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 2020

HIGHLIGHTS

	For the year ended or as at 31 December		
	2020	2019	Change
	RMB'000	*RMB'000*	*%*
Operating Results			
Operating income	**259,806**	344,134	(24.50%)
Operating cost	**39,013**	80,130	(51.31%)
Profit attributable to owners of the Company	**2,216**	50,429	(95.61%)
Basic earnings per share (RMB Yuan)	**0.002**	0.046	(95.65%)

	As at 31 December 2020	As at 31 December 2019	Change
	RMB'000	*RMB'000*	*%*
Financial Position			
Total assets	**2,532,555**	3,001,631	(15.63%)
Total liabilities	**590,657**	1,053,187	(43.92%)
Loans to customers	**1,814,211**	1,703,704	6.49%
Net assets	**1,941,898**	1,948,444	(0.34%)

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 2020 (the "**Reporting Year**") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31 December 2020
(All amounts in RMB thousands unless otherwise stated)

		Year ended 31 December	
		2020	2019
	Note		
Operating income		**259,806**	344,134
Interest income	*6*	**250,843**	299,291
Consultancy fee income	*7*	**1,916**	14,567
Commission fee income	*8*	**7,047**	30,276
Operating cost		**(39,013)**	(80,130)
Interest expense	*9*	**(32,880)**	(54,045)
Commission fee expense	*8*	**(6,133)**	(26,085)
Net investment (losses)/gains	*10*	**(4,919)**	11,010
Expected credit losses	*11*	**(125,016)**	(124,088)
Net (losses)/gains on derecognition of financial assets measured at amortized cost	*12*	**(258)**	5,604
Other operating income	*13*	**1,511**	2,097
Net operating income		**92,111**	158,627
General and administrative expenses	*14*	**(52,649)**	(70,300)
Other (losses)/gains, net	*16*	**(17,652)**	2,210
Operating profit and profit before income tax		**21,810**	90,537
Income tax expense	*17*	**(12,038)**	(25,644)
Profit for the year		**9,772**	64,893
Profit is attributable to:			
— Owners of the Company		**2,216**	50,429
— Non-controlling interests		**7,556**	14,464

	Note	Year ended 31 December **2020**	2019
Earnings per share for profit attributable to the owners of the Company (expressed in RMB Yuan)			
— Basic earnings per share	*18*	**0.002**	0.046
— Diluted earnings per share	*18*	**0.002**	0.046
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**9,772**	64,893
Total comprehensive income for the year is attributable to:			
— Owners of the Company		**2,216**	50,429
— Non-controlling interests		**7,556**	14,464
		9,772	64,893

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 2020

(All amounts in RMB thousands unless otherwise stated)

	Note	**As at 31 December 2020**	2019
ASSETS			
Non-current assets			
Property, plant and equipment		**841**	1,649
Right-of-use assets		**43,961**	43,442
Properties under development		**11,769**	—
Investment properties		**1,621**	—
Intangible assets		**3,373**	4,001
Loans to customers	*21*	**110,762**	—
Deferred income tax assets	*20*	**87,744**	76,438
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		**262,011**	127,470
Current assets			
Other current assets		**25,036**	77,131
Commission fee receivables		**557**	1,795
Consulting service fee receivables		**—**	2,289
Loans to customers	*21*	**1,703,449**	1,703,704
Financial assets at fair value through profit or loss	*22*	**107,422**	33,432
Derivative financial instruments		**—**	7,952
Cash at bank and cash on hand	*23*	**434,080**	1,047,858
Total current assets		**2,270,544**	2,874,161
Total assets		**2,532,555**	3,001,631

	Note	As at 31 December **2020**	2019
EQUITY			
Equity attributable to the owners of the Company			
Share capital	*24*	**8,641**	8,632
Share premium	*25*	**602,728**	601,993
Other reserves	*25*	**593,774**	596,266
Retained earnings	*26*	**575,428**	586,212
		1,780,571	1,793,103
Non-controlling interests		**161,327**	155,341
Total equity		**1,941,898**	1,948,444
LIABILITIES			
Non-current liabilities			
Lease liabilities		**6,491**	4,663
Borrowings	*28*	**50,380**	—
Total non-current liabilities		**56,871**	4,663
Current liabilities			
Other current liabilities	*27*	**22,552**	20,478
Current income tax liabilities		**21,813**	27,215
Amounts due to related parties		**25,672**	633
Dividends payable		**1,262**	1,262
Lease liabilities		**2,498**	2,706
Borrowings	*28*	**459,989**	996,230
Total current liabilities		**533,786**	1,048,524
Total liabilities		**590,657**	1,053,187
Total equity and liabilities		**2,532,555**	3,001,631

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2020

(All amounts in RMB thousands unless otherwise stated)

		Attributable to the owners of the Company						
	Note	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling Interests	Total equity
Balance at 31 December 2018		8,632	601,993	596,266	547,656	1,754,547	142,481	1,897,028
Changes on initial application of HKFRS 16	*2.2*	—	—	—	540	540	(7)	533
Restated balance at 1 January 2019		8,632	601,993	596,266	548,196	1,755,087	142,474	1,897,561
Profit for the year		—	—	—	50,429	50,429	14,464	64,893
Other comprehensive income		—	—	—	—	—	—	—
Total comprehensive income for the year		—	—	—	50,429	50,429	14,464	64,893
Transactions with owners in their capacity as owners								
Capital injections from non-controlling interests		—	—	—	—	—	11,003	11,003
Employee share option — value of employee services	*25(b)(i)*	—	—	—	—	—	—	—
Dividends provided for or paid		—	—	—	(12,413)	(12,413)	(12,600)	(25,013)
Total transactions with owners in their capacity as owners		—	—	—	(12,413)	(12,413)	(1,597)	(14,010)
Balance at 31 December 2019		8,632	601,993	596,266	586,212	1,793,103	155,341	1,948,444

	Note	Attributable to the owners of the Company						
		Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling Interests	Total equity
Balance at 31 December 2019		8,632	601,993	596,266	586,212	1,793,103	155,341	1,948,444
Profit for the year		—	—	—	2,216	2,216	7,556	9,772
Other comprehensive income		—	—	—	—	—	—	—
Total comprehensive income for the year		—	—	—	2,216	2,216	7,556	9,772
Transactions with owners in their capacity as owners								
Issue of ordinary shares under employee share scheme	*25(b)(ii)*	9	735	(187)	—	557	—	557
Transactions with non-controlling interests	*25(c)*	—	—	(555)	—	(555)	(29,445)	(30,000)
Capital injections from non-controlling interests	*25(d)*	—	—	(1,750)	—	(1,750)	41,750	40,000
Dividends provided for or paid		—	—	—	(13,000)	(13,000)	(13,875)	(26,875)
Total transactions with owners in their capacity as owners		9	735	(2,492)	(13,000)	(14,748)	(1,570)	(16,318)
Balance at 31 December 2020		8,641	602,728	593,774	575,428	1,780,571	161,327	1,941,898

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31 December 2020
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2020	2019
Cash flows from operating activities			
Cash generated from operating activities		**455,722**	22,226
Interest received from bank deposits		**17,352**	12,174
Interest paid		**(33,546)**	(53,765)
Income tax paid		**(28,746)**	(33,678)
Net cash inflow/(outflow) from operating activities		**410,782**	(53,043)
Cash flows from investing activities			
Payments for acquisition of a subsidiary, net of cash acquired		**—**	(490)
Payments for acquisition of an associate		**—**	(19,964)
Payments for property, plant and equipment		**(16)**	(470)
Payments for intangible asset		**(537)**	(513)
Payments for properties under development		**(6,706)**	—
Net cash outflow from investing activities		**(7,259)**	(21,437)
Cash flows from financing activities			
Proceeds from borrowings		**1,291,259**	1,441,013
Proceeds from issuance of ordinary shares under employee share scheme		**557**	—
Repayments of borrowings		**(1,750,986)**	(1,301,540)
Repayments of lease liabilities		**(3,126)**	(4,028)
Transactions with non-controlling interests	*25(c)*	**(30,000)**	—
Capital injections from non-controlling interests	*25(d)*	**40,000**	11,003
Dividends paid to owners of the Company		**(13,000)**	(12,416)
Dividends paid to non-controlling interests		**(13,875)**	(12,600)
Net cash (outflow)/inflow from financing activities		**(479,171)**	121,432
Net (decrease)/increase in cash and cash equivalents		**(75,648)**	46,952
Cash and cash equivalents at beginning of year		**181,038**	133,736
Effects of exchange rate changes on cash and cash equivalents		**(1,471)**	350
Cash and cash equivalents at end of year	*23*	**103,919**	181,038

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020
(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 31 March 2021.

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.
- Investment property — 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 2020:

- *Definition of Material — amendments to HKAS 1 and HKAS 8*
- *Definition of a Business — amendments to HKFRS 3*
- *Interest Rate Benchmark Reform — amendments to HKFRS 9, HKAS 39 and HKFRS 7*
- *Revised Conceptual Framework for Financial Reporting*

The Group also elected to adopt the following amendments early.

- *Annual Improvements to HKFRS Standards 2018–2020 Cycle.*
- *COVID-19-Related Rent Concessions — amendments to HKFRS 16*

The 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, except for the Amendment to HKFRS 16 set out above.

(iv) ***New standards and interpretations relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2020 by the Group***

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 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.

2.2 Changes in accounting policies

2.2.1 *HKFRS 16*

The Group has early adopted Amendment to HKFRS 16 COVID-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b. any reduction in lease payments affects only payments due on or before 30 June 2021; and c. there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling RMB16 thousand have been accounted for as negative variable lease payments and recognized in general and administrative expenses in the statement of comprehensive income for the year ended 31 December 2020, with a corresponding adjustment to the lease liabilities. There is no impact on the opening balance of equity at 1 January 2020.

2.3 Principles of consolidation and equity accounting

(i) *Subsidiaries*

Subsidiaries are all entities (including a Structured Entity ("SE")) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

a. *Subsidiary from contractual arrangements*

In December 2011, the Group's wholly owned subsidiary, Suzhou Huifang Tongda Information Technology Company Limited (蘇州匯方同達信息科技有限公司) ("Huifang Tongda"), has entered a series of contractual agreements with Wuzhong Pawnshop, Wuzhong Pawnshop's direct owners namely Jiangsu Wuzhong Jiaye Group Co., Ltd. (江蘇吳中嘉業集團有限公司) ("Wuzhong Jiaye") and Suzhou New District Hengyue Management Consulting Co., Ltd. (蘇州新區恒悦管理諮詢有限公司) ("Hengyue Consulting"), and their respective owners, which enables the Group to:

- exercise effective control over Wuzhong Pawnshop;
- exercise owners' voting rights of Wuzhong Jiaye and Hengyue Consulting during the general meetings of Wuzhong Pawnshop;

- receive a majority of the economic benefits of Wuzhong Pawnshop through service fees in consideration for the management and consulting services provided by Huifang Tongda;

- receive the residual economic benefits of Wuzhong Pawnshop by exercising an exclusive option to purchase the entire equity interest in Wuzhong Pawnshop when and to the extent permitted under PRC laws; and

- obtain a pledge over the entire equity interest of Wuzhong Jiaye and Hengyue from their respective owners.

Since both the Group and Wuzhong Pawnshop were then controlled by the same Ultimate Shareholders, the above reorganisation of Wuzhong Pawnshop (the "Reorganisation") was accounted for using the accounting principle similar to that of a reverse acquisition.

The Group does not have any equity interest in Wuzhong Pawnshop. However, as a result of the Reorganisation, the Group controls Wuzhong Pawnshop and is considered to be the primary beneficiary of the results, assets and liabilities of Wuzhong Pawnshop. Consequently, the Company treats Wuzhong Pawnshop as an indirect subsidiary under HKFRS. The Group has included the financial position and results of Wuzhong Pawnshop in its consolidated financial statements.

b. *Other subsidiaries*

Except for the Reorganisation as described in Note 2.3(i)a, the Group applies the acquisition method to account for business combinations (Note 2.4).

(ii) *Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

(iii) *Equity method*

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associates.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.12.

(iv) ***Changes in ownership interests***

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in other reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision-maker in resource allocation and performance assessment of each operating segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

2.7 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the consolidated statement of comprehensive income. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within interest expense. All other foreign exchange gains and losses are presented in consolidated statement of comprehensive income on a net basis within other (losses)/gains, net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income ("FVOCI") are recognized in other comprehensive income.

(iii) *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Leasehold improvements	3–5 years
Vehicles	5 years
Furniture and equipment	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

2.9 Properties under development

Properties under development are stated at the lower of cost and net realizable value. Development cost of properties comprises cost of land use rights, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties.

Net realizable value takes into account the price ultimately expected to be realized, less applicable variable expenses and the anticipated costs to completion.

2.10 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are presented in profit or loss as part of net investment (losses)/gains.

2.11 Intangible assets

(a) *Computer Software*

Intangible assets comprise Computer software, which is initially recognized at cost. The cost less estimated residual values (if any) of Computer software is amortized on a straight-line basis over its useful lives, and charged to the consolidated statement of comprehensive income. Impaired Computer software is amortized net of accumulated impairment losses.

(b) *License*

Licenses acquired in a business combination is recognized at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

(c) *Amortization methods and periods*

The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

Computer software	10 years
Licenses	5 years

2.12 Impairment of non-financial assets

Non-financial assets that have a definite useful life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting year.

2.13 Financial assets and liabilities

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 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.

2.13.1 *Financial assets*

(i) *Classification and subsequent measurement*

The Group has classified 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 SPPI, 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 (losses)/gains, net". 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 (losses)/gains, net" and impairment expenses are presented as separate line item in the statement of comprehensive income.

- 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 2020, the Group holds debt instruments measured at amortized cost and fair value through profit or loss.

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 SPPI. 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 2020, 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.

2.13.2 *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.

- Financial guarantee contracts (see Note 2.15).

(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.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.15 Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments; and

- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2.16 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 (losses)/gains.

2.17 Repossessed collateral assets

Repossessed collateral assets are accounted for as "repossessed assets" and reported under "other current assets" upon derecognition of relevant loans. Repossessed collateral assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting year. When the fair value less costs to sell is lower than a repossessed collateral asset's carrying amount, an impairment loss is recognized in the consolidated statement of comprehensive income.

Any gain or loss arising on the disposal of the repossessed collateral asset is included in the consolidated statement of comprehensive income in the period during which the item is disposed.

2.18 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

2.19 Share capital

Ordinary shares are classified as equity (Note 24).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting year but not distributed at the end of the reporting year.

2.21 Earnings per share

(i) *Basic earnings per share*

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

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share, by taking into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.22 Current and deferred income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting year and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.23 Employee benefits

(i) ***Short-term obligations***

Liabilities for wages and salaries, including accumulating sick leave that are expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting year and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as accrued employee benefits in the consolidated statement of financial position.

(ii) ***Pension obligations***

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made.

Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves the Group.

(iii) ***Other social security obligations***

The PRC employees of the Group are entitled to participate in various government-sponsored social security funds, including medical, housing and other welfare benefits. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries and the contributions are recognized in the consolidated statement of comprehensive income for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contributions payable in the reporting year.

2.24 Share-based payments

Employee Options

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting year, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

2.25 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

2.26 Leases

(a) *The Group as Lessee*

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

(b) *The Group as Lessor*

Lease income from operating leases where the Group is a lessor is recognized in other operating income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statement of financial position based on their nature.

2.27 Revenue recognition

(i) *Interest income*

Interest income is calculated by multiplying the effective interest rate by the gross carrying amount of financial assets.

(ii) *Consultancy and insurance agency commission fee income*

The Group provides consultancy and insurance agency services to its clients.

The consultancy services include multiple performance obligations and the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Where the performance obligations are not directly observable, they are estimated based on expected cost plus margin.

The insurance agency services contain a series of distinct services that are substantially the same and have the same pattern of transfer. Therefore, the services are identified as one performance obligation.

Revenue from providing such services is recognized in the accounting period in which the services are rendered.

2.28 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to an entity within the Group with no future related costs are recognized as income of the period in which they become receivable.

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; and
- 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 Stages 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 2020 are set out below. The scenarios "base", "upside" and "downside" are used for all portfolios.

		2021
Urban Per Capita Disposable Income	Base	9.19
	Upside	9.29
	Downside	9.08
National Housing Sensitive index	Base	99.99
	Upside	100.06
	Downside	99.93
Business Climate Index	Base	123.80
	Upside	123.97
	Downside	123.64

The weightings assigned to each economic scenario at 31 December 2020 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;

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

(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 2020 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%	–0.15%	–0.19%	–0.23%
	No change	0.04%	—	–0.04%
	–1%	0.31%	0.27%	0.23%

Unsecured loans to customers		**Urban Per Capita Disposable Income**		
		–1%	**No change**	**+1%**
Business Climate index	+1%	–0.11%	–0.39%	–0.66%
	No change	0.29%	—	–0.28%
	–1%	0.66%	0.37%	0.08%

As at 31 December 2020, 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 2020**
ECL allowances assuming past due loans to customers at Stage 1 move down to Stage 2	605,258
Current ECL allowances	603,670
Difference	1,588
Difference percentage	0.26%

(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				
	2020				2019
	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)	**386,444**	**9,447**	**870,605**	**1,266,496**	1,171,957
Unsecured loans to customers (b)	**890,175**	**—**	**261,210**	**1,151,385**	997,791
Gross carrying amount	**1,276,619**	**9,447**	**1,131,815**	**2,417,881**	2,169,748
Loss allowances	**(33,853)**	**(2,160)**	**(567,657)**	**(603,670)**	(466,044)
Carrying amount	**1,242,766**	**7,287**	**564,158**	**1,814,211**	1,703,704
Term deposits with banks					
Credit grade					
AAA	**325,306**	**—**	**—**	**325,306**	847,725
AA+	**—**	**—**	**—**	**—**	—
A	**—**	**—**	**—**	**—**	—
Gross carrying amount	**325,306**	**—**	**—**	**325,306**	847,725
Loss allowances	**(164)**	**—**	**—**	**(164)**	(164)
Carrying amount	**325,142**	**—**	**—**	**325,142**	847,561
Other current assets (excluding repossessed assets)					
Gross carrying amount	**4,513**	**—**	**2,563**	**7,076**	61,265
Loss allowances	**—**	**—**	**(1,607)**	**(1,607)**	(3,320)
Carrying amount	**4,513**	**—**	**956**	**5,469**	57,945
Guarantee and commitment					
Financial guarantees exposure	**48,550**	**—**	**—**	**48,550**	—

(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 27.2% of the total loans to customers as at 31 December 2020 (31 December 2019: 28.1%). Interest income from the top five customers accounted for 27.0% of total interest income for the year ended 31 December 2020 (2019: 19.1%).

(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, jewellery and works of art.

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 2020, 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 2020	
Gross exposure	870,605
Less: ECL allowances	(356,576)
Carrying amount	514,029
Fair Value of collateral held	833,665

(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 2020 is RMB3,478 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. 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 RMB385 thousand for the year ended 31 December 2020 (2019: RMB1.6 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			
	2020		2019	
	USD	***HKD***	*USD*	*HKD*
Cash at bank and cash on hand	**240,109**	**379**	373,763	9,410
Loans to customers	**—**	**22,364**	—	20,745
Derivative financial instruments	**—**	**—**	7,952	—
Borrowings	**—**	**—**	(178,647)	—
Net exposure	**240,109**	**22,743**	203,068	30,155

During the year, the following foreign-exchange related amounts were recognized in the consolidated statement of comprehensive income as other (losses)/gains:

	Year ended 31 December	
	2020	2019
Exchange losses	**(18,005)**	(1,115)

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 RMB2.6 million (2019: RMB4.1million) lower/higher for the year ended 31 December 2020, 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).

The Group monitors the fair value of its portfolio on a timely basis and adjusts the position according to its analysis and prospect of the market.

The Group's equity investments are publicly traded. If the stock price increases/decreases by 5%, the profit before income tax would have been RMB1.2 million (2019: RMB1.7 million) higher/lower for the year ended 31 December 2020.

The Group's investment properties are measured at fair value, which is affected by the changes in property price. For the year ended 31 December 2020, the changes in property price had no significant impact on its fair value.

(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 undrawn bank borrowing facilities of RMB49.6 million as at 31 December 2020 (31 December 2019: 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 2020						
Cash at bank and cash on hand	258,110	160,919	120,382	—	—	539,411
Financial assets at fair value through profit or loss	24,982	2,000	80,880	—	—	107,862
Loans to customers	169,827	759,141	248,578	122,337	579,761	1,879,644
Total financial assets	452,919	922,060	449,840	122,337	579,761	2,526,917
Borrowings	(129,080)	(118,343)	(247,569)	(71,000)	—	(565,992)
Amounts due to related parties	(633)	—	(25,056)	—	—	(25,689)
Lease liabilities	(451)	(892)	(1,565)	(7,330)	—	(10,238)
Other financial liabilities	(4,745)	—	—	—	—	(4,745)
Total financial liabilities	(134,909)	(119,235)	(274,190)	(78,330)	—	(606,664)
Net liquidity gap	318,010	802,825	175,650	44,007	579,761	1,920,253

	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, where fair values approximate to their amortised costs.

Financial assets at fair value through profit or loss are equity investments and structured deposits held by the Group as at 31 December 2020 (2019: Financial assets at fair value through profit or loss are equity investments and derivatives financial instruments held by the Group).

(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 2020				
Financial assets at fair value through profit or loss				
— Equity investments	24,542	440	—	24,982
— Structured deposits	—	—	82,880	82,880
	24,542	440	82,880	107,862

	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 no transfers between Levels 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 2020.

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 investment is based on the quoted market price considering the liquidity discount rate for the stock lockup period as at 31 December 2020.

The fair value of Level 3 structured deposits is calculated by applying the discounted cash flow model as at 31 December 2020.

(c) ***Fair value measurements using significant unobservable inputs (level 3)***

The following table presents the changes in Level 3 items for the year ended 31 December 2020 and 31 December 2019:

	Structured deposits
Opening balance as at 1 January 2020	—
Acquisitions	82,880
Closing balance as at 31 December 2020	82,880

There were no financial assets in Level 3 as at 31 December 2019.

(d) ***Valuation inputs and relationships to fair value***

The following table summarises the quantitative information about the significant unobservable inputs used in Level 3 fair value measurements:

Description	Fair value at 31 December 2020	Unobservable inputs	Range of inputs 31 December 2020	Relationship of unobservable inputs to fair value
Structured deposits	82,880	Discount rate	2.47%	A change in the discount rate by 100 bps would decrease/increase the FV by RMB750 thousand
		Expected yield to maturity	2.49%-2.60%	A change in the discount rate by 100 bps would increase/decrease the FV by RMB823 thousand

(e) ***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.

The main Level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets are determined using the interest rate of one year treasury to reflect current market assessments of the time value of money and the risk specific to the asset.

- Expected yield to maturity for financial assets are determined using the interest rate of exchange rate related structured deposits which is calculated by recently observable exchange rates.

4.3 Fair value of non-financial assets and liabilities

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

	Level 1	Level 2	Level 3	Total
As at 31 December 2020				
Investment properties	—	1,621	—	1,621

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
Investment properties	—	—	—	—

There were no transfers between Levels 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.

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

The Group obtains independent valuations for its investment properties at least annually.

At the end of each reporting period, the management update their assessment of the fair value of each property, taking into account the most recent independent valuations. The management determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. All resulting fair value estimates for properties are included in Level 2.

4.4 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 2020, the Group's strategy, which was unchanged from 2019, 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 2020 and 31 December 2019 were as follows:

	As at 31 December	
	2020	2019
Borrowings *(Note 28)*	**510,369**	996,230
Less: Cash and cash equivalents *(Note 23)*	**(103,919)**	(181,038)
Net debt	**406,450**	815,192
Total equity	**1,941,898**	1,948,444
Total capital	**2,348,348**	2,763,636
Gearing ratio	**17.31%**	29.50%

(i) *Loan covenants*

The Group has no financial covenants under the terms of the borrowing facilities for the year ended 31 December 2020 (2019: under the terms of the borrowing facility of Huifang Tongda, the total amount of its guarantee for third party liabilities must not be more than 4 times of its net assets).

5 SEGMENT INFORMATION

The Company's Board of Directors is the Group's chief operating decision-maker, which assesses the financial performance and position of the Group and makes strategic decisions.

The Group manages its business under four operating and reportable segments for the year ended 31 December 2020 (2019: same).

(a) 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 secured loans and unsecured loans to customers.

Technology finance business division: 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.

(b) Segment analysis

The profit or loss before income tax for each reportable segment includes 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.

Audited	Inclusive finance business division	Technology finance business division	Online lending intermediary business division	Insurance brokerage business division	Headquarter and others	Elimination	Total
	For the year ended 31 December 2020						
External operating income	**217,439**	**11,037**	**1,886**	**6,049**	**23,395**	**—**	**259,806**
Internal operating income	**1,450**	**—**	**—**	**—**	**—**	**(1,450)**	**—**
External operating cost	**(12,694)**	**(132)**	**—**	**(6,133)**	**(20,054)**	**—**	**(39,013)**
Internal operating cost	**(39)**	**—**	**—**	**—**	**(1,450)**	**1,489**	**—**
Net investment losses	**—**	**—**	**—**	**—**	**(4,919)**	**—**	**(4,919)**
Expected credit losses	**(121,413)**	**(1,278)**	**—**	**—**	**(2,325)**	**—**	**(125,016)**
Net losses on derecognition of financial assets measured at amortized cost	**(258)**	**—**	**—**	**—**	**—**	**—**	**(258)**
Other operating income	**702**	**644**	**13**	**49**	**142**	**(39)**	**1,511**
General and administrative expenses	**(17,416)**	**(6,628)**	**(2,290)**	**(1,634)**	**(24,681)**	**—**	**(52,649)**
Other (losses)/gains, net	**101**	**(2,187)**	**—**	**—**	**(15,566)**	**—**	**(17,652)**
Profit/(Loss) before income tax	**67,872**	**1,456**	**(391)**	**(1,669)**	**(45,458)**	**—**	**21,810**
Capital expenditure	**(81)**	**88**	**(138)**	**—**	**(7,128)**	**—**	**(7,259)**

	As at 31 December 2020						
	Inclusive finance business division	**Technology finance business division**	**Online lending intermediary business division**	**Insurance brokerage business division**	**Headquarter and others**	**Elimination**	**Total**
Segment assets	**1,876,635**	**183,769**	**18,845**	**4,719**	**2,797,726**	**(2,349,139)**	**2,532,555**
Segment liabilities	**(182,463)**	**(62,936)**	**(14)**	**(58)**	**(460,148)**	**114,962**	**(590,657)**

Audited	Inclusive finance business division	Technology finance business division	Online lending intermediary business division	Insurance brokerage business division	Headquarter and others	Elimination	Total
	For the year ended 31 December 2019						
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 investment gains	—	—	—	—	11,010	—	11,010
Expected credit losses	(124,720)	632	—	—	—	—	(124,088)
Net gains on derecognition of financial assets measured at amortized cost	5,604	—	—	—	—	—	5,604
Other operating income	1,297	151	1	79	569	—	2,097
General and administrative expenses	(24,986)	(3,065)	(7,376)	(1,851)	(33,022)	—	(70,300)
Other (losses)/gains, net	3,173	(122)	124	—	(965)	—	2,210
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)

	Inclusive finance business division	Technology finance business division	Online lending intermediary business division	Insurance brokerage business division	Headquarter and others	Elimination	Total
	As at 31 December 2019						
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

6 INTEREST INCOME

	Year ended 31 December	
	2020	2019
Interest income from loans to customers		
— Secured loans to customers	**139,478**	158,246
— Unsecured loans to customers	**98,195**	116,693
Interest income from bank deposits	**13,170**	24,352
	250,843	299,291

7 CONSULTANCY FEE INCOME

	Year ended 31 December	
	2020	2019
P2P platform consultancy fee income (a)	**1,865**	11,965
Loan consultancy fee income	**44**	2,443
Other consultancy fee income	**7**	159
	1,916	14,567

(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 9.0% per annum to the borrowers for the year ended 31 December 2020 (2019: from 2.2% to 10.0%). In September 2020, the Group ceased the business operation of Suzhou Qian Dai completely.

8 COMMISSION FEE INCOME AND EXPENSE

	Year ended 31 December	
	2020	2019
Commission fee income		
Insurance agency commission fee income	**6,032**	30,166
Other commission fee income	**1,015**	110
	7,047	30,276
Commission fee expense		
Insurance agency commission fee expense	**6,133**	26,085
	6,133	26,085

9 INTEREST EXPENSE

	Year ended 31 December	
	2020	2019
Interest expense on bank borrowings	**29,462**	46,826
Interest expense on micro-finance company borrowings	**2,924**	4,765
Other interest expenses	**494**	2,454
	32,880	54,045

10 NET INVESTMENT (LOSSES)/GAINS

	Year ended 31 December	
	2020	2019
Fair value (losses)/gains — financial assets at fair value through profit or loss	**(2,401)**	2,105
Fair value (losses)/gains — derivative financial instruments	**(7,952)**	7,952
Net gains from disposal of financial assets	**4,052**	—
Cash dividend of listed equity securities	**1,382**	953
	(4,919)	11,010

11 EXPECTED CREDIT LOSSES

	Year ended 31 December	
	2020	2019
Expected credit losses on loans to customers	**124,783**	123,120
Expected credit losses on financial guarantees	**1,612**	—
Expected credit losses on other current assets	**(1,379)**	968
	125,016	124,088

12 NET (LOSSES)/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 (losses)/gains on derecognition of financial assets measured at amortized cost.

13 OTHER OPERATING INCOME

	Year ended 31 December	
	2020	2019
Net gains from disposal of repossessed assets	**659**	1,297
Rental income	**568**	—
Others	**284**	800
	1,511	2,097

14 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2020	2019
Employee benefit expenses *(Note 15)*	**28,416**	38,851
Depreciation and amortisation	**4,856**	6,457
Professional and consultancy fees	**3,947**	7,517
Telephone, utilities and office expenses	**3,356**	3,429
Auditors' remuneration	**2,900**	2,900
Transportation, meal and accommodation	**2,895**	3,497
Operating lease payments	**1,830**	2,466
Value-added tax surcharges	**1,445**	1,766
Commission fee	**405**	398
Advertising costs	**241**	471
Other expenses	**2,358**	2,548
	52,649	70,300

15 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2020	2019
Wages and salaries	**13,567**	14,469
Discretionary bonuses	**9,774**	17,074
Pension	**66**	1,978
Other social security obligations	**5,009**	5,330
	28,416	38,851

16 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2020	2019
Net foreign currency losses	**(18,005)**	(1,115)
Government grants	**333**	3,360
Others	**20**	(35)
	(17,652)	2,210

17 INCOME TAX EXPENSE

(a) Income tax expense

	Year ended 31 December	
	2020	2019
Current tax		
Current tax on profits for the year	**23,344**	31,514
Adjustments for current tax of prior years	**—**	—
Total current tax expense	**23,344**	31,514
Deferred income tax		
Increase in deferred tax assets *(Note 20)*	**(11,306)**	(5,870)
Total deferred tax benefit	**(11,306)**	(5,870)
Income tax expense	**12,038**	25,644

All income tax expense is attributable to profit from continuing operations in the year ended 31 December 2020 (2019: same).

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

	Year ended 31 December	
	2020	2019
Operating profit and profit before income tax	**21,810**	90,537
Tax calculated at domestic tax rates applicable to profits in the respective areas	**6,892**	22,608
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
— Entertainment expenses	**397**	415
— Investment income attributable to non-controlling interests	**(321)**	(620)
— Cash dividends of listed equity securities	**(346)**	(238)
— Sundry items	**168**	170
Subtotal	**6,790**	22,335
Reversal of previously recognized deferred tax assets	**36**	—
Adjustments for current tax of prior years	**(677)**	653
Unused tax losses for which no deferred tax asset has been recognized	**5,889**	1,323
PRC withholding tax	**—**	1,333
Income tax expense	**12,038**	25,644

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 2020 (2019: same).

According to the Corporate Income Tax Law of the PRC, 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	
	2020	2019
Unused tax losses for which no deferred tax asset has been recognized @ 25%	**20,181**	2,044
Unused tax losses for which no deferred tax asset has been recognized @ 16.5%	**4,534**	4,920
Unused tax losses for which no deferred tax asset has been recognized @ 10%	**962**	—
Unused tax losses for which no deferred tax asset has been recognized	**25,677**	6,964
Potential tax benefit @ 25%	**5,045**	511
Potential tax benefit @ 16.5%	**748**	812
Potential tax benefit @ 10%	**96**	—
Potential tax benefit	**5,889**	1,323

The unused tax losses were incurred by the Company, Huifang Investment, Sifang Investment, Rongda Investment, Huifang Supply Chain, Huifang Rongda, Qingdao Wanchen, Sichuan Aomeishu, Huifang Technology and Huifang Anda 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 and Note 2.22 for significant judgements made.

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	
	2020	2019
Profit attributable to owners of the Company (RMB'000)	**2,216**	50,429
Weighted average number of ordinary shares in issue (in thousands)	**1,087,769**	1,086,787
Basic earnings per share (RMB Yuan)	**0.002**	0.046

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	
	2020	2019
Profit attributable to owners of the Company (RMB'000)	**2,216**	50,429
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share (in thousands)(i)	**1,095,771**	1,097,486
Dilutive earnings per share (RMB)	**0.002**	0.046

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

(i) *Weighted average number of shares used as the denominator*

	Year ended 31 December	
	2020	2019
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (in thousands)	**1,087,769**	1,086,787
Adjustments for calculation of diluted earnings per share: Options (in thousands)	**8,002**	10,699
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share (in thousands)	**1,095,771**	1,097,486

19 DIVIDENDS

No annual dividends in respect of the year ended 31 December 2020 is to be declared by the Board of Directors by the release date of this financial statement.

20 DEFERRED INCOME TAX

	Year ended 31 December 2020	2019
The balance comprises temporary differences attributable to:		
ECL allowances charge on financial assets	**79,746**	68,961
Net loss from financial instruments at fair value through profit or loss	**5,616**	4,654
Recoverable tax losses	**1,382**	1,787
Share-based payment expense	**1,000**	1,036
Total deferred tax assets	**87,744**	76,438
Offsetting of deferred tax liabilities pursuant to off-setting provisions	**—**	—
Net deferred tax assets	**87,744**	76,438

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)/ losses 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 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
At 1 January 2020	68,961	4,654	1,787	1,036	76,438
Credited/(charged) to the consolidated statement of comprehensive income	10,785	962	(405)	(36)	11,306
At 31 December 2020	79,746	5,616	1,382	1,000	87,744

As at 31 December 2020, it is estimated that deferred income tax assets will be reversed over one year (31 December 2019: same).

21 LOANS TO CUSTOMERS

Non-current

	As at 31 December	
	2020	2019
Loans to customers, gross		
Unsecured loans	**115,332**	—
— *Guaranteed loans*	**115,332**	—
Less: ECL allowances	**(4,570)**	—
Loans to customers, net	**110,762**	—

Current

	As at 31 December	
	2020	2019
Loans to customers, gross		
Secured loans	**1,266,496**	1,171,957
— *Real estate backed loans*	**1,238,560**	1,137,217
— *Personal property backed loans*	**27,936**	34,740
Unsecured loans	**1,036,053**	997,791
— *Equity interest backed loans*	**528,730**	511,846
— *Guaranteed loans*	**237,854**	224,229
— *Other unsecured loans*	**269,469**	261,716
	2,302,549	2,169,748
Less: ECL allowances		
Secured loans	**(363,747)**	(263,784)
Unsecured loans	**(235,353)**	(202,260)
	(599,100)	(466,044)
Loans to customers, net	**1,703,449**	1,703,704

Loans to customers arise from the Group's lending services. The current loan periods granted to customers are within one year. The terms of non-current loans granted to customers are between three to five years. The real estate backed and equity interest backed loans provided to customers bear fixed interest rates ranging from 10.00% to 24.00% per annum in the year ended 31 December 2020 (2019: from 10.00% to 25.00%).

Guaranteed loans granted to customers bear fixed interest rates from 6.00% to 25.20% per annum in the year ended 31 December 2020 (2019: from 6.00% to 25.16%).

Other unsecured loans granted to customers bear fixed interest rates from 9.00% to 18.00% per annum in the year ended 31 December 2020 (2019: from 10.00% to 17.00%).

Loans to customers are denominated in RMB and HKD. The impairment allowances are related to loans secured by equity interest backed loans, real estate backed loans, guaranteed loans and other unsecured loans (Note 3.1(a)).

As at 31 December 2020, renewed loans amounted to RMB360.6 million (2019: RMB180.5 million), which include real estate backed loans and equity interest backed loans (2019: renewed loans are all real estate backed loans).

(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:

Non-current

	As at 31 December 2020		
	Secured loans to customers	**Unsecured loans to customers**	**Total**
Within 3 months	—	14,325	14,325
3–6 months	—	11,649	11,649
6–12 months	—	84,788	84,788
	—	110,762	110,762

As at 31 December 2020, there is no balance of non-current loans to customers.

Current

	As at 31 December			
	2020			**2019**
	Secured loans	**Unsecured loans**	**Total**	**Total**
Within 3 months	191,755	399,846	591,601	617,700
3–6 months	92,391	134,185	226,576	210,952
6–12 months	64,025	200,438	264,463	168,485
12–24 months	19,757	16,102	35,859	15,319
Over 24 months	368	—	368	—
Past due (i)	534,454	50,128	584,582	691,248
	902,750	800,699	1,703,449	1,703,704

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

Current

	As at 31 December			
	2020			2019
	Secured loans	Unsecured loans	Total	Total
Past due within one month	13,137	—	13,137	68,012
Past due between one and three months	7,287	—	7,287	10,177
Past due over three months	514,030	50,128	564,158	613,059
	534,454	50,128	584,582	691,248

(b) Movements on ECL allowances for loans to customers

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

Non-current

Unsecured loans	Year ended 31 December 2020			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Loss allowances as at 31 December 2019	—	—	—	—
New loans to customers originated	7,549	—	—	7,549
Changes in PDs/LGDs/EADs	(2,914)	—	—	(2,914)
Loans to customers derecognized during the year other than write-offs	(65)	—	—	(65)
Loss allowances as at 31 December 2020	4,570	—	—	4,570

Current

Secured loans	**Year ended 31 December 2020**			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 31 December 2019	4,371	1,745	257,668	263,784
Transfers:				
Transfers from Stage 1 to Stage 2	(1,599)	18,674	—	17,075
Transfers from Stage 2 to Stage 3	—	(12,416)	28,959	16,543
New loans to customers originated	6,740	—	—	6,740
Changes in PDs/LGDs/EADs	513	(58)	75,735	76,190
Unwind of discount	—	—	10,624	10,624
Loans to customers derecognized during the year other than write-offs	(5,014)	(5,785)	(13,088)	(23,887)
Write-offs	—	—	(3,322)	(3,322)
Loss allowances as at 31 December 2020	5,011	2,160	356,576	363,747

Current

Unsecured loans	**Year ended 31 December 2020**			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 31 December 2019	27,921	—	174,339	202,260
Transfers:				
Transfers from Stage 1 to Stage 2	(4,243)	54,958	—	50,715
Transfers from Stage 2 to Stage 3	—	(24,013)	53,678	29,665
New loans to customers originated	126,962	—	1,979	128,941
Changes in PDs/LGDs/EADs	(9,903)	—	16,491	6,588
Unwind of discount	—	—	10,056	10,056
Loans to customers derecognized during the year other than write-offs	(116,465)	(30,945)	(45,306)	(192,716)
Write-offs	—	—	(156)	(156)
Loss allowances as at 31 December 2020	24,272	—	211,081	235,353

Current

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

Current

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)
Loss allowances as at 31 December 2019	27,921	—	174,339	202,260

(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:

Non-current

Unsecured loans	Year ended 31 December 2020			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Gross carrying amount as at 31 December 2019	—	—	—	—
Loans to customers derecognized during the year other than write-offs	(1,000)	—	—	(1,000)
New loans to customers originated	116,000	—	—	116,000
Changes in interest accrual	332	—	—	332
Gross carrying amount as at 31 December 2020	115,332	—	—	115,332

Current

Secured loans	Year ended 31 December 2020			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Gross carrying amount as at 31 December 2019	362,602	11,922	797,433	1,171,957
Transfers:				
Transfers from Stage 1 to Stage 2	(87,931)	87,931	—	—
Transfers from Stage 2 to Stage 3	—	(61,301)	61,301	—
Loans to customers derecognized during the year other than write-offs	(464,886)	(29,080)	(65,000)	(558,966)
New loans to customers originated	577,214	—	—	577,214
Changes in interest accrual	(555)	(25)	80,193	79,613
Write-offs	—	—	(3,322)	(3,322)
Gross carrying amount as at 31 December 2020	386,444	9,447	870,605	1,266,496

Current

Unsecured loans	**Year ended 31 December 2020**			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Gross carrying amount as at 31 December 2019	750,158	—	247,633	997,791
Transfers:				
Transfers from Stage 1 to Stage 2	(208,499)	208,499	—	—
Transfers from Stage 2 to Stage 3	—	(86,799)	86,799	—
Loans to customers derecognized during the year other than write-offs	(3,086,305)	(121,700)	(87,705)	(3,295,710)
New loans to customers originated	3,333,958	—	10,500	3,344,458
Changes in interest accrual	(13,386)	—	4,146	(9,240)
Write-offs	—	—	(156)	(156)
FX and other movements	(1,083)	—	(7)	(1,090)
Gross carrying amount as at 31 December 2020	774,843	—	261,210	1,036,053

Current

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

Current

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

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	
	2020	2019
Non-current assets		
Equity securities	**440**	440
Current assets		
Equity securities (a)	**24,542**	33,432
Structured deposits (b)	**82,880**	—
	107,422	33,432
	107,862	33,872

(a) No equity securities (31 December 2019: RMB29.2 million) have been pledged with a securities company to secure borrowings (31 December 2019: RMB10.0 million) from the securities company (Note 28).

(b) The interest rates of structured deposits are related to the exchange rate and are all with maturity within one year.

23 CASH AT BANK AND CASH ON HAND

	As at 31 December	
	2020	2019
Cash on hand	**1,175**	1,859
Demand deposits with banks	**102,744**	179,179
Deposits with securities company	**—**	1,907
Interest receivable from bank deposits	**5,019**	17,352
Term deposits with banks with original maturities over 3 months, net	**325,142**	847,561
Term deposits with banks with original maturities over 3 months, gross	**325,306**	847,725
Less: ECL allowances	**(164)**	(164)
	434,080	1,047,858

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

	As at 31 December	
	2020	2019
RMB	**193,592**	664,685
US dollar	**240,109**	373,763
Hong Kong dollar	**379**	9,410
	434,080	1,047,858

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

	As at 31 December	
	2020	2019
Cash at bank and cash on hand	**434,080**	1,047,858
Less: Unrestricted term deposits with banks with original maturities over 3 months	**(36,000)**	(41,300)
Restricted deposits with securities company	**—**	(1,907)
Interest receivable from bank deposits	**(5,019)**	(17,352)
Restricted term deposits pledged with banks with original maturities over 3 months	**(289,142)**	(806,261)
	103,919	181,038

As at 31 December 2020, no restricted deposits with securities company are pledged to secure borrowings (2019: restricted deposits with securities company of RMB1,907 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) (Note 28).

As at 31 December 2020, restricted term deposits of US$33.8 million (2019: US$50.2 million), which is equivalent to RMB220.5 million (2019: RMB350.2 million), are pledged with banks to secure bank borrowings with principal amount of RMB210.8 million (2019: RMB315.0 million) (Note 28).

As at 31 December 2020, restricted term deposits of RMB68.6 million (2019: RMB275.9 million) are pledged with banks to secure bank borrowings with principal amount of RMB65.5 million (2019: RMB261.5million) (Note 28).

As at 31 December 2020, no restricted term deposits in RMB were pledged with banks to secure bank borrowings in USD (2019: restricted term deposits of RMB180.2 million were pledged with banks to secure bank borrowings of USD25.6 million, which is equivalent to RMB178.6 million).

24 SHARE CAPITAL

	Number of shares	Ordinary shares *HK$*	Ordinary shares *RMB*
Issued and fully paid			
As at 31 December 2020	1,087,769,000	10,877,690	8,640,705
As at 31 December 2019	1,086,787,000	10,867,870	8,631,935

(i) Movements in ordinary shares

	Number of shares	Ordinary shares *HK$*	Ordinary shares *RMB*
Details			
Opening balance 1 January 2020	1,086,787,000	10,867,870	8,631,935
Issue of shares under employee share scheme	982,000	9,820	8,770
Balance 31 December 2020	1,087,769,000	10,877,690	8,640,705

25 SHARE PREMIUM AND OTHER RESERVES

		Other reserves				
	Share premium	Capital reserve	Statutory reserve	General reserve	Share-based payments reserve	Total
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
At 1 January 2020	601,993	506,963	77,715	4,417	7,171	1,198,259
Issue of shares under employee share scheme (b)(ii)	735	—	—	—	(187)	548
Transactions with Non-controlling interests (c)	—	(555)	—	—	—	(555)
Capital injections from non-controlling interests (d)	—	(1,750)	—	—	—	(1,750)
At 31 December 2020	602,728	504,658	77,715	4,417	6,984	1,196,502

(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 2020	
	Average exercise price in HK$ per share option	Number of share options (thousands)
As at 1 January	0.62	27,238
Granted	—	—
Exercised	0.62	(982)
Forfeited	0.62	(987)
Aa at 31 December	0.62	25,269
Vested and exercisable at 31 December 2020	0.62	25,269

	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 2020 (2019: nil).

(ii) ***Issue of shares under share-based payments***

During the year ended 2020, the Company issued 982,000 ordinary shares in connection with the exercised options under the share-based payments scheme. Consideration received amounted to HK$609 thousand (equivalent to approximately RMB557 thousand). The excess of RMB548 thousand over the par value of RMB9 thousand, plus transfer-in amount of RMB187 thousand previously recognized in share-based payments reserve directly contributable to the options exercised, was credited to "share premium" with a total amount of RMB735 thousand.

(c) Transactions with non-controlling interests

On 13 January 2020, the Group further acquired 10% equity interests in Dongshan Agricultural Microfinance Co., Ltd. ("Dongshan Micro-finance") with cash consideration of RMB30.0 million.

(d) Capital injections from non-controlling interests

On 29 May 2020, two new shareholders acquired 40% of the equity interests in Suzhou Huida Commercial Factoring Company Limited ("Huida Factoring") through capital injections of RMB40.0 million.

26 RETAINED EARNINGS

Movements in retained earnings were as follows:

	As at 31 December	
	2020	2019
Balance 1 January	**586,212**	547,656
Change in accounting policy	**—**	540
Net profit attributable to the owners of the Company for the year	**2,216**	50,429
Dividends provided for or paid	**(13,000)**	(12,413)
Balance 31 December	**575,428**	586,212

27 OTHER CURRENT LIABILITIES

	As at 31 December	
	2020	2019
Accrued employee benefits	**4,847**	9,101
Provisions to financial guarantees	**1,612**	—
Turnover tax and other tax payable	**1,669**	1,623
Advance from transferee of financial assets	**9,678**	4,113
Other financial liabilities	**4,746**	5,641
	22,552	20,478

As at 31 December 2020, the Group's other financial liabilities were non-interest bearing. The fair value approximates their carrying amounts due to their short maturities (2019: same).

28 BORROWINGS

	As at 31 December	
	2020	2019
Non-current		
Bank borrowings (a)	**50,380**	—
Current		
Bank borrowings (b)	**436,489**	936,400
Borrowings from microfinance companies (c)	**23,500**	33,500
Borrowings from securities company	**—**	10,000
Borrowings from other company	**—**	13,530
SME private placement bond issued	**—**	2,800
	459,989	996,230
	510,369	996,230

(a) As at 31 December 2020, non-current bank borrowing with principle amount of RMB50.4 million is borrowed specifically for the construction of China Huirong Headquarters Building. The borrowing is repaid in the scheduled instalments within 6 years and bears floating interest rate of the 5-year Loan Prime Rate plus 15 bps. The borrowing is secured by the land-use right and guaranteed by Jiangsu Wuzhong Group Co., Ltd. ("Wuzhong Group") (31 December 2019: nil). As at 31 December 2020, the Group has undrawn bank borrowing facilities of RMB49.6 million (31 December 2019: nil).

(b) Current bank borrowings are all with maturity within one year and bear fixed interest rates ranging from 3.60% to 5.95% per annum in the year ended 31 December 2020 (2019: fixed rate from 3.45% to 5.87%).

As at 31 December 2020, bank borrowings with principal amount of RMB210.8 million (2019: RMB315.0 million) are secured by restricted term deposits of US$33.8 million (2019: US$50.2 million) (Note 23).

As at 31 December 2020, bank borrowings with principal amount of RMB65.5 million (2019: RMB261.5 million) are secured by restricted term deposits of RMB68.6 million (2019: RMB275.9 million) (Note 23).

As at 31 December 2020, bank borrowings with principal amount of RMB120.2 million (31 December 2019: RMB180.0 million) are guaranteed by Wuzhong Jiaye and the Ultimate Shareholders).

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

The Group's borrowings are denominated in RMB.

(c) As at 31 December 2020, borrowings from microfinance companies with principal amount of RMB23.5 million are guaranteed by Wuzhong Group (2019: RMB33.5 million).

29 COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2020	2019
China Huirong Headquarters building	**87,162**	—
Hillcrest Associated Limited	**—**	438

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 and technology finance", for striving to offer comprehensive financial services to small and medium enterprises ("**SMEs**") and individual clients as well as offer quality and safe financial assets to investors and financial institutions. As our brand has been well recognized by the public with our stable asset quality and our continuously improved profitability, we have gradually developed into a company that offers comprehensive fin-tech services.

In 2020, as the COVID pandemic has swept the globe, the Company's business operations have slowed down which resulted in a decrease in revenue. Encountering such a difficult situation brought by the pandemic, the management has actively reduced costs and expenses, enhanced budget management and strictly controlled the expenditures. As a result, a significant drop in administrative expenses and financial costs has been achieved as compared with 2019; however, it still could not completely offset the impact of decreased revenue on profit-making. With a significant improvement of the pandemic situation in Mainland China, the situation of the Company's business operation has demonstrated a tendency of stability and recovery. The management believes that pursuing the original development strategies will lead to sustainable and stable contributory value for its Shareholders.

1. Business Review and Development

1.1 *Inclusive Finance Business Division*

The 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 (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). The division conducts 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) and unsecured loans (including equity interest backed loans, guaranteed loans and other unsecured loans), which focus on solving problems of short-term liquidity needs of SMEs and personal short-term liquidity needs. The business of inclusive finance business division currently mainly covers Suzhou, Hong Kong, 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 2020, 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	
	2020	2019
Total transaction amount of new secured loans (RMB' million)		
Total transaction amount of new real estate backed loans	**405**	329
Total transaction amount of new personal property backed loans	**26**	66
Total transaction number of new secured loans		
Total transaction number of new real estate backed loans	**527**	386
Total transaction number of new personal property backed loans	**856**	3,275
Total transaction amount of new unsecured loans (RMB' million)	**784**	922
Total transaction number of new unsecured loans	**65**	47

Wuzhong Pawnshop primarily engages in secured loan and unsecured loan businesses. Secured loans business mainly includes 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 characterised 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 loans have quality customer resources and have maintained a sound and steady trend of development. As of 31 December 2020, the total transaction amount and number of new real estate backed loans granted by the Company were RMB405 million and 527, respectively, representing a significant increase as compared to 2019. The increase was due to the Company actively overcoming the impact of the COVID pandemic, adhering to the concept of small and decentralized inclusive financial development, and making great efforts to cope with the competition from commercial banks and private financial institutions. Eventually, the Company has maintained a healthy development trend.

For personal property backed pawn loan business, the Company has developed a variety of personal property pawn loan products, including gold, jewelry, works of art, diamonds, watches, luxury goods, and the business mainly covers urban areas of Suzhou. In 2020, the Company implemented the reform of the business of personal property backed pawn loan, which included the management reforms such as store manager competition for employment, two-way selection between store managers and shop assistants for team composition, bottom-line performance indicators, etc., and service innovations such as the launch of fixed-term products and home-visit services. As of 31 December 2020, the Company granted new personal property backed pawn loans in the total transaction amount and number of RMB26 million and 856 respectively.

Unsecured loans mainly include equity interest backed loans and other products, which are designed to enrich product categories, meet customers' differentiated credit demands, and offer comprehensive financial services to our customers. In order to help customers cope with the uncertain impact of the COVID pandemic, as of 31 December 2020, the Company granted new unsecured loans in the total transaction amount and number of RMB784 million and 65 respectively.

(b) *Turnover loan business of Huifang Rongtong*

Huifang Rongtong primarily engages in unsecured loan businesses. For the year ended 31 December 2020, 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	
	2020	2019
Total new loan amount granted (RMB' million)	**2,328**	2,620
Total number of new loans granted	**370**	253
Balance at the end of the Reporting Year (principal) (RMB' million)	**64.2**	41.1

Huifang Rongtong primarily offers bank bridge loans. Bank bridge loans primarily provide funds for bridge of bank loans to SMEs who has continuous banking facility, with the features of low risks and high turnover rates. Currently, Huifang Rongtong has reached strategic cooperation on such bank bridge loan with more than 30 banks. The Company 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. The fund has served a large number of SMEs and local government platforms and accumulated over 1,000 individual and corporate customers.

In 2020, the Suzhou Municipal Government issued the "Administrative Measures for Sub-loan Services in Suzhou (Trial)" (《蘇州市轉貸服務管理辦法(試行)》), establishing a financial service center for SMEs, and launching a sub-loan service platform to support the development of SMEs. Huifang Rongtong has been highly valued by the government due to its exemplary operation in the previous years and has become a regional service unit of the sub-loan service platform, strengthening in-depth collaboration with banks.

As of 31 December 2020, the total amount and number of new loans granted by Huifang Rongtong were RMB2,328 million and 370, respectively, which represented a slight decrease in amount and a significant increase in number as compared with 2019. This was due to the relaxation of national financial regulatory policies during the COVID pandemic, which allowed more customers to benefit from loan renewal policies (in spite of no repayment being made), which in turn led to the loss of part of the demand for sub-loan. Therefore, the Company focused on exploring and serving the sub-loan needs of small-scale enterprise customers thereby diversifying its customer base.

(c) *Dongshan Micro-finance*

For the year ended 31 December 2020, 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	
	2020	2019
Total amount of new loan granted (RMB' million)	**341**	941
Total number of new loans granted	**159**	623
Balance at the end of the Reporting Year (principal) (RMB' million)	**376**	382

Dongshan Micro-finance is one of the few micro-finance companies rated "AA" in Jiangsu Province, and primarily engages in providing small loans for "rural areas, agriculture and rural people" ("三農") purposes and financial services such as finance guarantee. Since its establishment, Dongshan Micro-finance has been operating steadily, creating continuous profit contribution for the Shareholders. On 13 January 2020, the Company acquired another 10% equity interest in Dongshan Micro-finance. After the completion of the acquisition, it held a total of 70% equity interest in Dongshan Micro-finance.

As of 31 December 2020, the total amount and number of new loans granted by Dongshan Micro-finance were RMB341 million and 159, respectively, both decreased as compared with RMB941 million and 623 in 2019. This was because the Company ceased to provide loans for mortgage redemption purposes in line with the tightening of national regulatory policies on micro-finance companies. This type of business features small single amount and high turnover rate, resulting in a decrease in the total amount and number of new loans granted during the Reporting Year. The management of the Company is actively looking for alternative products.

1.2 *Technology Finance Business Division*

The technology finance business division is mainly dedicated to three major operations including commercial factoring, supply chain management and Hong Kong operation. Functioning as a new strategic business division of the Company, it focuses on supply chain finance scenarios and provides customers with quality financial services by utilizing financial technologies such as big data, artificial intelligence and blockchain under the guidance of prudent and rigorous risk control policies.

(a) *Commercial 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 RMB100 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 financial technologies 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 2020:

	For the year ended 31 December	
	2020	2019
Total number of new transaction relating to accounts receivable assignment	**19**	9
Total number of transaction relating to installment of accounts receivable	**0**	56

(b) *Supply Chain Management*

The technology finance business division has also established a supply chain management company, which is committed to providing services for supermarkets, e-commerce platforms and logistics enterprises, focusing on new supply chain scenarios to provide financial services to small and micro enterprises.

(c) *Hong Kong Operation*

The technology finance business division obtained a money lender's license in Hong Kong in January 2019 and carried out business in cooperation with local licensed money lenders. As at 31 December 2020, the balance of outstanding loans as at the end of the Reporting Year was RMB22 million.

1.3 *Insurance Brokerage Business Division*

By taking "Integrity, Responsibility, Professionalism and Compliance" as its corporate philosophy, 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), a branch under insurance brokerage business division, actively integrated its resources with local government and insurers to target insurance consortium, government and state-owned platforms, foreign-funded enterprises as the business expansion direction. Its brokerage business scope of insurances covers property insurance, credit and guarantee insurance, liability insurance, personal insurance and others. The "Wuzhong District Construction Workers" Accident Insurance Coinsurance", which is operated by Huifang Anda and other major insurance companies in Wuzhong District, Suzhou, is well-known and exclusive in the region, and is one of the insurance types that the Company is making efforts to develop.

2. Financial Review

2.1 *Overall Financial Data*

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Operating Results		
Operating income	**259,806**	344,134
Net operating income	**92,111**	158,627
Net assets	**1,941,898**	1,948,444
General and administrative expenses	**52,649**	70,300
Income tax expenses	**12,038**	25,644
Profit attributable to equity holders	**2,216**	50,429
Basic earnings per share (RMB Yuan)	**0.002**	0.046

2.2 *Financial Analysis on Three Principal Business Divisions*

2.2.1 *Inclusive Finance Business Division*

	For the year ended 31 December 2020	For the year ended 31 December 2019
	RMB'000	*RMB'000*
Operating income	**218,889**	276,189
Operating cost	**12,733**	49,325
Other non-operating losses	**(138,284)**	(139,632)
Profit before tax	**67,872**	87,232

For the first half of 2020, the product lines of the inclusive finance business division were severely affected by COVID pandemic. At the same time, with the lowering of bank credit standards and customer access threshold, the development of the inclusive finance business division encountered greater obstacles and difficulties, resulting in a decline in the operating income and profit. Since the third quarter of 2020, with the return of fiscal and monetary policies to normal, business has gradually recovered. As of 31 December 2020, the operating income of this division amounted to RMB218,889 thousand and the profit before tax amounted to RMB67,872 thousand.

2.2.2 *Technology Finance Business Division*

	For the year ended 31 December 2020	For the year ended 31 December 2019
	RMB'000	*RMB'000*
Operating income	**11,037**	7,188
Operating cost	**132**	89
Other non-operating losses	**(9,449)**	(2,404)
Profit before tax	**1,456**	4,695

As an emerging strategic department of the Company, the technology finance business division has carried out continuous exploration and innovation in 2020, in which factoring business has launched new products and successfully introduced strategic equity participation of state-owned capital and collective-owned capital, focused on government engineering factoring business, and successfully obtained bank financing, laying a solid foundation for future development. As of 31 December 2020, the operating income amounted to RMB11,037 thousand and the profit before tax amounted to RMB1,456 thousand.

2.2.3 *Online Lending Intermediary Business Division*

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Operating income	**1,886**	11,999
Operating cost	**—**	13
Other non-operating losses	**(2,277)**	(7,251)
(Loss)/profit before income tax	**(391)**	4,735

The online lending intermediary business division has ceased granting new loans and started transformation since 1 January 2020, and the original lending business will gradually be discontinued with the settlement of principal and interest. Liquidation procedures have been completed in September 2020 in accordance with the restrictive requirements of the regulatory authorities. As of 31 December 2020, the operating income amounted to RMB1,886 thousand and the loss before tax amounted to RMB391 thousand.

2.2.4 *Insurance Brokerage Business Division*

	For the year ended 31 December 2020 *RMB'000*	For the year ended 31 December 2019 *RMB'000*
Operating income	**6,049**	30,171
Operating cost	**6,133**	26,092
Other non-operating losses	**(1,585)**	(1,772)
(Loss)/profit before tax	**(1,669)**	2,307

In 2020, the insurance brokerage business division has actively overcome the impact of the COVID pandemic. The Construction Workers' Accident Insurance Coinsurance business has maintained stable operation, and the division's business has grown rapidly. As of 31 December 2020, the operating income amounted to RMB6,049 thousand and the loss before tax amounted to RMB1,669 thousand.

2.2.5 *Headquarters and Others*

	For the year ended 31 December 2020 *RMB'000*	For the year ended 31 December 2019 *RMB'000*
Operating income	**23,395**	21,578
Operating cost	**21,504**	7,253
Other non-operating losses	**(47,349)**	(22,408)
Loss before tax	**(45,458)**	(8,083)

As the core of the Group'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. 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				
	2020				2019
	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)	**386,444**	**9,447**	**870,605**	**1,266,496**	1,171,957
Unsecured loans to customers (b)	**890,175**	**—**	**261,210**	**1,151,385**	997,791
Gross carrying amount	**1,276,619**	**9,447**	**1,131,815**	**2,417,881**	2,169,748
Loss allowances	**(33,853)**	**(2,160)**	**(567,657)**	**(603,670)**	(466,044)
Carrying amount	**1,242,766**	**7,287**	**564,158**	**1,814,211**	1,703,704
Term deposits with banks					
Credit grade					
AAA	**325,306**	**—**	**—**	**325,306**	847,725
AA+	**—**	**—**	**—**	**—**	—
A	**—**	**—**	**—**	**—**	—
Gross carrying amount	**325,306**	**—**	**—**	**325,306**	847,725
Loss allowances	**(164)**	**—**	**—**	**(164)**	(164)
Carrying amount	**325,142**	**—**	**—**	**325,142**	847,561
Other current assets (excluding repossessed assets)					
Gross carrying amount	**4,513**	**—**	**2,563**	**7,076**	61,265
Loss allowances	**—**	**—**	**(1,607)**	**(1,607)**	(3,320)
Carrying amount	**4,513**	**—**	**956**	**5,469**	57,945
Guarantee and commitment					
Financial guarantees exposure	**48,550**	**—**	**—**	**48,550**	—

(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.

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 2020, the aggregate impairment allowance for secured loans to customers and unsecured loans to customers amounted to RMB603,670 thousand, representing approximately 24.97% of the total outstanding loans granted to customers (before provision); the overall impairment allowance of the Company increased by RMB137,626 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 2020 *RMB'000*	As at 31 December 2019 *RMB'000*
Secured loans to customers	**363,747**	263,784
Unsecured loans to customers	**239,923**	202,260
	603,670	466,044

3.2 *New Loans under Legal Proceedings*

	For the year ended 31 December 2020	For the year ended 31 December 2019
New Secured Loans		
Number of clients	**18**	38
Outstanding loans (RMB' thousand)	**19,384**	132,385
New Unsecured Loans		
Number of clients	**2**	5
Outstanding loans (RMB' thousand)	**5,244**	35,574

As at 31 December 2020, the balance of new secured loans under legal proceedings and new unsecured loans under legal proceedings was RMB19,384 thousand and RMB5,244 thousand, respectively, representing a significant decrease of the balance of new loans under legal proceedings from the end of the previous year.

4. Borrowings

	As at 31 December	
	2020	2019
Non-current		
Bank borrowings (a)	**50,380**	—
Current		
Bank borrowings (b)	**436,489**	936,400
Borrowings from microfinance companies (c)	**23,500**	33,500
Borrowings from securities company	**—**	10,000
Borrowings from other company	**—**	13,530
SME private placement bond issued	**—**	2,800
	459,989	996,230
	510,369	996,230

(a) As at 31 December 2020, non-current bank borrowing with principle amount of RMB50.4 million is borrowed specifically for the construction of China Huirong Headquarters Building. The borrowing is repaid in the scheduled instalments within 6 years and bears floating interest rate of the 5-year Loan Prime Rate plus 15 bps. The borrowing is secured by the land-use right and guaranteed by Jiangsu Wuzhong Group Co., Ltd. ("Wuzhong Group") (31 December 2019: nil). As at 31 December 2020, the Group has undrawn bank borrowing facilities of RMB49.6 million (31 December 2019: nil).

(b) Current bank borrowings are all with maturity within one year and bear fixed interest rates ranging from 3.60% to 5.95% per annum in the year ended 31 December 2020 (2019: fixed rate from 3.45% to 5.87%).

As at 31 December 2020, bank borrowings with principal amount of RMB210.8 million (2019: RMB315.0 million) are secured by restricted term deposits of US$33.8 million (2019: US$50.2 million).

As at 31 December 2020, bank borrowings with principal amount of RMB65.5 million (2019: RMB261.5 million) are secured by restricted term deposits of RMB68.6 million (2019: RMB275.9 million).

As at 31 December 2020, bank borrowings with principal amount of RMB120.2 million (31 December 2019: RMB180.0 million) are guaranteed by Wuzhong Jiaye and the Ultimate Shareholders).

As at 31 December 2020, bank borrowings with principal amount of RMB20.0 million (2019: Nil) are guaranteed by Huifang Tongda).

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

The Group's borrowings are denominated in RMB.

(c) As at 31 December 2020, borrowings from microfinance companies with principal amount of RMB23.5 million are guaranteed by Wuzhong Group (2019: RMB33.5 million)).

5. Capital Expenditure

Our capital expenditure primarily consists of purchases of property, plant and equipment, intangible assets and properties under development. Our capital expenditure was RMB7,259 thousand for the year ended 31 December 2020, as compared with RMB983 thousand for 2019.

6. Significant Investments, Acquisition and Disposal

The investment goal of the Group is to enhance the value of the Company for its shareholders.

6.1 *Acquisition of Dongshan Micro-finance*

On 13 January 2020, the Company acquired a total of 10% equity interests in Dongshan Micro-finance, which is an indirect non-wholly-owned subsidiary of the Company. Upon completion of the acquisition, the Company holds a 70% equity interest. The Group's investment strategy is to increase the shareholding ratio of high-dividend projects and increase dividend income.

6.2 *Disposal of Huida Commercial Factoring*

On 29 May 2020, the Company disposed of 40% of its 100% equity interest in Huida Commercial Factoring as a result of receiving capital contribution for the purpose of introducing state-owned and collective capital into the Group's downstream shareholding structure. The Group believes this will further improve its credit level which is conducive to its business expansion procurement of further bank financing and servicing of more small and micro enterprises in the PRC.

6.3 *Investment in China Huirong Headquarters building*

On 2 December 2020, Huifang Tongda obtained the construction permit for the construction project of China Huirong Headquarters building (Sudi 2017-WG-51), and officially started construction. The total construction scale of the project is 17,894.27 square meters. The total investment is expected to be approximately RMB143 million. The project is scheduled to be completed in October 2021. The purpose of this investment is to create a positive working atmosphere for the Company and to attract other companies to relocate to the building with a professional working environment.

Save as disclosed in this announcement, there were no other material acquisitions and disposals of subsidiaries, associates and joint ventures made by the Group during the Reporting Year.

7. Contingencies, Contractual Obligations and Cash Usage Analysis

7.1 *Contingencies*

As at 31 December 2020, the Group did not have any material contingencies (2019: Nil).

7.2 *Commitments*

(a) *Capital commitments*

	As at 31 December 2020 *RMB'000*	As at 31 December 2019 *RMB'000*
China Huirong Headguarters Building	**87,162**	—
Hillcrest Associated Limited	**—**	438

7.3 *Cash Usage Analysis*

As at 31 December 2020, the Group's cash and cash equivalents amounted to RMB103,919 thousand, representing a decrease of RMB77,119 thousand as compared with that of 2019. The following table sets forth a summary of our cash flows for the indicated periods:

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Net cash inflow/(outflow) from operating activities	**410,782**	(53,043)
Net cash outflow from investing activities	**(7,259)**	(21,437)
Net cash (outflow)/inflow from financing activities	**(479,171)**	121,432
Net (decrease)/increase in cash and cash equivalents	**(75,648)**	46,952
Cash and cash equivalents at the end of year	**103,919**	181,038

Net Cash Flow from Operating Activities

During the Reporting Year, net cash inflow from operating activities amounted to RMB410,782 thousand, mainly due to the State Administration of Foreign Exchange cancelled the restriction on the domestic use of funds raised from listing, and the Company successively settled foreign exchange with the funds in the form of term deposits raised from listing and repaid borrowings.

Net Cash Flow from Financing Activities

During the Reporting Year, net cash outflow from financing activities amounted to RMB479,171 thousand, mainly due to the State Administration of Foreign Exchange cancelled the restriction on the domestic use of funds raised from listing, and the Company successively settled foreign exchange with the funds in the form of term deposits raised from listing and repaid borrowings.

8. Human Resource and Employee Benefits

As at 31 December 2020, the Group had a total of 140 full-time employees, with a decrease of 21 people from 161 people as at 31 December 2019. 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 2020, the expenses for employee remuneration and benefits were approximately RMB28,416 thousand, representing an decrease of approximately RMB10,435 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 Year

After 31 December 2020, certain subsidiaries of the Group declared dividends with an aggregate amount of RMB34.3 million, of which RMB10.0 million is paid to non-controlling interests.

PROSPECTS

Inclusive Finance Business Division: The Company will continue to develop small-amount, dispersed and short-term inclusive finance to cope with the intensifying market competition. Firstly, the Company will expand and strengthen its loan facilitation model in cooperation with banks while developing its real estate backed loan business. Secondly, as the Chinese government attaches great importance to the sub-loan fund business, the Company will seize the opportunity to expand its influence and reputation. Thirdly, the Company will continue to adhere to the business philosophy of pursuing progress while ensuring stability and maintaining a stable operating scale and profit in its small-amount loan business. Fourthly, the Company will continue to promote innovation in its business model and products in the pawn industry to attract new customers.

Technology Finance Business Division: The Company will continue to explore technology finance based on supply chain scenarios. Firstly, in terms of commercial factoring business, the Company will focus on promoting its financing capacity and service quality with the introduction of state-owned and collectively-owned shares, to improve profitability by making full use of financial leverage. Secondly, in terms of supply chain management business, the Company will continue to develop into the consumer goods sector and establish a supply chain data platform to build a sound ecological closed loop of supply chain. Thirdly, the Company will continue to pay attention to the development of the epidemic and changes in the economic situation in Hong Kong, so as to monitor the operation strategy and risk appetite of its business in Hong Kong.

Insurance Brokerage Business Division: Leveraging the market resources of shareholders which are state-owned companies, the Company will focus on its fundamental businesses such as property insurance, extend its business coverage and obtain the insurance projects with financial payments or subsidies as well as existing insurance projects funded by regional State-owned Assets Supervision and Administration Bureaus and regional governments. The Company will also strengthen the reserve of professionals and develop a team assessment and management system with a healthy competition mechanism, to expand its business operations and cultivate new profit growth drivers.

FINAL DIVIDEND

The Board did not recommend the payment of any final dividends for the year ended 31 December 2020.

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 auditors of the Company to review the annual results of the Group for the year ended 31 December 2020.

The figures in respect of the results announcement of the Group for the year ended 31 December 2020 have been reviewed and agreed by the Group's auditors, 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 2021. 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 Tuesday, 25 May 2021 to Friday, 28 May 2021 (both dates inclusive), during which period 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 Monday, 24 May 2021.

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 2020 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, 31 March 2021

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.