally applied to expand our loan business.

Our balance of bank borrowings (excluding accrued interest) as at 31 December 2017 and 2018 both amounted to RMB180 million. Our balance of borrowings from non-bank financial institutions (excluding accrued interest) amounted to RMB352.5 million and RMB393.9 million as at 31 December 2017 and 2018, respectively.

Our net interest income for the year ended 31 December 2017 and 2018 were RMB270.8 million and RMB294.1 million, respectively.

Other net income

Our other net income for the year ended 31 December 2017 and 2018 were RMB5.3 million and RMB13.4 million, respectively. Our other net income increased in the aforesaid period mainly because that we received government grants of RMB13.2 million during the year ended 31 December 2018.

Impairment losses

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

For the year ended 31 December 2017 and 2018, our impairment losses were RMB17.4 million and RMB47.4 million, respectively.

Administrative expenses

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

	2018 RMB'000	2017 RMB'000
Tax and surcharge	1,674	2,108
Staff costs	24,066	18,059
Office expenditures and travel expenses	7,851	4,618
Operating lease charges	2,079	2,262
Depreciation and amortization expenses	6,652	2,196
Consulting and professional service fees	12,034	10,730
Business development expenses	3,867	2,238
Advertising expenses	4,317	3,418
Others	6,278	3,814
Total administrative expenses	68,818	49,443

Our staff costs accounted for approximately 36.5% and 35.0% of the total administrative expenses for the year ended 31 December 2017 and 2018, respectively. Our staff costs increased from RMB18.1 million for the year ended 31 December 2017 to RMB24.1 million for the year ended 31 December 2018, which was mainly attributable to the completion of the development of our business integrated management software in 2017, and there is no need to capitalise the Research & Development (the “**R&D**”) expenditures to include in current expenses in 2018.

For the year ended 31 December 2017 and 2018, our depreciation and amortisation expenses increased from RMB2.2 million for the year ended 31 December 2017 to RMB6.7 million for the year ended 31 December 2018, which was mainly attributable to the increase in amortization caused by the addition of improvements during the period.

Income tax

Our income taxes for the year ended 31 December 2017 and 2018 were RMB53.5 million and RMB48.3 million, respectively, and our effective tax rates were 25.6% and 25.3%, respectively.

Profit and total comprehensive income for the year

We had profit and total comprehensive income for the year of RMB155.9 million and RMB142.9 million for the year ended 31 December 2017 and 2018, respectively.

Liquidity and capital resources

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

As at 31 December 2018, our balance of interest-bearing borrowings was approximately RMB580.1 million (31 December 2017: RMB532.5 million). At the end of the two years, the balance of interest-bearing borrowings were due within one year and bore fixed interest rates.

Working Capital Management

Cash flows

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Cash and cash equivalents at the beginning of year	37,235	29,208
Net cash used in operating activities	(9,383)	(14,608)
Net cash generated from investing activities	12,139	15,557
Net cash generated from financing activities	1,718	7,082
Net increase in cash and cash equivalents	4,474	8,031
Effect on the change of exchange rate	(2)	(4)
Cash and cash equivalents at the end of year	<u>41,707</u>	<u>37,235</u>

Net cash used in operating activities

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

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

Net cash used in operating activities for the year ended 31 December 2018 was RMB9.4 million. Our net cash used in operating activities reflect: (i) our profit before tax of RMB191.2 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB47.4 million, depreciation and amortization of RMB6.7 million, interest expenses of RMB42.9 million, investment income of RMB0.3 million; (ii) the effect of changes in working capital, primarily including an increase in total loans and advances to customers of RMB260.4 million, an increase in interest receivables and other assets of RMB1.5 million, and an increase in accruals and other payables of RMB4.4 million; and (iii) income tax paid of RMB39.8 million.

Net cash generated from investing activities

For the year ended 31 December 2018, our net cash generated from investing activities was RMB12.1 million. Our net cash generated from investing activities mainly consisted of: (i) redemption of wealth management products after deducting net inflow upon purchase of RMB27.5 million, (ii) income of RMB0.3 million received from purchasing wealth management products; which was partially offset by payment for the purchase of equipment and improvement of RMB15.7 million.

Net cash generated from financing activities

For the year ended 31 December 2018, our net cash generated from financing activities was RMB1.7 million. Our net cash generated from financing activities mainly consisted of the receipt of RMB769.5 million from financing from interest-bearing borrowings, which was partly offset by: (i) repayment of financing from interest-bearing borrowings amounting to RMB732.3 million, and (ii) payment of interest on borrowings of RMB35.5 million.

Cash management

As our business primarily relies on our available cash, we normally set aside a sufficient amount of cash for meeting general working capital needs, such as administrative expenses and payment of interests on borrowings from banks and other non-bank institutions, and use the remainder for granting loans to our customers. As at 31 December 2017 and 2018, total cash and cash equivalents amounted to RMB37.2 million and RMB41.7 million, respectively.

Cash and cash equivalents

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Cash in hand	3	1
Cash at banks	41,176	27,223
Other currencies cash	<u>528</u>	<u>10,011</u>
Cash and cash equivalents	<u><u>41,707</u></u>	<u><u>37,235</u></u>

Interest receivables

Our interest receivables as at 31 December 2017 and 2018 were RMB20.4 million and RMB4.2 million, respectively. Our outstanding interest receivables decreased mainly due to the “Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018” (Cai Kuai 2018 No. 36) released by the Ministry of Finance of the PRC, pursuant to which the interest on financial instruments accrued based on the effective interest rate method should be included in the balance of carrying amounts accordingly and reflected in the item of “loans and advances to customers”, and the item of “interest receivable” only reflects the interest that has been due and receivable but not yet received on the balance sheet date.

Loans and advances to customers

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Corporate loans	759,910	532,020
Retail loans	1,561,718	1,289,175
Micro-loans granted online	<u>74,755</u>	<u>323,748</u>
Sub-total	2,396,383	2,144,943
Accrued interest	<u>18,868</u>	<u>—</u>
Total gross loans and advances to customers	<u>2,415,251</u>	<u>2,144,943</u>
Total allowances for impairment losses	<u>(133,169)</u>	<u>(90,553)</u>
Net loans and advances to customers	<u>2,282,082</u>	<u>2,054,390</u>

As at 31 December 2018, our gross loans and advances to customers (excluding accrued interest) increased to RMB2,396.4 million, which was mainly resulting from our increased business scale.

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

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

	As at 31 December 2018 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Due within three months	14,377	137,347
Due between three months and six months	323,555	501,943
Due between six months and one year	2,029,895	1,475,071
Due more than one year	<u>28,556</u>	<u>30,582</u>
Sub-total	2,396,383	2,144,943
Accrued interest	<u>18,868</u>	<u>—</u>
Total gross outstanding loans and advances to customers	<u>2,415,251</u>	<u>2,144,943</u>

We had overdue loans of RMB34.5 million and RMB76.1 million as at 31 December 2017 and 2018, respectively, accounting for approximately 1.61% and 3.18% of our gross outstanding loans and advances to customers as at the same dates.

The following table sets out our loan portfolio by security as at the dates indicated:

	As at 31 December 2018 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Unsecured loans ⁽¹⁾	53,584	269,879
Guaranteed loans	2,282,460	1,813,468
Collateralized loans	54,899	61,546
Pledged loans	<u>5,440</u>	<u>50</u>
Sub-total	2,396,383	2,144,943
Accrued interest	<u>18,868</u>	<u>—</u>
Total gross outstanding loans and advances to customers	<u>2,415,251</u>	<u>2,144,943</u>

Note:

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

The majority of our loans were guaranteed loans, which accounted for approximately 84.5% and 95.2% of our gross loans and advances to customers (excluding accrued interest) as at 31 December 2017 and 2018, respectively.

Other Assets

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

	As at 31 December 2018 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Prepayment	1,282	1,642
others	<u>556</u>	<u>1,756</u>
Total other assets	<u><u>1,838</u></u>	<u><u>3,398</u></u>

Accruals and other payables

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

	As at 31 December 2018 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Staff costs payable	5,657	3,890
Interest payable ⁽¹⁾	—	5,116
Value-added tax payable	1,826	1,638
Acquisition consideration payable	506	506
Tax and surcharges and other taxation payable	674	242
Dividends payable to non-controlling interests	6,400	—
Other payables	<u>35,555</u>	<u>27,206</u>
Total accruals and other payables	<u><u>50,618</u></u>	<u><u>38,598</u></u>

Note:

- (1) In accordance with the “Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018” (Cai Kuai 2018 No. 36) released by the Ministry of Finance of the PRC, the interest on financial instruments accrued based on the effective interest rate method should be included in the balance of carrying amounts accordingly, and the item of “interest payable” only reflects the interest that has been payable but not yet paid on the balance sheet date.

Our accruals and other payables increased by RMB12.0 million during the aforesaid period, which was mainly attributable to the fact that Xingyao Micro-finance, the non-wholly owned subsidiary of the Company, has distributed dividends in accordance with the resolutions of the general meeting held on 10 December 2018, and had not paid dividends to minority shareholders of Xingyao Micro-finance as at 31 December 2018.

Current taxation

Our current taxation, which represent our income tax payable, were RMB26.3 million and RMB43.8 million as at 31 December 2017 and 2018, respectively.

Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Within one year	2,800	3,356
After one year but within five years	<u>1,400</u>	<u>4,715</u>
Total	<u><u>4,200</u></u>	<u><u>8,071</u></u>

The Group is the lessee in respect of certain properties held under an operating lease. The lease typically runs for an initial period of 3 years, at the end of which all terms may be renegotiated. The lease does not include contingent rentals.

Capital commitments

The following tables set out our authorized capital commitments as at the dates indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Contracted but not paid for		
— Leasehold improvement	<u><u>—</u></u>	<u><u>16,407</u></u>

Key Financial Indicators

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
Return on weighted average equity (%)	8.6	10.3
Average return on assets (%) ⁽¹⁾	6.2	7.3

Note:

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

Our return on weighted average equity and average return on assets decreased slightly mainly due to the decrease in our annual profit for the year ended 31 December 2018 as compared to the same for the year ended 31 December 2017.

Gearing Ratio

	As of 31 December 2018	As of 31 December 2017
Gearing ratio (%) ⁽¹⁾	32.2	32.6

Note:

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

As of 31 December 2017 and 31 December 2018, our gearing ratio remained generally stable.

Related party transactions

For the year ended 31 December 2018, Mr. Yu Yin, an executive Director and the chairman of the Board, and other related parties had guaranteed some of our interest-bearing borrowings. As at 31 December 2018, the amount of guarantee provided by Mr. Yu Yin amounted to RMB576.8 million and the amount of guarantee provided by other related parties amounted to RMB576.8 million. Such related party transactions constituted the continuing connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). As the guarantees were provided on normal commercial terms where no security over the assets of the Group was granted to Mr. Yu Yin and other related parties, the captioned provision of guarantees was fully exempted from Shareholders’ approval, annual review and all disclosure requirements.

For the year ended 31 December 2018, the Company leased a property from 佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*) (“**Zuoli Holdings**”) with a rental fee of RMB2.0 million. 德清普華能源有限公司 (Deqing Puhua Energy Company Limited*) (“**Puhua Energy**”) is a controlling shareholder of the Company (the “**Controlling Shareholder**”) and thus a connected person of the Company under the Listing Rules. Zuoli Holdings, being the holding company of Puhua Energy, is an associate of Puhua Energy and thus also a connected person of the Company under the Listing Rules. Such related party transaction constituted the continuing connected transactions under Chapter 14A of the Listing Rules.

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

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

On 27 December 2018, Xingyao Micro-finance entered into the Creditor’s Rights Transfer Agreement with 杭州興耀建設集團有限公司 (Hangzhou Xing Yao Construction Group Co., Ltd.*) (“**Xing Yao Construction**”), pursuant to which Xingyao Micro-finance agreed to sell and transfer, and Xing Yao Construction agreed to accept the creditor’s rights against certain borrowers (the “**Creditor’s Rights**”) at a consideration of RMB4,326,250 (equivalent to approximately HK\$4,975,187.5). The consideration under the Creditor’s Rights Transfer Agreement shall be payable by Xing Yao Construction on or before 31 December 2018. The entering into of the Creditor’s Rights Transfer Agreement allows Xingyao Micro-finance the chance to recoup the corresponding loans (including the incurred interest) in full by reducing the default risks exposure to those borrowers.

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

Since one or more of the applicable percentage ratios (as set out in Rule 14.07 of the Listing Rules) in respect of the transaction contemplated under the Creditor's Rights Transfer Agreement exceed 1% but are less than 5%, the transaction contemplated under the Creditor's Rights Transfer Agreement is subject to the reporting and announcement requirements but exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. The Company has duly announced the said transaction on 27 December 2018.

Save as disclosed above, during the year ended 31 December 2018, there was no other connected transaction of the Company that required for the reporting, annual reviews, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Indebtedness

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Interest-bearing borrowings	<u>580,079</u>	<u>532,500</u>

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

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2018, we did not have any off-balance sheet arrangements (2017: nil).

EMPLOYMENT AND EMOLUMENTS

As at 31 December 2018, the Company had approximately 141 employees (2017: 140). Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid, which are commensurate with the actual practices of the Company. Other corresponding benefits include pension, unemployment insurance and housing allowance, etc.

SIGNIFICANT INVESTMENT

Save and except for the wealth management products issued by banks in the PRC, the Group had no significant investments during the year ended 31 December 2018.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no acquisition or disposal of subsidiaries, associates or joint ventures during the year ended 31 December 2018.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2018, the Group has pledged 60% of the equity interest of the Xingyao Micro-finance held by the Company as a guarantee for the financing of the Jinhui Micro-finance (2017: nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

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

FOREIGN CURRENCY RISK

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

The Group operates in the PRC with most of its transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at 31 December 2018 were denominated in the functional currencies of the Group's respective companies.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (2017: nil).

PROSPECTS

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

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

In November 2016, we acquired Xingyao Micro-finance located in Hangzhou City, Zhejiang province of the PRC which expanded our offline business to Hangzhou City, and Binjiang District, Hangzhou City is one of the first batch of National High-tech Industrial Development Zone in China and Hangzhou City is the “Internet Capital” of China at the same time, so the high-tech industry and internet industry in the zone are booming and our competitive advantages has been further enhanced.

USE OF PROCEEDS

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

CORPORATE GOVERNANCE

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

As of the date of this announcement, the Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2018, the Company has fully complied with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for carrying out securities transactions of the Company by the Directors. After specific enquiry with all members of the Board, they have confirmed full compliance with the relevant standards stipulated in the Model Code throughout the year ended 31 December 2018.

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

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

The Company has not purchased, sold or redeemed any of the Company’s listed securities for the year ended 31 December 2018.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.125 per share for the year ended 31 December 2018 to Shareholders whose names appear on the Company’s register of members on Monday, 15 July 2019 (the “**Proposed Final Dividend**”). Subject to the approval of the Shareholders at the Company’s forthcoming annual general meeting to be held on Friday, 28 June 2019 (the “**AGM**”), the Proposed Final Dividend is expected to be paid on or around Friday, 30 August 2019.

INTEREST OF DIRECTORS AND SUPERVISORS IN A COMPETING BUSINESS

None of the Directors, the supervisors of the Company or the management Shareholders and their respective close associates (as defined under the Listing Rules) has an interest in a business which competes or may compete with the business of the Company.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events affecting the Group that have occurred since the end of the reporting period and up to the date of this announcement.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the “AGM”) will be held at Conference Room, 3th Floor, Zuoli Building, No. 399 Deqing Avenue, Wukang Road, Deqing County, Huzhou City, Zhejiang Province, the PRC on Friday, 28 June 2019. Notice of the AGM will be issued and disseminated to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the Shareholder’s entitlement to attend and vote at the AGM, the H Share register of members of the Company will be closed from Wednesday, 29 May 2019 to Friday, 28 June 2019, both days inclusive, during which period no share transfers will be registered. The holders of shares whose names appear on the register of members of the Company on Friday, 28 June 2019 will be entitled to attend and vote at the AGM. 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, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 28 May 2019.

The payment of the Proposed Final Dividend is subject to the approval of the Shareholders at the AGM. For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from Tuesday, 9 July 2019 to Monday, 15 July 2019 (both days inclusive), during which period no transfer 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 Company’s H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 8 July 2019.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, risk management and internal control systems and financial report matters including the review of the Group’s annual results for the year ended 31 December 2018. The annual financial statements of the Group have been audited by the independent auditor of the Company, KPMG.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zlkcx.com.cn). The annual report for the year ended 31 December 2018 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as the Shareholders, customers, business associates and other professional parties for their continuous support to the Group throughout the year.

By order of the Board
佐力科創小額貸款股份有限公司
(**Zuoli Kechuang Micro-finance Company Limited***)
YU Yin
Chairman

Hong Kong, 22 March 2019

As at the date of this announcement, the executive Directors are Mr. Yu Yin, Mr. Zheng Xuegen, Mr. Yang Sheng and Mr. Hu Haifeng; the non-executive Director is Mr. Pan Zhongmin; and the independent non-executive Directors are Mr. Ho Yuk Ming, Hugo, Mr. Jin Xuejun and Ms. Huang Lianxi.

* *For identification purpose only*