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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1290)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

	For the year ended or as at 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	*%*
Operating Results			
Operating income	**344,134**	330,229	4.21%
Operating cost	**80,130**	58,157	37.78%
Profit attributable to owners of the Company	**50,429**	60,996	(17.32%)
Basic earnings per share (RMB)	**0.046**	0.056	(17.86%)

	As at 31 December 2019	As at 31 December 2018	Change
	RMB'000	*RMB'000*	*%*
Financial Position			
Total assets	**3,001,631**	2,800,226	7.19%
Loans to customers	**1,703,704**	1,738,283	(1.99%)
Cash at bank and cash on hand	**1,047,858**	810,138	29.34%
Net assets	**1,948,444**	1,897,028	2.71%

The Board of directors (the "**Board**") of China Huirong Financial Holdings Limited (the "**Company**" or "**China Huirong**") hereby announces the audited annual results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2019 (the "**Reporting Year**") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31 December 2019

(All amounts in RMB thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2019**	2018
Operating income		**344,134**	330,229
Interest income	*6*	**299,291**	305,194
Consultancy fee income	*7*	**14,567**	21,059
Commission fee income	*8*	**30,276**	3,976
Operating cost		**(80,130)**	(58,157)
Interest expense	*9*	**(54,045)**	(54,637)
Commission fee expense	*8*	**(26,085)**	(3,520)
Net investment gains/(losses)	*10*	**11,010**	(18,681)
Expected credit losses	*11*	**(124,088)**	(107,292)
Net gains/(losses) on derecognition of financial assets measured at amortized cost	*12*	**5,604**	(58)
Other operating income	*13*	**2,097**	710
Net operating income		**158,627**	146,751
General and administrative expenses	*14*	**(70,300)**	(73,721)
Other gains, net	*16*	**2,210**	37,765
Operating profit and profit before income tax		**90,537**	110,795
Income tax expense	*17*	**(25,644)**	(37,994)
Profit for the year		**64,893**	72,801
Profit is attributable to:			
— Owners of the Company		**50,429**	60,996
— Non-controlling interests		**14,464**	11,805

	Note	Year ended 31 December **2019**	 2018
Earnings per share for profit attributable to the owners of the Company (expressed in RMB Yuan)			
— Basic earnings per share	*18*	**0.046**	0.056
— Diluted earnings per share	*18*	**0.046**	0.056
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**64,893**	72,801
Total comprehensive income for the year is attributable to:			
— Owners of the Company		**50,429**	60,996
— Non-controlling interests		**14,464**	11,805
		64,893	72,801

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2019**	2018
ASSETS			
Non-current assets			
Property, plant and equipment		**1,649**	2,334
Right-of-use assets		**43,442**	—
Intangible assets		**4,001**	40,735
Deferred income tax assets	*20*	**76,438**	70,644
Investments accounted for using the equity method		**1,500**	1,500
Financial asset at fair value through profit or loss	*22*	**440**	440
Total non-current assets		**127,470**	115,653
Current assets			
Other current assets		**77,131**	98,868
Commission fee receivables		**1,795**	2,453
Consulting service fee receivables		**2,289**	3,504
Loans to customers	*21*	**1,703,704**	1,738,283
Financial assets at fair value through profit or loss	*22*	**33,432**	31,327
Derivative financial instruments		**7,952**	—
Cash at bank and cash on hand	*23*	**1,047,858**	810,138
Total current assets		**2,874,161**	2,684,573
Total assets		**3,001,631**	2,800,226

	Note	As at 31 December 2019	2018
EQUITY			
Equity attributable to the owners of the Company			
Share capital	*24*	**8,632**	8,632
Share premium	*25*	**601,993**	601,993
Other reserves		**596,266**	596,266
Retained earnings	*26*	**586,212**	547,656
		1,793,103	1,754,547
Non-controlling interests		**155,341**	142,481
Total equity		**1,948,444**	1,897,028
LIABILITIES			
Non-current liabilities			
Lease liabilities		**4,663**	—
Total non-current liabilities		**4,663**	—
Current liabilities			
Other current liabilities	*27*	**20,478**	21,778
Current income tax liabilities		**27,215**	29,455
Amounts due to related parties		**633**	633
Dividends payable		**1,262**	1,256
Lease liabilities		**2,706**	—
Borrowings	*28*	**996,230**	850,076
Total current liabilities		**1,048,524**	903,198
Total liabilities		**1,053,187**	903,198
Total equity and liabilities		**3,001,631**	2,800,226

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1 GENERAL INFORMATION

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) *Compliance with HKFRS and HKCO*

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

(ii) ***Historical cost convention***

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

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

(iii) ***New and amended standards adopted by the Group***

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

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

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

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

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

(v) ***Reclassification of comparative amounts***

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

2.2 Changes in accounting policies

2.2.1 *HKFRS 16*

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

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

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

(i) *Practical expedients applied*

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

(ii) *Measurement of lease liabilities*

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

(iii) *Measurement of right-of-use assets*

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

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

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

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

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

2.2.2 *Segment analysis*

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

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

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

(i) *Business Segments*

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

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

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

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

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

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

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

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

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

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

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

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

2.3 Segment reporting

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

2.4 Financial assets and liabilities

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

Measurement methods

Amortized cost and effective interest rate

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

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

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

Interest income

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

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

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

Initial recognition and measurement

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

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

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

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

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

2.4.1 *Financial assets*

(i) *Classification and subsequent measurement*

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

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

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

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

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

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

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

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

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

Equity instruments

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

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

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

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

(ii) *Impairment*

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

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

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

(iii) *Derecognition other than modification*

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

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

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

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

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

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

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

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

2.4.2 *Financial liabilities*

(i) *Classification and subsequent measurement*

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

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

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

(ii) *Derecognition*

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

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

(iii) *Interest expenses*

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

2.5 Derivative financial instruments

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

3.1 Critical accounting estimates

(a) ***Measurement of ECL allowances***

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

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

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

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

(b) *Income taxes*

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

3.2 Critical accounting judgements

Contractual Agreements

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

4 FINANCIAL RISK MANAGEMENT

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

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

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

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

4.1 Financial risk factors

(a) *Credit risk*

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

(i) *Credit risk measurement of loans to customers*

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

(ii) *ECL allowances measurement*

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

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

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

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

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

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

a. SICR

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

Quantitative criteria:

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

Qualitative criteria:

- Default in other financial institutions; and

- Under-going law sue.

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

b. Definition of default and credit-impaired assets

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

Quantitative criteria:

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

Qualitative criteria:

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

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

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

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

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above).
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).
- EAD is based on the amounts the Group expects to be owed at the time of default.

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

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

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

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

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

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

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

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

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

d. Forward-looking information incorporated in the ECL models

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

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

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

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

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

Economic variable assumptions

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

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

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

	Base	Upside	Downside
All portfolios	80%	10%	10%

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

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

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

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

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

Sensitivity analysis

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

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

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

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

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

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

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

(iii) *Credit risk exposure*

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

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

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

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

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

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

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

(v) *Collateral and other credit enhancement*

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

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

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

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

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

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

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

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

a. **Fair value of collateral of credit-impaired loans**

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

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

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

(vi) *Write-off policy*

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

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

(b) *Market risk*

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, foreign currency and equity investments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's exposure to market risk is primarily attributable to interest rate risk arising from loans to customers, bank balances and borrowings. The Group has established policies and procedures for monitoring and managing market risk.

(i) *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The most significant interest-bearing assets and liabilities are loans to customers and borrowings, which both bear fixed interest rates to generate cash flows independent from market interest rates. Contractual interest rate re-pricing is matched with maturity date of each loan granted to customer, or maturity date of borrowings. As at respective balance sheet dates, maturity dates of loans to customers are all within 12 months, whilst maturity dates of borrowings are within 12 months. The Group regularly calculates the impact on profit or loss of a possible interest rate shift on its portfolio of loans to customers, borrowings and interest bearing bank deposits.

Based on the simulations performed and with other variables held constant, should the benchmark interest rate had been 100 basis points higher/lower, the profit before income tax would have been decreased/increased by approximately RMB1.6 million for the year ended 31 December 2019 (2018: RMB1.3 million), mainly as a result of higher/lower interest income on term deposits with banks and interest expense on fixed-rate borrowings arising from interest rate repricing.

Interest rates on interest-bearing financial assets, mainly loans to customers, are not primarily affected by the changes in the benchmark rate in the market. Instead, they are much more influenced by demand and supply as well as bilateral negotiation, which makes a quantitative sensitivity analysis based on the benchmark rate unrepresentative.

(ii) *Foreign exchange risk*

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

<u>*Exposure*</u>

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

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

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

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

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

(iii) *Price risk*

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position as at fair value through profit or loss (Note 22).

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's equity investment are publicly traded. If the stock price increase/decrease by 5%, the profit before income tax would have been RMB1.7 million (2018: RMB1.6 million) higher/lower for the year ended 31 December 2019.

(c) *Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of cash requirements from contractual commitments. Such outflows would deplete available cash resources for customer lending. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets.

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

(i) *Financing arrangements*

The Group has no undrawn borrowing facilities as at 31 December 2019 (31 December 2018: nil).

(ii) *Maturities of financial assets and liabilities*

The table below analyzes the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis.

	Repayable on demand or within 1 month	**1–6 months**	**6–12 months**	**Over 12 months**	**Past due**	**Total**
As at 31 December 2018						
Cash at bank and cash on hand	470,759	191,828	166,844	—	—	829,431
Financial assets at fair value through profit or loss	27,765	4,002	—	—	—	31,767
Loans to customers	115,662	663,469	251,207	—	758,713	1,789,051
Total financial assets	614,186	859,299	418,051	—	758,713	2,650,249
Borrowings	(275,023)	(423,527)	(166,795)	—	—	(865,345)
Amounts due to related parties	(633)	—	—	—	—	(633)
Other financial liabilities	(7,344)	—	—	—	—	(7,344)
Total financial liabilities	(283,000)	(423,527)	(166,795)	—	—	(873,322)
Net liquidity gap	331,186	435,772	251,256	—	758,713	1,776,927

	Repayable on demand or within 1 month	1–6 months	6–12 months	Over 12 months	Past due	Total
As at 31 December 2019						
Cash at bank and cash on hand	525,390	385,592	162,652	—	—	1,073,634
Financial assets at fair value through profit or loss	4,208	29,664	—	—	—	33,872
Derivative financial instruments	—	7,952	—	—	—	7,952
Loans to customers	102,804	621,563	343,259	—	691,249	1,758,875
Total financial assets	632,402	1,044,771	505,911	—	691,249	2,874,333
Borrowings	(307,690)	(577,043)	(122,207)	—	—	(1,006,940)
Amounts due to related parties	(633)	—	—	—	—	(633)
Lease liabilities	(460)	(809)	(1,802)	(4,663)	—	(7,734)
Other financial liabilities	(5,641)	—	—	—	—	(5,641)
Total financial liabilities	(314,424)	(577,852)	(124,009)	(4,663)	—	(1,020,948)
Net liquidity gap	317,978	466,919	381,902	(4,663)	691,249	1,853,385

4.2 Fair value of financial assets and liabilities

The Group's financial assets and liabilities are categorised as "cash at banks and cash on hand", "loans to customers", "financial assets at fair value through profit or loss", "derivative financial instruments", "other financial receivables", "borrowings", "amounts due to related parties" and "other financial liabilities" respectively.

"Cash at banks and cash on hand", "loans to customers", "other financial receivables", "borrowings", "amounts due to related parties" and "other financial liabilities" are stated at amortized cost. As these financial assets and liabilities mature within one year, the carrying amounts approximate to their fair value at each balance sheet date.

Financial assets at fair value through profit or loss are equity investments held by the Group as at 31 December 2019 (2018: same). Derivatives are foreign exchange swap entered by the Group as at 31 December 2019 (2018: nil).

(a) ***Fair value hierarchy***

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Financial assets at fair value through profit or loss	—	31,767	—	31,767

	Level 1	**Level 2**	**Level 3**	**Total**
As at 31 December 2019				
Financial assets at fair value through profit or loss	—	33,872	—	33,872
Derivative financial instruments	—	7,952	—	7,952
	—	41,824	—	41,824

There were neither transfers between Levels 1 and 2 nor transfer between Levels 2 and 3 during the year.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting year.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2019.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the end of the reporting year. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(b) ***Valuation techniques used to determine fair value***

The fair value of Level 2 equity instruments is based on the quoted market price considering the liquidity discount rate for the stock lockup period as at 31 December 2019 and 31 December 2018.

(c) ***Valuation processes***

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's reporting years.

4.3 Capital risk management

(a) ***Risk management***

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The liquid capital is monitored regularly by the Finance Department. The Group monitors capital risk on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowing net of cash and cash equivalent. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position plus net debt.

During 2019, the Group's strategy, which was unchanged from 2018, was to maintain a gearing ratio below 50% and to meet the compliance requirements of Wuzhong Pawnshop on aggregate amount of loans to customers at all times. The gearing ratio as at 31 December 2019 and 31 December 2018 were as follows:

	As at 31 December	
	2019	2018
Borrowings *(Note 28)*	**996,230**	850,076
Less: Cash and cash equivalents *(Note 23)*	**(181,038)**	(133,736)
Net debt	**815,192**	716,340
Total equity	**1,948,444**	1,897,028
Total capital	**2,763,636**	2,613,368
Gearing ratio	**30%**	27%

(i) *Loan covenants*

Under the terms of the borrowing facility of Huifang Tongda, it is required to comply with the following financial covenants:

- the total amount of guarantee for third party liabilities must not be more than 4 times the net assets of Huifang Tongda.

Huifang Tongda does not provide any guarantee for third party liabilities as at 31 December 2019 (2018: nil).

The Group has no other financial covenants under the terms of the rest borrowing facilities for the year ended 31 December 2019 (2018: nil).

5 SEGMENT INFORMATION

The Company's Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

The Board of Directors primarily uses a measure of profit/(loss) before income tax to assess the performance of the business divisions. However, the Board also receives information about the divisions' revenue and assets on a monthly basis.

Segment information for the current period and the last period is presented in Note 2.2.2(ii).

6 INTEREST INCOME

	Year ended 31 December	
	2019	2018
Interest income from loans to customers		
Secured loans to customers	**158,246**	173,939
Unsecured loans to customers	**116,693**	114,008
Interest income from bank deposits	**24,352**	17,247
	299,291	305,194

7 CONSULTANCY FEE INCOME

	Year ended 31 December	
	2019	2018
P2P platform consultancy fee income (a)	**11,965**	18,163
Loan consultancy fee income	**2,443**	2,896
Other consultancy fee income	**159**	—
	14,567	21,059

(a) In February 2015, the Group established Suzhou Qian Dai, an internet finance platform providing service to borrowers as an intermediate between the borrowers and lenders. The Group charges the borrowers with a consultancy fee. The Group charged fixed consultancy fees at rates ranging from 2.2% to 10.0% per annum to the borrowers for the year ended 31 December 2019 (2018: from 1.5% to 13.6%).

8 COMMISSION FEE INCOME AND EXPENSE

	Year ended 31 December	
	2019	2018
Commission fee income		
Insurance agency commission fee income	**30,166**	3,899
Other commission fee income	**110**	77
	30,276	3,976
Commission fee expense		
Insurance agency commission fee expense	**26,085**	3,520
	26,085	3,520

9 INTEREST EXPENSE

	Year ended 31 December	
	2019	2018
Interest expense on bank borrowings	**46,826**	44,994
Interest expense on micro-finance company borrowings	**4,765**	5,844
Other interest expenses	**2,454**	3,799
	54,045	54,637

10 NET INVESTMENT GAINS/(LOSSES)

	Year ended 31 December	
	2019	2018
Fair value gains/(losses)-financial assets at fair value through profit or loss	**2,105**	(19,634)
Fair value gains-derivative financial instruments	**7,952**	—
Cash dividend of listed equity securities	**953**	953
	11,010	(18,681)

11 EXPECTED CREDIT LOSSES

	Year ended 31 December	
	2019	2018
Expected credit losses on loans to customers *(Note 21(b))*	**123,120**	105,901
Expected credit losses on other current assets	**968**	1,399
Expected credit losses on term deposit with banks *(Note 23)*	**—**	(8)
	124,088	107,292

12 NET GAINS ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

On derecognition of a loan to customers in entirety, the difference between the asset's carrying amount and total consideration received and receivable is recognized in net gains on derecognition of financial assets measured at amortized cost.

13 OTHER OPERATING INCOME

	Year ended 31 December	
	2019	2018
Net gains from disposal of repossessed assets	**1,297**	452
Others	**800**	258
	2,097	710

14 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2019	2018
Employee benefit expenses *(Note 15)*	**38,851**	40,608
Professional and consultancy fees	**7,517**	5,808
Depreciation and amortisation	**6,457**	2,835
Transportation, meal and accommodation	**3,497**	4,363
Telephone, utilities and office expenses	**3,429**	3,276
Auditors' remuneration	**2,900**	2,900
Operating lease payments	**2,466**	6,009
Value-added tax surcharges	**1,766**	2,720
Advertising costs	**471**	2,724
Commission fee	**398**	288
Other expenses	**2,548**	2,190
	70,300	73,721

15 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
Wages and salaries	**14,469**	14,462
Discretionary bonuses	**17,074**	17,024
Pension	**1,978**	1,990
Other social security obligations	**5,330**	4,932
Share-based payments *(Note 25(b))*	**—**	2,200
	38,851	40,608

16 OTHER GAINS, NET

	Year ended 31 December	
	2019	2018
Government grants	**3,360**	3,299
Net foreign currency (losses)/gains	**(1,115)**	34,397
Others	**(35)**	69
	2,210	37,765

17 INCOME TAX EXPENSE

(a) Income tax expense

	Year ended 31 December	
	2019	2018
Current tax		
Current tax on profits for the year	**31,514**	32,559
Adjustments for current tax of prior years	**—**	—
Total current tax expense	**31,514**	32,559
Deferred income tax		
(Increase)/Decrease in deferred tax assets *(Note 23)*	**(5,870)**	5,435
Total deferred tax (benefit)/expense	**(5,870)**	5,435
Income tax expense	**25,644**	37,994

All income tax expense is attributable to profit from continuing operations in the year ended 31 December 2019 (2018: same).

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Year ended 31 December	
	2019	2018
Operating profit and profit before income tax	**90,537**	110,795
Tax calculated at domestic tax rates applicable to profits in the respective areas	**22,608**	28,225
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
— Entertainment expenses	**415**	495
— Investment income attributable to non-controlling interests	**(620)**	(362)
— Cash dividends of listed equity securities	**(238)**	(238)
— Share-based payments	**—**	165
— Sundry items	**170**	40
Subtotal	**22,335**	28,325
Reversal of previously recognized deferred tax assets	**—**	7,108
Adjustments for current tax of prior years	**653**	1,495
Unused tax losses for which no deferred tax asset has been recognized	**1,323**	1,066
PRC withholding tax	**1,333**	—
Income tax expense	**25,644**	37,994

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Enterprises incorporated in the British Virgin Islands are not subject to any income tax according to relevant rules and regulations.

The applicable Hong Kong profits tax rate is 16.5% on the assessable profits earned or derived in Hong Kong for the year ended 31 December 2019 (The applicable Hong Kong profits tax rate for Huifang Investment is 8.25% and for other entities incorporated in HK is 16.5% on the assessable profits earned or derived in Hong Kong for the year ended 31 December 2018).

According to the Corporate Income Tax Law of the PRC (the "CIT Law"), the income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable corporate tax rate of 25% on the estimated assessable profits based on existing legislations, interpretations and practices.

(c) Tax losses

	Year ended 31 December 2019	2018
Unused tax losses for which no deferred tax asset has been recognized @ 16.5%	**4,920**	3,705
Unused tax losses for which no deferred tax asset has been recognized @ 8.25%	**—**	1,687
Unused tax losses for which no deferred tax asset has been recognized @ 25%	**2,044**	1,262
Unused tax losses for which no deferred tax asset has been recognized	**6,964**	6,654
Potential tax benefit @ 16.5%	**812**	611
Potential tax benefit @ 8.25%	**—**	139
Potential tax benefit @ 25%	**511**	316
Potential tax benefit	**1,323**	1,066

The unused tax losses are incurred by the Company, Huifang Investment, Sifang Investment, Rongda Investment and Huifang Supply China and those are not likely to generate taxable income in the foreseeable future. They can be carried forward indefinitely. See Note 20 for information about recognized tax losses.

18 EARNINGS PER SHARE

(a) Basic earnings per share

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

	Year ended 31 December 2019	2018
Profit attributable to owners of the Company (RMB'000)	**50,429**	60,996
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,086,787
Basic earnings per share (RMB Yuan)	**0.046**	0.056

All profit attributable to owners of the Company is from continuing operations.

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share options under share-based payment (Note 25(b)). For the share options, the number of share issued for no consideration is equal to the number of shares that would have been issued assuming in the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same expected proceeds in the exercise of the share options. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	**50,429**	60,996
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,086,787
Adjustments for:		
— Share options (in thousands)	**10,699**	11,886
Dilutive earnings per share (RMB)	**0.046**	0.056

All profit attributable to owners of the Company is from continuing operations.

(c) Weighted average number of shares used as the denominator

	Year ended 31 December	
	2019	2018
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (in thousands)	**1,086,787**	1,086,787
Adjustments for calculation of diluted earnings per share:		
Options (in thousands)	**10,699**	11,886
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share (in thousands)	**1,097,486**	1,098,673

19 DIVIDENDS

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

	Year ended 31 December	
	2019	2018
Proposed final dividend of HK$0.0130 (2018: HK$0.0130) per ordinary share	**12,667**	12,379

20 DEFERRED INCOME TAX

	Year ended 31 December	
	2019	2018
The balance comprises temporary differences attributable to:		
ECL allowances charge on financial assets	**68,961**	60,248
Net loss from financial instruments at fair value through profit or loss	**4,654**	7,168
Recoverable tax losses	**1,787**	2,192
Share-based payment expense	**1,036**	1,036
Total deferred tax assets	**76,438**	70,644
Off-setting of deferred tax liabilities pursuant to off-setting provisions	**—**	—
Net deferred tax assets	**76,438**	70,644

The movement in deferred income tax assets during the year, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

	ECL allowances charge on financial assets	Net(gains)/loss from financial instruments at fair value through profit or loss and derivative financial instruments	Recoverable tax losses	Share-based payments	Total
Deferred income tax assets					
At 1 January 2018	60,382	2,260	9,184	736	72,562
Changes on initial application of HKFRS 9	3,517	—	—	—	3,517
Restated balance at 1 January 2018	63,899	2,260	9,184	736	76,079
(Charged)/credited to the consolidated statement of comprehensive income	(3,651)	4,908	(6,992)	300	(5,435)
At 31 December 2018	60,248	7,168	2,192	1,036	70,644
At 1 January 2019	60,248	7,168	2,192	1,036	70,644
Credited/(charged) to the consolidated statement of comprehensive income	8,713	(2,514)	(405)	—	5,794
At 31 December 2019	68,961	4,654	1,787	1,036	76,438

As at 31 December 2019, it is estimated that deferred income tax assets will be reversed over one year (31 December 2018: same).

21 LOANS TO CUSTOMERS

	As at 31 December	
	2019	2018
Loans to customers, gross		
Secured loans	**1,171,957**	1,277,155
— *Real estate backed loans*	**1,137,217**	1,254,966
— *Personal property backed loans*	**34,740**	22,189
Unsecured loans	**997,791**	792,729
— *Equity interest backed loans*	**511,846**	388,844
— *Guaranteed loans*	**224,229**	199,926
— *Other unsecured loans*	**261,716**	203,959
	2,169,748	2,069,884
Less: ECL allowances	**(466,044)**	(331,601)
Loans to customers, net	**1,703,704**	1,738,283

Loans to customers arise from the Group's lending services. The loan periods granted to customers are within two years. The real estate backed and equity interest backed loans provided to customers bear fixed interest rates ranging from 10.00% to 25.00% per annum in the year ended 31 December 2019 (2018: from 12.00% to 25.00%).

Guaranteed loans granted to customers bear fixed interest rates from 6.00% to 25.16% per annum in the year ended 31 December 2019 (2018: from 6.00% to 25.20%).

Unsecured loans granted to customers bear fixed interest rates from 10.00% to 17.00% per annum in the year ended 31 December 2019 (2018: from 10.00% to 18.20%).

As at 31 December 2019, renewed loans amounted to RMB180.5 million (2018: RMB170.2 million), which are all real estate backed loans (2018: same).

(a) Aging analysis of loans to customers

The aging of the loans to customers is calculated starting from the original granting date without considering the subsequent renewal of the loans. The aging analysis of loans to customers net of ECL allowances are set out below:

	As at 31 December			
	2019			2018
	Secured loans	Unsecured loans	Total	Total
Within 3 months	91,906	525,794	617,700	441,660
3–6 months	109,164	101,788	210,952	298,150
6–12 months	128,164	40,321	168,485	239,760
12–24 months	15,319	—	15,319	—
Past due (i)	563,620	127,628	691,248	758,713
	908,173	795,531	1,703,704	1,738,283

(i) ***Past due loans to customers net of ECL allowances***

	As at 31 December			
	2019			2018
	Secured loans	Unsecured loans	Total	Total
Past due within one month	13,678	54,334	68,012	10,586
Past due between one and three months	10,177	—	10,177	7,868
Past due over three months	539,765	73,294	613,059	740,259
	563,620	127,628	691,248	758,713

(b) Movements on ECL allowances for loans to customers in 2019

The following tables explain the changes in loss allowances between the beginning of and the end of the annual year due to these factors:

Secured loans

	Year ended 31 December 2019			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 31 December 2018	7,041	1,669	156,898	165,608
Transfers:				
Transfers from Stage 1 to Stage 2	(1,213)	10,086	—	8,873
Transfers from Stage 2 to Stage 3	—	(5,044)	5,390	346
New loans to customers originated	8,214	—	—	8,214
Changes in PDs/LGDs/EADs	462	699	97,806	98,967
Unwind of discount	—	—	12,173	12,173
Loans to customers derecognized during the year other than write-offs	(10,133)	(5,665)	(14,651)	(30,449)
Write-offs	—	—	(11)	(11)
Recovery of the loans written-off in previous years	—	—	63	63
Loss allowances as at 31 December 2019	4,371	1,745	257,668	263,784

Unsecured loans

	Year ended 31 December 2019			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 31 December 2018	25,287	—	140,706	165,993
Transfers:				
Transfers from Stage 1 to Stage 2	(2,328)	9,639	—	7,311
Transfers from Stage 2 to Stage 3	—	(9,425)	10,025	600
New loans to customers originated	82,384	—	—	82,384
Changes in PDs/LGDs/EADs	38	—	11,261	11,299
Unwind of discount	—	—	20,609	20,609
Loans to customers derecognized during the year other than write-offs	(77,460)	(214)	(8,262)	(85,936)
Write-offs	—	—	—	—
Recovery of the loans written-off in previous years	—	—	—	—
Loss allowances as at 31 December 2019	27,921	—	174,339	202,260

Secured loans

	Year ended 31 December 2018			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 1 January 2018	3,931	79	74,834	78,844
Changes on initial application of HKFRS 9	2,913	504	—	3,417
Restated loss allowances as at 1 January 2018	6,844	583	74,834	82,261
Transfers:				
Transfers from Stage 1 to Stage 2	(3,542)	11,602	—	8,060
Transfers from Stage 2 to Stage 3	—	(8,409)	40,370	31,961
New loans to customers originated	11,608	—	—	11,608
Changes in PDs/LGDs/EADs	—	—	70,466	70,466
Unwind of discount	—	—	5,373	5,373
Loans to customers derecognized during the year other than write-offs	(7,869)	(2,107)	(36,970)	(46,946)
Write-offs	—	—	(1,314)	(1,314)
Recovery of the loans written-off in previous years	—	—	4,139	4,139
Loss allowances as at 31 December 2018	7,041	1,669	156,898	165,608

Unsecured loans

	Year ended 31 December 2018			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 1 January 2018	14,847	—	115,550	130,397
Changes on initial application of HKFRS 9	10,475	—	—	10,475
Restated loss allowances as at 1 January 2018	25,322	—	115,550	140,872
Transfers:				
Transfers from Stage 1 to Stage 2	(951)	8,706	—	7,755
Transfers from Stage 2 to Stage 3	—	(1,133)	2,094	961
New loans to customers originated	206,139	—	—	206,139
Changes in PDs/LGDs/EADs	—	—	28,313	28,313
Unwind of discount	—	—	21,069	21,069
Loans to customers derecognized during the year other than write-offs	(205,223)	(7,573)	(27,537)	(240,333)
Write-offs	—	—	(1,360)	(1,360)
Recovery of the loans written-off in previous years	—	—	2,577	2,577
Loss allowances as at 31 December 2018	25,287	—	140,706	165,993

(c) Significant changes in gross carrying amount of loans to customers that contributed to changes in the ECL allowances

The following table explains changes in the gross carrying amount of the loans to customers that help explain their significance to the changes in the ECL allowances for loans to customers:

Secured loans

	Year ended 31 December 2019			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Gross carrying amount as at 31 December 2018	425,994	9,537	841,624	1,277,155
Transfers:				
Transfers from Stage 1 to Stage 2	(76,838)	76,838	—	—
Transfers from Stage 2 to Stage 3	—	(56,638)	56,638	—
Loans to customers derecognized during the year other than write-offs	(543,977)	(17,900)	(156,131)	(718,008)
New loans to customers originated	558,313	—	—	558,313
Changes in interest accrual	(890)	85	55,313	54,508
Write-offs	—	—	(11)	(11)
Gross carrying amount as at 31 December 2019	362,602	11,922	797,433	1,171,957

Unsecured loans

	Year ended 31 December 2019			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Gross carrying amount as at 31 December 2018	596,490	—	196,239	792,729
Transfers:				
Transfers from Stage 1 to Stage 2	(65,344)	65,344	—	—
Transfers from Stage 2 to Stage 3	—	(37,604)	37,604	—
Loans to customers derecognized during the year other than write-offs	(4,373,095)	(27,740)	(27,524)	(4,428,359)
New loans to customers originated	4,595,537	—	—	4,595,537
Changes in interest accrual	(3,760)	—	41,314	37,554
Write-offs	—	—	—	—
FX and other movements	330	—	—	330
Gross carrying amount as at 31 December 2019	750,158	—	247,633	997,791

Secured loans

	Year ended 31 December 2018			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Gross carrying amount as at 1 January 2018	344,838	6,115	860,134	1,211,087
Transfers:				
Transfers from Stage 1 to Stage 2	(123,505)	123,505	—	—
Transfers from Stage 2 to Stage 3	—	(93,434)	93,434	—
Loans to customers derecognized during the year other than write-offs	(425,832)	(26,649)	(188,509)	(640,990)
New loans to customers originated	629,324	—	—	629,324
Changes in interest accrual	1,169	—	77,879	79,048
Write-offs	—	—	(1,314)	(1,314)
Gross carrying amount as at 31 December 2018	425,994	9,537	841,624	1,277,155

Unsecured loans

	Year ended 31 December 2018			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Gross carrying amount as at 1 January 2018	717,314	—	226,492	943,806
Transfers:				
Transfers from Stage 1 to Stage 2	(93,108)	93,108	—	—
Transfers from Stage 2 to Stage 3	—	(11,568)	11,568	—
Loans to customers derecognized during the year other than write-offs	(4,299,402)	(81,540)	(71,383)	(4,452,325)
New loans to customers originated	4,264,586	—	—	4,264,586
Changes in interest accrual	7,100	—	30,922	38,022
Write-offs	—	—	(1,360)	(1,360)
Gross carrying amount as at 31 December 2018	596,490	—	196,239	792,729

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group classifies the following financial assets at fair value through profit or loss (FVPL):

- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognize fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December	
	2019	2018
Non-current assets		
Equity securities	**440**	440
Current assets		
Equity securities	**33,432**	31,327
	33,872	31,767

Equity securities with fair value of RMB29.2 million (31 December 2018: RMB31.3 million) have been pledged with a securities company to secure borrowings with principal amount of RMB10 million (31 December 2018: RMB15.5 million) from the securities company (Note 28(c)).

23 CASH AT BANK AND CASH ON HAND

	As at 31 December	
	2019	2018
Cash on hand	**1,859**	1,444
Demand deposits with banks	**179,179**	132,292
Deposits with securities company	**1,907**	953
Interest receivable from bank deposits	**17,352**	12,174
Term deposits with banks with original maturities over 3 months, net	**847,561**	663,275
Term deposits with banks with original maturities over 3 months, gross	**847,725**	663,439
Less: ECL allowances	**(164)**	(164)
	1,047,858	810,138

Cash at bank and cash on hand were denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
RMB	**664,685**	201,090
US dollar	**373,763**	599,215
Hong Kong dollar	**9,410**	9,833
	1,047,858	810,138

Cash and cash equivalents of the Group were determined as follows:

	As at 31 December	
	2019	2018
Cash at bank and cash on hand	**1,047,858**	810,138
Less: Unrestricted term deposits with banks with original maturities over 3 months	**(41,300)**	(126)
Restricted deposits with securities company	**(1,907)**	(953)
Interest receivable from bank deposits	**(17,352)**	(12,174)
Restricted term deposits pledged with banks with original maturities over 3 months	**(806,261)**	(663,149)
	181,038	133,736

As at 31 Dec 2019, restricted deposits with securities company of RMB1,907 thousand (2018: RMB953 thousand) are cash dividends received from listed equity securities and pledged with a securities company to secure borrowings with principle amount of RMB10.0 million (2018: RMB15.5 million) (Note 28(c)).

As at 31 December 2019, restricted term deposits of US$50.2 million (2018: US$85.2 million), which is equivalent to RMB350.2 million (2018: RMB584.6 million), are pledged with banks to secure bank borrowings with principal amount of RMB315.0 million (2018: RMB491.0 million) (Note 28).

As at 31 December 2019, restricted term deposits of RMB275.9 million (2018: RMB78.7 million) are pledged with banks to secure bank borrowings with principal amount of RMB261.5 million (2018: RMB74.0 million) (Note 28).

As at 31 Dec 2019, restricted term deposits of RMB180.2 million (2018: nil) are pledged with banks to secure bank borrowings of US$25.6 million (2018: nil), which is equivalent to RMB178.6 million (2018: nil) (Note 28).

24 SHARE CAPITAL

	Number of shares	Ordinary shares *HK$*	Ordinary shares *RMB*
Issued and fully paid			
As at 31 December 2019 and 31 December 2018	1,086,787,000	10,867,870	8,631,935

25 SHARE PREMIUM AND OTHER RESERVES

		Other reserves				
	Share premium	Capital reserve	Statutory reserve	General reserve	Share-based payments reserve	Total
At 1 January 2018	601,993	506,963	77,715	4,417	4,971	1,196,059
Share-based payments — Value of employee services (b)(i)	—	—	—	—	2,200	2,200
At 31 December 2018	601,993	506,963	77,715	4,417	7,171	1,198,259
At 1 January 2019	601,993	506,963	77,715	4,417	7,171	1,198,259
Share-based payments — Value of employee services (b)(i)	—	—	—	—	—	—
At 31 December 2019	601,993	506,963	77,715	4,417	7,171	1,198,259

(a) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

(b) Share-based payments

The grant of share options to enable eligible participants as incentives or rewards for their contribution or potential contribution to the Group was approved on 13 September 2016. The options have a contractual option term of five years and have become partially exercisable after the employees completed the vesting period. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Set below are summaries of options granted and forfeited under the plan:

	Year ended 31 December 2018	
	Average exercise price in HK$ per share option	**Number of share options (thousands)**
As at 1 January	0.62	28,007
Granted	—	—
Exercised	—	—
Forfeited	0.62	(769)
Aa at 31 December	0.62	27,238
Vested and exercisable at 31 December 2018	0.62	27,238

	Year ended 31 December 2019	
	Average exercise price in HK$ per share option	**Number of share options (thousands)**
As at 1 January	0.62	27,238
Granted	—	—
Exercised	—	—
Forfeited	—	—
Aa at 31 December	0.62	27,238
Vested and exercisable at 31 December 2019	0.62	27,238

(i) ***Share-based payments — value of employee services***

Share options outstanding at the end of the year will expire on 12 September 2021.

None of employee benefit expense was recognized for share options granted to directors and employees for the year ended 31 December 2019 (2018: RMB2.2 million).

26 RETAINED EARNINGS

Movements in retained earnings were as follows:

	As at 31 December	
	2019	2018
Balance 1 January	**547,656**	505,247
Change in accounting policy	**540**	(6,891)
Net profit attributable to the owners of the company for the year	**50,429**	60,996
Dividends provided for or paid	**(12,413)**	(11,696)
Balance 31 December	**586,212**	547,656

27 OTHER CURRENT LIABILITIES

	As at 31 December	
	2019	2018
Accrued employee benefits	**9,101**	11,034
Turnover tax and other tax payable	**1,623**	3,010
Advance from transferee of financial assets	**4,113**	—
Investment payable	**—**	390
Other financial liabilities	**5,641**	7,344
	20,478	21,778

As at 31 December 2019, the Group's other financial liabilities were non-interest bearing. The fair value approximates their carrying amounts due to their short maturities (2018: same).

28 BORROWINGS

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

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

As at 31 December 2019, bank borrowings with principal amount of RMB315.0 million (2018: RMB491.0 million) are secured by restricted term deposits of US$50.2 million (2018: US$85.2 million) (Note 23).

As at 31 December 2019, bank borrowings with principal amount of RMB261.5 million (2018: RMB74.0 million) are secured by restricted term deposits of RMB275.9 million (2018: RMB78.7 million) (Note 23).

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

As at 31 December 2019, bank borrowings with principal amount of USD 25.6 million (31 December 2018: nil) are secured by restricted term deposits of RMB180.2 million and are guaranteed by Bank of Jiangsu (Note 23).

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

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

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

(c) As at 31 December 2019, borrowings from a securities company with principal amount of RMB10.0 million are pledged by equity investment and cash dividends held by the Group (2018: RMB15.5 million) (Note 22, 23).

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

29 COMMITMENTS

(a) Capital commitments

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

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

30 SUBSEQUENT EVENT

(i) Dividend

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

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

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

(iii) Outbreak of Coronavirus Disease 2019

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

1. Business Review and Development

1.1 *Inclusive Finance Business Division*

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

(a) *Wuzhong Pawnshop*

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

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

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

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

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

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

(b) *Turnover loan business of Huifang Rongtong*

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

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

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

(c) *Dongshan Micro-finance*

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

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

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

1.2 *Technology Finance Business Division*

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

(a) *Aomeishu — Technical Lending Facilitation*

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

(b) *Huida — Technology Factoring Business*

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

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

(c) *Supply Chain Management*

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

(d) *Hong Kong Operation*

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

1.3 *Online Lending Intermediary Business Division*

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

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

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

1.4 *Insurance Brokerage Business Division*

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

2. Financial Review

2.1 *Overall Financial Data*

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

2.2 *Financial Analysis on Four Principal Business Divisions*

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

2.2.1 *Inclusive Finance Business Division*

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

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

2.2.2 *Technology Finance Business Division*

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

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

2.2.3 *Online Lending Intermediary Business Division*

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

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

2.2.4 *Insurance Brokerage Business Division*

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

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

2.2.5 *Headquarters Management*

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

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

3. Credit Risk

3.1 *Loan Classification and Impairment Allowances*

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

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

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

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

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

3.2 *New Loans under Legal Proceedings*

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

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

4. Borrowings

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

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

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

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

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

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

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

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

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

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

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

5. Capital Expenditure

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

6. Significant Investments, Acquisition and Disposal

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

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

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

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

7. Contingencies, Contractual Obligations and Cash Usage Analysis

7.1 *Contingencies*

As at 31 December 2019, the Group does not have any material contingencies (2018: Nil).

7.2 *Commitments*

(a) *Capital commitments*

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

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

7.3 *Cash Usage Analysis*

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

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

Net Cash Flow from Operating Activities

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

Net Cash Flow from Financing Activities

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

8. Human Resource and Employee Benefits

As at 31 December 2019, the Group had a total of 161 full-time employees, with a decrease of seven people from 168 people as at 31 December 2018. Based on the development of our business, we will formulate diversified human resources optimization plans, and review of our employees' performance so as to adjust the number of our employees and our remuneration policy.

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

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

9. Future Plans Relating to Material Investments

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

10. Events After Reporting Period

(i) Dividend

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

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

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

(iii) Outbreak of Coronavirus Disease 2019

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

PROSPECTS

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

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

Internet Lending Intermediary Business Department: Under the guidance of the regulators, the internet lending intermediary platform of Suzhou Qian Dai was formally transformed on 1 January 2020 to make efforts to obtain licenses for online small-amount loans. It strives to become a licensed online lending institution.

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

FINAL DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Year, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions set forth in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

In the opinion of the Board, the Company has complied with the principles and code provisions set out in the CG Code throughout the Reporting Year, except for code provision A.2.1 which requires that the role of chairman and chief executive officer should be separate and should not be performed by the same person. Given that Mr. Wu Min assumes the roles of both chairman and chief executive officer, the Company deviates from this code provision. The Board considers that this management structure is effective in terms of the formulation and implementation of the Company's strategies and the Company's operations. Notwithstanding the deviation, the Board is of the view that it is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Group and its shareholders. The Board will review the management structure from time to time and the need to separate the roles of the chairman of the Board and the chief executive officer to two individuals.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiry has been made to all the Directors of the Company, and the Directors have confirmed that they have complied with the Model Code throughout the Reporting Year.

ANNUAL RESULTS AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The audit committee of the Company has held a meeting with the auditor of the Company to review the annual results of the Group for the year ended 31 December 2019.

The figures in respect of the results announcement of the Group for the year ended 31 December 2019 have been reviewed and agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 28 May 2020. A notice convening the annual general meeting of the Company will be published and dispatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.cnhuirong.com). The annual report for the year ended 31 December 2019 containing all relevant information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

DEFINITION

Unless otherwise required by the context, terms used in this announcement shall have the same meanings as those defined in the prospectus of the Company dated 16 October 2013.

By Order of the Board
China Huirong Financial Holdings Limited
WU Min
Chairman

Suzhou, China, 26 March 2020

As at the date of this announcement, the executive directors of the Company are Mr. Wu Min and Mr. Zhang Changsong, the non-executive directors of the Company are Mr. Zhuo You, Mr. Zhang Cheng, Mr. Ling Xiaoming and Ms. Zhang Shu and the independent non-executive directors of the Company are Mr. Zhang Huaqiao, Mr. Feng Ke and Mr. Tse Yat Hong.