



2019

ANNUAL
REPORT

TaiHe

**Yangzhou Guangling District Taihe Rural
Micro-finance Company Limited**
揚州市廣陵區泰和農村小額貸款股份有限公司

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

Stock Code: 1915



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Company Profile

DIRECTORS

Executive Directors

Mr. Bo Wanlin (*Chairman*)
Ms. Bai Li
Ms. Zhou Yinqing

Non-executive Directors

Mr. Bo Nianbin
Mr. Zuo Yuchao

Independent non-executive Directors

Mr. Bao Zhenqiang
Mr. Wu Xiankun
Mr. Chan So Kuen

SUPERVISORS

Ms. Wang Chunhong
Mr. Zhang Yi
Ms. Li Guoyan

BOARD COMMITTEES

Audit committee

Mr. Chan So Kuen (*Chairman*)
Mr. Wu Xiankun
Mr. Bao Zhenqiang

Remuneration committee

Mr. Bao Zhenqiang (*Chairman*)
Mr. Chan So Kuen
Mr. Wu Xiankun

Nomination committee

Mr. Bo Wanlin (*Chairman*)
Mr. Wu Xiankun
Mr. Bao Zhenqiang

Joint company secretaries

Mr. Xu Lei
Mr. Lau Kwok Yin (*HKICPA*)

Authorized representatives for the Stock Exchange of Hong Kong Limited

Mr. Bo Wanlin
Mr. Xu Lei

Compliance officer

Ms. Bai Li

Headquarters and registered office in the PRC

Beizhou Road, Lidian Town, Guangling District
Yangzhou City, Jiangsu Province, the PRC

Principal place of business in Hong Kong

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

Company website address

www.gltaihe.com

Stock code

1915

Auditors and reporting accountants

Ernst & Young
Certified public accountant
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Legal adviser as to Hong Kong law

Chungs Lawyers (in association with DeHeng Law Offices)
28/F, Henley Building
5 Queen's Road Central
Central
Hong Kong

Legal adviser as to PRC law

Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Beijing, the PRC

Compliance adviser

China Galaxy International Securities
(Hong Kong) Co., Limited
20/F, Wing On Centre
111 Connaught Road Central
Sheung Wan, Hong Kong

H Share registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

Agricultural Bank of China
(Yangzhou Jiangwang Branch)
Room B6, Wanduwujinjidiancheng
Jiangwang Town
Hanjiang District
Yangzhou City
Jiangsu Province
PRC

Bank of Communications Co., Ltd.
Hong Kong Branch
20 Pedder Street
Central, Hong Kong

Financial Highlights

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	Changes
OPERATING RESULTS			
Interest income	104,156	108,333	-3.9%
Profit for the year	50,119	68,755	-27.1%
Basic earnings per share (RMB)	0.08	0.11	-27.3%
FINANCIAL POSITION			
Bank balances and cash	3,779	4,337	-12.9%
Loans receivable	862,692	814,276	5.9%
Share capital	600,000	600,000	—
Total assets	881,004	827,458	6.5%
Net assets	861,430	811,311	6.2%
Dividends			
– Proposed final dividend (per share)	RMB0.025	—	N/A

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the "**Company**"), I am pleased to present the results of the Company for the year ended 31 December 2019 to the shareholders of the Company (the "**Shareholder(s)**").

The Company has been successfully completed the transfer of listing from GEM to the Main Board of the Stock Exchange of Hong Kong Limited (the "**Transfer of Listing**") on 17 July 2019. The Board believes that the Transfer of Listing will enhance the corporate profile of the Company, increase the Company's brand awareness and reputation and improve the trading liquidity of the H shares of the Company.

For the year ended 31 December 2019, the Company recorded gross interest income of approximately RMB104.2 million and profit after tax of approximately RMB50.1 million. As at 31 December 2019, the Company's balance of outstanding loans (before allowance for impairment losses) was approximately RMB901.6 million. Total assets as at 31 December 2019 were approximately RMB881.0 million.

During 2019, the Company continues to promote the implementation of the strategic plan and meticulous management initiatives to further strengthen the Company's competitive advantages. In terms of business strategies, the Company has enhanced the financial innovation enabled by financial technology, while improving the inclusive finance service capability and efficiency. In 2019, our Company has been accredited as "Jiangsu Micro-credit company with influence in 10+ years (江蘇小貸10+年具有影響小貸公司)" by Jiangsu Micro-credit Industry Development Think Tank in recognition of our quality micro and small loan business. We have also been awarded "Top Ten Best Microfinance Companies (十佳明星小貸公司)" in Yangzhou City by Yangzhou Finance Office for eight consecutive years from 2012 to 2019.

Looking ahead, the Board and all staff of the Company will make pioneering and innovative efforts and keep pace with the times to create greater values for our customers, employees and Shareholders.

Lastly, on behalf of the Board, I would like to extend my gratitude to all Shareholders for their continuous support, and I would also like to express my sincere thanks to all employees for their dedication and contributions to the Company.

Best regards,

Bo Wanlin

Chairman

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited

Yangzhou, the PRC, 25 March 2020

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 2019, the Company continued to pursue business opportunities and strengthen its market position. For the year ended 31 December 2019, the Company recorded interest income of approximately RMB104.2 million, representing an decrease of approximately 3.9% as compared to approximately RMB108.3 million for the year ended 31 December 2018, which was mainly due to the decrease of the effective interest rate; profit after tax of approximately RMB50.1 million, representing a decrease of approximately 27.1% as compared to approximately RMB68.8 million for the year ended 31 December 2018, which was mainly due to the increase in accrual of provision for impairment losses and expenses related to the Company's transfer of listing from GEM to the Main Board of the Stock Exchange of Hong Kong Limited (the "**Transfer of Listing**"). As at 31 December 2019, the Company's balance of outstanding loans (before allowance for impairment losses) amounted to approximately RMB901.6 million, representing an increase of approximately 7.1% as compared to approximately RMB841.5 million as at 31 December 2018, mainly attributable to the deployment of the net profits generated by the Company during the past years to expand the Company's loan business. The total assets of the Company as at 31 December 2019 were approximately RMB881.0 million, representing an increase of approximately 6.5% as compared to approximately RMB827.5 million as at 31 December 2018, and net assets were approximately RMB861.4 million as at 31 December 2019, representing an increase of approximately 6.2%, as compared to approximately RMB811.3 million as at 31 December 2018.

The number of customers

We have a relatively broad customer base comprising primarily small and medium-sized enterprises ("**SMEs**"), microenterprises and individual proprietors situated or resided in Yangzhou City. Our customers are engaged in a variety of industries, and a majority of which are also under the classification of AFR (三農) of the People's Bank of China. We consider the diversity of industries and businesses of our customers, coupled with our relatively small individual loan size, serve to alleviate our risk of concentration and position us to better withstand periodic business and economic cycles of different industries. For the year ended 31 December 2018 and 2019, we granted loans to 513 and 526 customers, respectively. The following table sets forth the number of customers to whom we have granted loans for the periods indicated:

	Year ended 31 December			
	2019		2018	
	<i>No. of Customers</i>	<i>%</i>	<i>No. of Customers</i>	<i>%</i>
Customer by type				
SMEs and microenterprises	18	3.4	28	5.5
Individual proprietors	508	96.6	485	94.5
Total	526	100.0	513	100.0

Management Discussion and Analysis

Loan portfolio by size

The following table sets forth our outstanding loans by size as at the dates indicated:

	As at 31 December 2019		As at 31 December 2018	
	RMB'000	%	RMB'000	%
Less than or equal to RMB0.5 million				
– Guaranteed loans	25,835	2.9	21,088	2.5
– Collateralized loans	8,650	1.0	7,613	0.9
	34,485	3.9	28,701	3.4
Over RMB0.5 million but less than or equal to RMB1 million				
– Guaranteed loans	112,563	12.5	95,789	11.4
– Collateralized loans	3,415	0.4	704	0.1
	115,978	12.9	96,493	11.5
Over RMB1 million but less than or equal to RMB2 million				
– Guaranteed loans	253,118	28.1	317,150	37.6
– Collateralized loans	10,971	1.2	10,792	1.3
	264,089	29.3	327,942	38.9
Over RMB2 million but less than or equal to RMB3 million				
– Guaranteed loans	466,018	51.6	367,322	43.7
– Collateralized loans	21,045	2.3	21,058	2.5
	487,063	53.9	388,380	46.2
Total	901,615	100.0	841,516	100.0

Management Discussion and Analysis

Loan portfolio by security

We accept (i) loans backed by guarantees, (ii) loans secured by collaterals, or (iii) loans backed and secured by both guarantees and collaterals. The following table sets forth the balance of our outstanding loans by security as at the dates indicated:

	As at 31 December 2019		As at 31 December 2018	
	RMB'000	%	RMB'000	%
Guaranteed loans	857,534	95.1	801,349	95.2
Collateralized loans	44,081	4.9	40,167	4.8
included: Guaranteed and collateralized loans	42,548	4.7	37,989	4.5
Total	901,615	100.0	841,516	100.0

The following table sets forth the details of the number of our loans granted for the years indicated by security:

	Year ended 31 December	
	2019	2018
Guaranteed loans	662	522
Collateralized loans	30	42
included: Guaranteed and collateralized loans	30	41
Total	692	564

Asset quality

We adopt a loan classification approach to manage our loan portfolio. We categorize our loans by reference to the "Five-Tier Principle" set forth in the Guideline for Loan Credit Risk Classification (貸款風險分類指引) issued by the China Banking and Insurance Regulatory Commission. According to the "Five-Tier Principle", our loans are categorized as "normal", "special-mention", "substandard", "doubtful" or "loss" according to their levels of risk. The following table sets forth our outstanding loans by the "Five-Tier Principle" category as at the dates indicated:

	As at 31 December 2019		As at 31 December 2018	
	RMB'000	%	RMB'000	%
Normal	856,767	95.0	826,672	98.2
Special-Mention	15,140	1.7	3,301	0.5
Substandard	12,485	1.4	3,237	0.4
Doubtful	9,728	1.1	1,165	0.1
Loss	7,495	0.8	7,141	0.8
Total	901,615	100.0	841,516	100.0

Management Discussion and Analysis

The following table sets forth our loan quality analysis as at the dates indicated:

	As at 31 December 2019	As at 31 December 2018
Impaired loan ratio ⁽¹⁾	3.3%	1.4%
Balance of impaired loans (RMB'000)	29,708	11,543
Total amount of loans receivable (RMB'000)	901,615	841,516

	As at 31 December 2019	As at 31 December 2018
Allowance coverage ratio ⁽²⁾	131.0%	236.0%
Allowance for impairment losses (RMB'000) ⁽³⁾	38,924	27,240
Balance of impaired loans (RMB'000)	29,708	11,543
Provisions for impairment losses ratio ⁽⁴⁾	4.3%	3.2%

	As at 31 December 2019	As at 31 December 2018
Balance of overdue loans (RMB'000)	44,848	14,694
Total amount of loans receivable (RMB'000)	901,615	841,516
Overdue loan ratio ⁽⁵⁾	5.0%	1.7%

Notes:

- (1) Represents the balance of impaired loans divided by the total amount of loans receivable.
- (2) Represents the allowance for impairment losses on all loans divided by the balance of impaired loans. The allowance for impairment losses on all loans includes provisions provided for loans which are assessed collectively and provisions provided for impaired loans which are assessed individually. Allowance coverage ratio indicates the level of allowance we set aside to cover the probable loss in our loan portfolio.
- (3) Allowance for impairment losses reflects our management's estimate of the probable loss in our loan portfolio.
- (4) Represents the allowance for impairment losses divided by the total amount of loans receivable. Provisions for impairment losses ratio measures the cumulative level of provisions.
- (5) Represents the overdue loans, being loans with whole or part of the principal and/or interest that was overdue for one day or more, divided by the total amount of loans receivable.

Management Discussion and Analysis

FINANCIAL REVIEW

Interest income

Our interest income decreased by approximately 3.9% from approximately RMB108.3 million for the year ended 31 December 2018 to approximately RMB104.2 million for the year ended 31 December 2019. The Company's interest income on loans receivable is mainly affected by two factors: the daily balance of loans receivable and the effective interest rates that the Company charges to its customers. The decrease in our interest income was due to the decrease in effective interest rates charged by our Company from 13.2% for the year ended 31 December 2018 to 12.0% for the year ended 31 December 2019 which was partially offset by an increase in the average daily balance of our loans receivable by approximately 5.6% from approximately RMB822.3 million for the year ended 31 December 2018 to approximately RMB867.9 million for the year ended 31 December 2019. During the year ended 31 December 2019, we lowered our effective interest rates to attract customers, and hence there was a decrease in effective interest rates charged by our Company. On the other hand, the increase in the average daily balance of our loans receivable was mainly attributable to the deployment of the net profits generated by the Company during the past years for the expansion of the Company's loan business.

Interest expense

Our interest expense was nil and RMB283,127 for the year ended 31 December 2018 and 2019, respectively. There was no interest expense for the year ended 31 December 2018 primarily because all external borrowings had been repaid in November 2017 while no additional external borrowing was obtained throughout the year ended 31 December 2018. Interest expense for the year ended 31 December 2019 was accrued from an instalment loan arrangement in respect of purchasing motor vehicles at the end of 2018, for which no interest was accrued until 2019, and recognised lease liabilities relating to the lease contracts in respect of our office as we adopted IFRS 16 *Leases* since 1 January 2019.

Accrual of provision for impairment losses

We had accrual of provision for impairment losses of approximately RMB3.0 million and RMB11.8 million for the years ended 31 December 2018 and 2019, respectively. Such increase in accrual of provision for impairment losses was mainly due to the increase of the Company's impaired loans from approximately RMB11.5 million as at 31 December 2018 to approximately RMB29.7 million as at 31 December 2019. The higher balance of impaired loans as at 31 December 2019 was primarily a result of certain clients who experienced financial difficulties, and hence defaulted in repayment of our loans.

Accrual of provision for guarantee losses

During the years ended 31 December 2018 and 2019, we had provided financing guarantee services on an occasional basis, upon our customers request and at our sole discretion. We had accrued provisions for guarantee losses provided for our outstanding financing guarantee obligation of RMB25,852 and RMB0.7 million for the years ended 31 December 2018 and 2019, respectively. The increase in accrual of provision for guarantee losses was due to the increase in the outstanding exposure of financial guarantee contracts.

Management Discussion and Analysis

Administrative expenses

Our administrative expenses increased by approximately 62.7% from approximately RMB15.3 million for the year ended 31 December 2018 to approximately RMB24.9 million for the year ended 31 December 2019, primarily due to the increase in professional service fees which amounted to approximately RMB8.1 million in relation to the Transfer of Listing of our Company.

Other income, net

We had net other income of RMB2.3 million and RMB1.4 million for the years ended 31 December 2018 and 2019 respectively. The decrease was primarily due to the decrease in gain on disposal of fixed assets, government grants and guarantee fee income.

Income tax expense

Income tax expense decreased by approximately 24.4% from approximately RMB23.5 million for the year ended 31 December 2018 to approximately RMB17.8 million for the year ended 31 December 2019. Such decrease was mainly caused by the decrease in profit before tax.

Profit after tax and total comprehensive income

As a result of the foregoing and in particular the increase in accrual of provision for impairment losses and professional service fees in relating to the Transfer of Listing, our profit after tax and total comprehensive income decreased by approximately 27.1% from approximately RMB68.8 million for the year ended 31 December 2018 to approximately RMB50.1 million for the year ended 31 December 2019.

Significant investments

The Company has no significant investment during the year ended 31 December 2019 and up to the date of this report.

Material acquisitions or disposals of subsidiaries, affiliated companies and joint ventures

The Company has no material acquisition or disposal of subsidiaries, affiliated companies and joint ventures during the year ended 31 December 2019 and up to the date of this report.

Future plans for material investments or capital assets and expected sources of funding

The Company has no specific future plans for material investments or capital assets during the year ended 31 December 2019 and up to the date of this report.

Foreign exchange risk

The Company operates principally in the People's Republic of China (the "PRC") with only limited exposure to foreign exchange rate risk arising primarily from insignificant bank deposits denominated in HKD. The management will continue to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. As at 31 December 2019, the Company did not have any outstanding hedge instruments.

Management Discussion and Analysis

Liquidity, financial resources and capital structure

As at 31 December 2019, the Company had bank balances and cash of approximately RMB3.8 million (31 December 2018: approximately RMB4.3 million). As at 31 December 2019, the Company had instalment loan payable amounting to approximately RMB285,015 with the effective interest rate of 5.3% (31 December 2018: RMB421,000 with the effective interest rate of 5.3%). The gearing ratio, representing the ratio of total borrowings to total assets of the Company, was nil as at 31 December 2019 (31 December 2018: nil).

During the year ended 31 December 2019, the Company did not use any financial instruments for hedging purposes.

Treasury policy

The Company adopts a prudent financial management strategy in implementing the treasury policy and a sound liquidity position was maintained throughout the period. The Company assesses its customers' credit and financial positions on an ongoing basis so as to minimize the credit risks. In order to control the liquidity risks, the Company would closely monitor the liquidity position of the Company to ensure its assets, liabilities and its liquidity structure would satisfy the funding needs from time to time.

Indebtedness and charges on assets

The Company entered into an instalment loan arrangement in respect of purchasing motor vehicles at the end of 2018, the balance of which was RMB285,015 as at 31 December 2019. One of the Company's motor vehicles with net carrying amounts of RMB499,363 was pledged to secure the instalment loan payable. Meanwhile, the Company adopted IFRS 16 *Leases* from 1 January 2019 and recognized the lease liability accordingly, the balance of which was approximately RMB2.3 million as at 31 December 2019.

Contingent liabilities

Contingent liabilities not provided for in the financial statements were as follows:

	As at 31 December	
	2019	2018
Financial guarantee contracts (RMB)	34,000,000	4,000,000

Off-balance sheet arrangements

The Company did not have any off-balance sheet arrangements during the year ended 31 December 2019 and up to the date of this report.

Management Discussion and Analysis

DIVIDEND POLICY

The Board adopted a dividend policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the articles of the association of the Company (the “**Articles of Association**”) and all applicable laws and regulations and the factors set out below.

The Company has adopted a dividend policy pursuant to which it may declare and pay annual dividends to shareholders of not less than 30% of the profit available for distribution, subject to, in each case, the Board’s decision after a comprehensive review of the Company’s financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant, and there is no assurance that dividends may be declared or paid in any given amount for any given financial year.

Depending on the financial conditions of the Company and the conditions and factors of the Company as set out above, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board may deem appropriate. Any proposed dividend for a financial year will be subject to shareholders’ approval. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles of Association.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.025 per share (tax inclusive) for the year ended 31 December 2019 to the Shareholders whose names appear on the register of members of the Company on 10 July 2020. The final dividend will be payable on or about 28 August 2020.

The proposed dividend will be denominated in Renminbi. Dividend payable to holders of Domestic Shares will be paid in Renminbi, whereas dividend payable to holders of H Shares will be paid in Hong Kong dollars. The exchange rate of Renminbi to Hong Kong dollars to be adopted will be the average middle rate of the five business days preceding the date of declaration of such dividend (exclusive) (being 12 June 2020 (Friday), the date of the 2019 annual general meeting of the Company) as announced by the People’s Bank of China.

During the year ended 31 December 2019 and up to the date of this annual report, there is no arrangement under which any Shareholder has waived or agreed to waive any dividend.

MATERIAL LITIGATION AND ARBITRATION

During the year ended 31 December 2019, the Company was not involved in any material litigation or arbitration.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Company had 26 full-time employees (31 December 2018: 32 full-time employees). The quality of our employees is the most important factor in maintaining a sustainable development and growth of the Company and to improve to profitability of the Company. We offer a base salary with bonuses based on our employees' performance, as well as benefits and allowances to all of our employees as an incentive. Total employees remuneration of the Company for the year ended 31 December 2019 was approximately RMB4.8 million (for the year ended 31 December 2018: approximately RMB4.5 million). The increase is mainly due to the increase of directors' and chief executives' remuneration from approximately RMB1.3 million for the year ended 31 December 2018 to approximately RMB1.5 million for the year ended 31 December 2019.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible corporation, the Company is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. The Company has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Company understands that a better future depends on everyone's participation and contribution. The Company has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Company maintains strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

Please also refer to the Environmental, Social and Governance Report in this report for further details of the Company's environmental performance and relationship with its employees, suppliers and customers.

OUTLOOK

The objective of the Company is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, micro-enterprises and individual proprietors. Looking ahead, the Board and all staff of the Company will make pioneering and innovative efforts and keep pace with the times to create greater values for our customers, employees and shareholders.

The Transfer of Listing has been successfully completed on 17 July 2019. The Board believes that the Transfer of Listing will, among others, enhance the corporate profile of the Company, increase the Company's brand awareness and reputation and improve the trading liquidity of the H shares of the Company. For further details, please refer to the announcement of the Company dated 8 July 2019.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Bo Wanlin (柏萬林), aged 71, is the chairman of the Board and executive Director. He is primarily responsible for corporate strategic planning and overall business development and management of the Company. He is also the chairman of the nomination committee. Mr. Bo has been the chairman and executive Director since the incorporation of the Company in November 2008. Mr. Bo is the father of Mr. Bo Nianbin and Ms. Bai Li.

From February 1973 to December 1990, Mr. Bo was the director and the secretary of branch of the Party of Yangzhou Zhenxing Garment Factory (揚州市振興服裝廠) (a garment manufacturing and sales company), and was fully responsible for company's operations and management as well as the Party and political works. From January 1991 to July 1996, Mr. Bo was the chairman and general manager of Jiangsu Qinman Group Limited (江蘇琴曼集團有限公司), and was fully responsible for company's operations and management. From August 1996 to November 2014, Mr. Bo Wanlin was the chairman of Jiangsu Botai Group Co., Ltd. (江蘇柏泰集團有限公司) ("**Botai Group**") (a garment manufacturing, import and export, sales, and investment management company), formulating the company's operational development strategy and planning, overseeing the operations and management of the company. From November 2009 to September 2014, Mr. Bo was a director of Jiangsu Hanjiang Mintai Rural Bank Co., Ltd. (江蘇邗江民泰村鎮銀行股份有限公司), involved in the formulation of the company's operational development strategy and planning. From October 2013 to January 2015, Mr. Bo served as a supervisor of Yangzhou Guangling Zhongcheng Rural Bank Co., Ltd. (揚州廣陵中城村鎮銀行股份有限公司) to supervise the performance of the board of directors of the company.

Mr. Bo once served as the chairman and legal representative of 揚州唯一製衣有限公司 (Yangzhou Weiyi Garment Manufactory Co., Ltd.), a company incorporated in the PRC. Its business scope includes manufactory and sale of luxury garment. Since this company no longer carried on business and did not conduct annual inspection, the business license of this company was revoked on 16 April 2008. Mr. Bo once served as the supervisor of 江蘇凱昌服裝有限公司 (Jiangsu Kaichang Garment Co., Ltd.), a company incorporated in the PRC. Its business scope includes manufacture and sale of garment. Since this company no longer carried on business and did not conduct annual inspection, the business license of this company was revoked on 2 December 2010.

Mr. Bo completed his secondary school education in Jiangsu Province Hanjiang Middle School (江蘇省邗江中學) in the PRC in 1968.

Ms. Bai Li (柏莉), aged 44, is the executive Director, chief executive and the general manager of the Company. She is primarily responsible for formulating and implementing the Company's corporate strategies, overseeing the Company's overall business development and participating in the day-to-day management of the Company's business operations. Ms. Bai was appointed as the executive Director on 23 August 2012. She joined the Company on 1 July 2010 as a deputy general manager and was subsequently promoted as a general manager and chief executive on 6 May 2013 responsible for overall management and operations. Ms. Bai is the daughter of Mr. Bo Wanlin and the sister of Mr. Bo Nianbin.

From August 1998 to March 2010, Ms. Bai was a customer manager of the Bank of Communications Co., Ltd. Yangzhou Branch (交通銀行股份有限公司揚州分行) (stock code: 601328.SH, 3328.HK), responsible for loan investigation and issue. From March 2010 to August 2012, Ms. Bai was a supervisor of Botai Group, supervising the performance of the board of directors of the company.

Ms. Bai graduated from Yangzhou University (揚州大學) in the PRC in July 1997 majoring in international business.

Biographical Details of Directors, Supervisors and Senior Management

Ms. Zhou Yinqing (周吟青), aged 41, is the executive Director and the deputy general manager of the Company. She is primarily responsible for overseeing the financial management of the Company. Ms. Zhou was appointed as the executive Director on 6 May 2013 and as a deputy general manager on 10 March 2014.

From March 1996 to March 2014, Ms. Zhou was the financial controller (last position) of Botai Group and was responsible for the financial management of Botai Group.

Ms. Zhou graduated from Central Radio and Television University (中央廣播電視大學, currently known as The Open University of China (國家開放大學)) majoring in financial accounting in the PRC in July 2007.

Non-executive Directors

Mr. Bo Nianbin (柏年斌), aged 45, is the non-executive Director. He is primarily responsible for attending meetings of the Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. Mr. Bo has been the non-executive Director since the incorporation of the Company in November 2008. Mr. Bo is the son of Mr. Bo Wanlin and the brother of Ms. Bai Li.

Since April 1995, Mr. Bo has served as a director of Botai Group. He was responsible for formulating the company's operational development strategy and planning. From July 2001 to March 2019, Mr. Bo served as a director and general manager of Yangzhou Bo Tai Garment Company Limited (揚州柏泰製衣有限公司), a company that manufactures and sells garments, fully responsible for the company's operation and management. From November 2004 to the present day, Mr. Bo served as a supervisor of Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd. (江蘇聯泰時尚購物廣場置業有限公司), which principally engaged in the business of household building materials, supervising the company. From November 2014 to the present day, Mr. Bo served as a supervisor of Shanghai Boke Fashion Co., Ltd. (上海柏可時裝有限公司), a garment sales company, supervising the performance of the board of directors of the company. Since December 2014, Mr. Bo has been the chairman of Botai Group and is responsible for the formulation of the company's operational development strategy and planning and overseeing the company's operation and management. Since March 2017, Mr. Bo has been the chairman of Jiangsu Botai Company Limited (江蘇柏泰股份有限公司), a company that manufactures and sells garment, and is fully responsible for the operation and management of the company.

Mr. Bo completed his secondary school education in Jiangsu Province Yangzhou Middle School (江蘇省揚州中學) in the PRC in May 1992.

Mr. Zuo Yuchao (左玉潮), aged 48, is a non-executive Director. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. Mr. Zuo joined the Company in 12 November 2008 as a non-executive Director.

From July 1992 to December 1999, Mr. Zuo served as a loan officer of Agricultural Bank of China Limited Yangzhou Guangling Branch (中國農業銀行揚州廣陵支行) (stock code: 601288.SH) for loan review. Since December 1999, Mr. Zuo has been the general manager (last position) of Botai Group and is fully responsible for the company's operation and management. From March 2017 to the present, Mr. Zuo served as chairperson of the supervisory committee of board in Jiangsu Botai Company Limited (江蘇柏泰股份有限公司), a company that manufactures and sales garment, supervising the performance of the board of directors of the company.

Mr. Zuo graduated from Suzhou Urban Construction and Environmental Protection Institute (蘇州城建環保學院) (currently known as Suzhou University of Science and Technology (蘇州科技學院)) in July 1992 majoring in real estate management.

Biographical Details of Directors, Supervisors and Senior Management

Independent non-executive Directors

Mr. Bao Zhenqiang (包振強), aged 57, was appointed as an independent non-executive Director on 31 May 2016. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. He is also the chairman of the remuneration committee, and a member of the audit committee and the nomination committee.

Mr. Bao has over 35 years of teaching experience in the field of academic research and teaching. From February 1982 to July 2004, Mr. Bao was a teacher at Yangzhou University (揚州大學) and since July 2004, he has been a professor at Yangzhou University (揚州大學) and engaged in academic research and teaching.

Mr. Bao graduated from Yangzhou Industrial College (揚州工業專科學校) (currently known as Yangzhou University (揚州大學)) in December 1981 majoring in mechanical manufacturing. He obtained a doctorate degree in electric engineering from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in December 2003.

Mr. Wu Xiankun (吳賢坤), aged 69, was appointed as an independent non-executive Director on 15 January 2015. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. He is also the member of the remuneration committee, audit committee and the nomination committee.

Mr. Wu has over 36 years of experience in teaching and administrative management. From February 1981 to July 1983, Mr. Wu was a teacher in Hanjiang County Middle School (邗江縣中學). From September 1983 to September 2000, Mr. Wu was the principal of Guangling Beizhou Middle School (廣陵北洲中學) and engaged in teaching and administrative work. From September 2000 to June 2010, Mr. Wu was the Party secretary of Hanjiang Secondary School (邗江中等專科學校) and was responsible for the party and government work.

Mr. Wu graduated from Yang Zhou Normal College (揚州師範學院) (currently known as Yangzhou University (揚州大學)) in January 1981 majoring in Chinese.

Mr. Chan So Kuen (陳素權), aged 40, was appointed as an independent non-executive Director on 15 January 2015. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of the Company's business operations. He is also the chairman of the audit committee and a member of remuneration committee.

Mr. Chan has over 15 years of experience in accounting, auditing and finance industry. He is also a member of the Hong Kong Institute of Certified Public Accountants. From June 2001 to October 2003, Mr. Chan was a semi-senior audit clerk of Shinewing (HK) CPA Limited (信永中和(香港)會計師事務所有限公司) (formerly known as Ho and Ho & Company (何錫麟會計師行)). From January 2004 to July 2009, Mr. Chan was appointed as a manager (the last position) of KPMG, and was responsible for the project audit. From November 2009 to October 2012, Mr. Chan was the chief financial officer and the company secretary of China Great Wall Electric Holdings Limited (中國長城電氣控股有限公司), responsible for compliance and overall financial and accounting activities. Since February 2014, Mr. Chan has been the chief financial officer, company secretary and authorised representative of Huazhang Technology Holding Limited (華章科技控股有限公司) (stock code: 1673.HK) and is responsible for internal control and overseeing financial and accounting activities. Since October 2014, Mr. Chan has served as an independent non-executive director of Link Holdings Limited (華星控股有限公司) (stock code: 8237.HK), providing independent judgment on the issues of strategy, performance, resources and standard of conduct.

Mr. Chan obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University (香港理工大學) in November 2001. He has been a member of the Hong Kong Institute of Certified Public Accountants since April 2005.

Biographical Details of Directors, Supervisors and Senior Management

SUPERVISORS

Ms. Wang Chunhong (王春宏), aged 70, was appointed as the chairperson of the supervisory committee and the supervisor of the Company (the “**Supervisor**”) on 15 January 2015.

From August 1988 to July 2005, Ms. Wang was a teacher of Hanjiang Professional Education Centre (邗江職教中心) where she engaged in teaching and research. Ms. Wang has retired since August 2005 and has not been engaged in any employment until her current position with the Company.

Ms. Wang graduated from the long-distance learning courses of the Long Distance Learning School of China Central Party School (中共中央黨校函授學院) in the PRC in December 1999.

Ms. Li Guoyan (李國彥), aged 40, was appointed as the Supervisor on 15 January 2015. Ms. Li has been an associate professor of the School of Economics and Management of Nanjing Institute of Industry Technology (南京工業職業技術學院), responsible for research and teaching since July 2018. Prior to that, Ms. Li had been a teacher at Nanjing University of Aeronautics and Astronautics (南京航空航天大學) since July 2005, responsible for teaching.

Ms. Li graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in June 2001 majoring in engineering management. She obtained a master’s degree in technical economics and management and a doctor’s degree in management science and engineering from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in the PRC in April 2005 and October 2017, respectively.

Mr. Zhang Yi (張翼), aged 34, was appointed as the employee Supervisor with effective from May 2013. Mr. Zhang obtained a bachelor’s degree in international business from Yangzhou University (揚州大學) in the PRC in June 2009.

Mr. Zhang joined our Company on December 2011 as account manager, and currently serves as a department manager of the Customer service department in our Company and he is responsible for preliminary review of loan applications.

From August 2010 to November 2011, Mr. Zhang was the product R&D personnel in Jiangsu Ruilian Electronic Technology Co., Ltd. (江蘇瑞聯電子科技有限公司) where he engaged in new product development.

SENIOR MANAGEMENT

Ms. Bai Li (柏莉), is the executive Director, chief executive and the general manager of the Company. Please refer to her biography above for details.

Ms. Zhou Yinqing (周吟青), is the executive Director and the deputy general manager of the Company. Please refer to her biography above for details.

Mr. Xu Lei (許磊), aged 35, is the deputy general manager and secretary to the Board and joint company secretary of the Company.

From August 2007 to March 2010, Mr. Xu was the senior auditor in PricewaterhouseCoopers Zhong Tian LLP. From March 2010 to April 2014, Mr. Xu was the internal audit controller and investor relationship manager in Huiyin Smart Community Co., Ltd. (匯銀智慧社區有限公司) (formerly known as Huiyin Household Appliances (Holdings) Co., Ltd. (匯銀家電(控股)有限公司)) (stock code: 1280.HK).

Corporate Governance Report

The Board hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the important roles of its Board in providing effective leadership and direction to the Company's business, and ensuring transparency and accountability of the Company's operations. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Company's business.

The Company has applied and complied with the principles and code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the year ended 31 December 2019.

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of the Shareholders and investors.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES

The Company has adopted a code of conduct regarding securities transactions by Directors and Supervisors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. Having made all reasonable enquires, all the Directors and Supervisors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors and Supervisors adopted by the Company throughout the year under review.

Corporate Governance Report

A. THE BOARD

A.1 Board of Directors

The Company is governed by the Board which has the responsibility for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Board sets strategies and directions for the Company's activities with a view to developing its business and enhancing shareholder value.

Save as disclosed in this annual report, to the best knowledge of the Directors, there is no financial, business, family or other relationship amongst the Directors, the Supervisors, the chairman of the Board, the president of the Company and the senior management of the Company.

A.2 Board composition

The Board currently comprises of the following Directors:

Executive Directors

Mr. Bo Wanlin (*Chairman*)
Ms. Bai Li
Ms. Zhou Yinqing

Non-executive Directors

Mr. Bo Nianbin
Mr. Zuo Yuchao

Independent non-executive Directors

Mr. Bao Zhenqiang
Mr. Wu Xiankun
Mr. Chan So Kuen

The biographical details of the Directors and senior management are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report. The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive corporate and strategic planning experiences that can contribute to the business of the Company.

During the year ended 31 December 2019, the Company has complied with Rules 3.10(1) and (2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive directors representing more than one-third of the Board and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors also meet the guidelines for assessment of their independence pursuant to Rule 3.13 of the Listing Rules. The Board has received an annual confirmation of independence from each of the independent non-executive Directors. The Company considers all the independent non-executive Directors to be independent.

A.3 The Board

The Board is responsible for the leadership and control of, and promoting the success of the Company. This is achieved by setting up corporate and strategic objectives and policies, and the monitoring and evaluations of operating activities and financial performance of the Company.

All the Directors carry out their duties in good faith and are in compliance with applicable laws and regulations, take decisions objectively and act in the interests of the Company and its Shareholders at all times.

Formal service agreements have been entered into with the executive Directors, non-executive Directors and the independent non-executive Directors respectively setting out the key terms and conditions of their respective appointments. The term of office of every Directors is three years.

The insurance cover in respect of legal action against the Company's Directors and senior officers is covered by the existing Directors & Officers Liability Insurance Policy of the Company.

A.4 Chairman and Chief Executive Officer

The position of the chairman of the Board is held by Mr. Bo Wanlin, who provides leadership and is responsible for the effective functioning and leadership of the Board. Ms. Bai Li has been acting as the chief executive of the Company. She focuses on the Company's business development, daily management and general operations.

A.5 Responsibilities and delegation of functions

The Company has formalised and adopted written terms on the division of functions reserved to the Board and those delegated to the management of the Company. The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the joint company secretaries (the "**Joint Company Secretaries**") and senior management of the Company, with a view to ensuring compliance with the Board procedures and all applicable laws and regulations. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request being made to the Board. The day-to-day management, administration and operations of the Company are delegated to the executive Directors and senior management of the Company. The Board has delegated a schedule of responsibilities to these officers for the implementation of the Board decisions. The Board periodically reviews the delegated functions and work tasks. Prior to entering into any significant transactions, the aforesaid officers have to obtain the Board's approval.

Corporate Governance Report

No corporate governance committee has been established by the Company and the Board is responsible for performing the corporate governance duties, which include:

- (1) developing and reviewing the policies and practices on corporate governance of the Company;
- (2) to review and monitor the training and continuous professional development of Directors and senior management;
- (3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and
- (5) to review the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

A.6 Appointment, re-election and removal of directors

Pursuant to Article 103 of the Articles of Association, all current Directors were re-elected at the extraordinary general meeting held on 9 January 2018 for a term of three years.

A.7 Board meeting, general meeting and procedures

During the year ended 31 December 2019, the Board convened a total of four Board meetings and two general meetings. The following is the Directors' attendance record of meetings held by the Board and general meeting:

	Number of meetings attended in person/ attended by proxy/ number of Board meeting	Number of meetings attended in person/ number of general meeting
Mr. Bo Wanlin	4/0/4	2/2
Ms. Bai Li	4/0/4	2/2
Ms. Zhou Yinqing	4/0/4	2/2
Mr. Bo Nianbin	4/0/4	2/2
Mr. Zuo Yuchao	4/0/4	2/2
Mr. Bao Zhenqiang	4/0/4	2/2
Mr. Wu Xiankun	4/0/4	2/2
Mr. Chan So Kuen	4/0/4	2/2

During the year ended 31 December 2019, the chairman of the Board held one meeting with the independent non-executive Director without the presence of other Directors.

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly.

Schedules for regular Board meetings and draft agenda of each Board meeting are sent to all Directors in advance. Notice of at least 14 days is given for a regular Board meeting. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are dispatched to all Directors at least three days before each regular Board meeting to ensure that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting.

The Joint Company Secretaries are responsible to keep minutes of all Board and committee meetings. Draft minutes are normally circulated to all Directors for comments within a reasonable time after each meeting and the final version is open to Directors for inspection. The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

A.8 Continuous professional development

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Company and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to Directors will be arranged whenever necessary.

During the year ended 31 December 2019, all Directors had participated in continuous professional development in the following manner in compliance with Paragraph A.6.5 of the Code:

	Type of training
Mr. Bo Wanlin	A, B
Ms. Bai Li	A, B
Ms. Zhou Yinqing	A, B
Mr. Bo Nianbin	A, B
Mr. Zuo Yuchao	A, B
Mr. Bao Zhenqiang	A, B
Mr. Wu Xiankun	A, B
Mr. Chan So Kuen	A, B

A: attending seminars/courses/conference to develop professional skills and knowledge

B: reading materials in relation to regulatory update

A.9 Corporate governance functions

The Board is responsible for performing the corporate governance duties and has reviewed the Company's policies and practices on corporate governance and compliance with the Code, reviewed and monitored the continuous professional development of the Directors and reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements during the year as well as the disclosures in this report.

Corporate Governance Report

B. BOARD COMMITTEES

The Board has established three Board committees, namely, the audit committee (the “**Audit Committee**”), the nomination committee (the “**Nomination Committee**”) and the remuneration committee (the “**Remuneration Committee**”) with written terms of reference, which are available for viewing on the websites of the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees and the corporate governance duties as required under Paragraph D.3.2 of the Code have been performed.

B.1 Audit Committee

The Audit Committee was established by the Board on 31 January 2015 with written terms of reference in compliance with Rules 3.21 to 3.24 of the Listing Rules and the Code. The terms of reference was amended on 17 July 2019. The primary duties of the Audit Committee are mainly to (i) review the financial statements and reports and consider any significant or unusual items raised by the Company’s staff responsible for the accounting and financial reporting function or external auditors before submission to the Board; (ii) review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditors; and (iii) review the adequacy and effectiveness of the Company’s financial reporting system, risk management and internal control systems and associated procedures.

As at 31 December 2019, the Audit Committee has three members comprising Mr. Chan So Kuen (Chairman), Mr. Wu Xiankun and Mr. Bao Zhenqiang, all of whom are independent non-executive Directors. During the year ended 31 December 2019, the Audit Committee had reviewed the annual results and reports of the Company for the year ended 31 December 2018, the interim results and first quarterly results and reports of the Company for the periods ended 30 June 2019 and 31 March 2019 respectively. Subsequent to 31 December 2019 and up to the date of this report, all members of the Audit Committee attended a meeting to review the Company’s risk management and internal controls for the year ended 31 December 2019. The Company’s final results and the annual results announcement for the year ended 31 December 2019 and this annual report had been reviewed by the Audit Committee before submission to the Board for approval. Members of the Audit Committee were of the opinion that the preparation of such results complied with the applicable accounting standards, Listing Rules and that adequate disclosure have been made.

During the year ended 31 December 2019, three meetings of the Audit Committee were held and the attendance of each member of the Audit Committee is contained in the following table:

	Number of attendance/ number of meetings
Mr. Chan So Kuen	3/3
Mr. Wu Xiankun	3/3
Mr. Bao Zhenqiang	3/3

B.2 Nomination Committee

The Company has established the Nomination Committee on 31 January 2015 with written terms of reference in compliance with the Code. The terms of reference was amended on 17 July 2019. The primary duties of the Nomination Committee are mainly to (i) review the structure, size and composition (including but not limited to the perspectives, skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, having due regard to the board diversity policy and nomination policy of the Company; (iii) assess the independence of independent non-executive Directors of the Company; (iv) make recommendations to the Board on the appointment or re-appointment of Directors of the Company and succession planning for Directors of the Company, in particular the chairman and the chief executive; and (v) review the board diversity policy and nomination policy of the Company regularly.

As at 31 December 2019, the Nomination Committee has three members comprising of one executive Director, Mr. Bo Wanlin (Chairman) and two independent non-executive Directors, Mr. Wu Xiankun and Mr. Bao Zhenqiang. During the year ended 31 December 2019, one meeting of the Nomination Committee was held to review the structure and composition of the Board and assess the independence of independent non-executive Directors. The attendance of each member of the Nomination Committee is contained in the following table:

	Number of attendance/ number of meetings
Mr. Bo Wanlin	1/1
Mr. Wu Xiankun	1/1
Mr. Bao Zhenqiang	1/1

Board Diversity Policy

The Board adopted on 31 January 2015 a Board diversity policy (the "**Board Diversity Policy**") which was subsequently amended on 8 November 2018. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company commits to selecting the best person for the role. Selection and nomination of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge, views, time contribution and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. Nomination Committee had made recommendations to the Board on the measurable objectives for implementing the Board Diversity Policy and nomination policy.

As of December 31, 2019, the Board of directors of the Company has two female members and six male members. Members of the Board have a reasonable age structure, with five directors aged 40-50, one director aged 51-60, and two directors aged above 60. The professional experience of members of the Board of directors of the Company covers a wide range, including experience in corporate strategic planning, corporate management, finance and financial affairs.

Corporate Governance Report

The Nomination Committee has considered measurable objectives based on four focus areas: gender, age, professional experience and length of service to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee will review the Board Diversity Policy, as appropriate to ensure its continued effectiveness from time to time.

Nomination Procedures

The Committee identifies individuals suitably qualified to become Board members, having due regard to the Board Diversity Policy, nomination policy and the needs of the Company by making reference to the perspectives skills, knowledge, experience, etc. of the proposed candidate and assesses the independence of the proposed independent non-executive director, as the case may be. Qualified candidates will then be recommended to the Board for approval of appointment or Board's recommendation to stand for election at a general meeting. The Board shall have the ultimate responsibility for all matters relating to the selection and appointment of directors.

B.3 Remuneration Committee

The Company established the Remuneration Committee on 31 January 2015 with written terms of reference in compliance with the Code. The terms of reference was amended on 17 July 2019. The Remuneration Committee adopted the approach under Paragraph B.1.2(c) (ii) of the Code and primary duties of the Remuneration Committee are mainly to (i) make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; and (iii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

As at 31 December 2019, the Remuneration Committee has three members comprising three independent non-executive Directors, Mr. Bao Zhenqiang (Chairman), Mr. Chan So Kuen and Mr. Wu Xiankun. The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Company and general market conditions. During the year ended 31 December 2019, one meeting of the Remuneration Committee was held to review the remuneration policy and package of the Directors and senior management of the Company, the attendance of each member of the Remuneration Committee is contained in the following table:

	Number of attendance/ number of meetings
Mr. Bao Zhenqiang	1/1
Mr. Chan So Kuen	1/1
Mr. Wu Xiankun	1/1

C. REMUNERATION OF SENIOR MANAGEMENT

The biographical details of the senior management are set out in the section headed “Biographical Details of Directors, Supervisors and Senior Management” of this annual report.

The remuneration paid/payable to senior management other than the Directors of the Company for the year ended 31 December 2019 fell within the following band:

	Number of individuals
Nil to HK\$500,000	1

D. DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial year and to ensure that the financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The statement by the auditor of the Company about their responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 59 to 62 of this annual report. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

E. RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 2019, the Company has complied with Paragraph C.2 of the Corporate Governance Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Company adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted in 2019, no significant risk was identified.

Corporate Governance Report

Internal Control System

The Company has in place an internal control system which enables the Company to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the internal control system framework are shown as follow:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Company.
- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Company's objectives, forming a basis for determining how risks should be managed.
- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- Information and Communication: Internal and external communication to provide the Company with the information needed to carry out day-to-day controls.
- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Company's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Company also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- Confidentiality agreements are in place when the Company enters into significant negotiations.
- The Executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted in 2019, no significant control deficiency was identified.

Internal Audit Function

The Company has established Internal Audit Department ("**IA Department**"), which is responsible for formulating annual audit plans, conducting internal audits according to the annual audit plans, and if applicable, liaising with and assisting external audit consultant in conducting internal audits. IA Department is independent of the Company's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Company and ensuring review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Company's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by IA Department and Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

F. INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid/payable to the auditors of the Company for the year ended 31 December 2019 is set out as follows:

Services rendered	Paid/payable RMB'000
Audit services	2,388
Non-audit services	453
Total	2,841

G. COMPANY SECRETARY

Mr. Lau Kwok Yin was appointed as the joint company secretary of the Company on 30 May 2018.

Mr. Lau Kwok Yin has over 10 years' experience in corporate secretarial services, finance and banking operations. He joined SWCS Corporate Services Group (Hong Kong) Limited (a corporate service provider) in March 2018 and is a senior manager, responsible for assisting in providing company secretary services. Mr. Lau holds a bachelor of business administration degree in accounting and finance from The University of Hong Kong, and is a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst charter holder. Mr. Lau currently serves as the company secretary and joint company secretary of several companies listed on the Stock Exchange.

Mr. Xu Lei has been our joint company secretary since 31 January 2015. The biographical details of Mr. Xu are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report.

According to the requirements of Rule 3.29 of the Listing Rules, Mr. Xu and Mr. Lau have taken no less than 15 hours of relevant professional training during the year ended 31 December 2019. Mr. Xu is the primary corporate contact person of the joint company secretary of our Company.

Corporate Governance Report

H. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that a transparent and timely disclosure of the Company's information will enable the Shareholders and investors to make the best investment decision and to have better understanding on the Company's business performance and strategies. It is also vital for developing and maintaining continuing investor relations with the Company's potential and existing investors.

The Company maintains a website at www.gltaihe.com as a communication platform with the Shareholders and investors, where the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

The Shareholders and investors may also write directly to the Company's principal place of business in Hong Kong at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong or via email to ray@gltaihe.com for any inquiries. Inquiries are dealt with in an informative and timely manner.

The Board considers that general meetings of the Company provide an important channel for the Shareholders to exchange views with the Board. The Chairman of the Board as well as the chairmen and/or other members of the Board committees will endeavor to be available at the meetings to answer any questions raised by the Shareholders.

The Company continues to enhance communication and relationship with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them informed of the Company's developments.

I. SHAREHOLDERS' RIGHTS

Procedures for convening extraordinary meeting or class meeting on requisition

The Shareholders of the Company shall follow the following procedures as prescribed in Article 85 of the Articles of Association of the Company to convene an extraordinary general meeting or class meeting of the Company:

- (1) The Shareholders who separately or jointly hold 10% or more of the voting shares at the proposed meeting may make a proposal to the Board on holding an extraordinary general meeting or class meeting by signing one or several written requests with same contents in the same format and define the meeting agenda. The Board shall convene such meeting as soon as possible upon receipt of the aforesaid written request. The aforesaid number of shares shall be calculated as of the date of written request;
- (2) If the Board fails to send notification of the meeting within 30 days from the date of the receipt of such request, requesting Shareholders may call the meeting within 4 months of the date of the receipt of such request by the Board, and the procedures for calling the meeting shall remain as the Board would call the meeting.

Where the Shareholders convene a meeting due to the failure by the Board to duly convene the same, all reasonable expenses so incurred shall be reimbursed by the Company, and any sum so reimbursed shall be set-off against such sums owed by the Company to the defaulting directors.

Procedures for raising enquiries

The Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's H share registrar in Hong Kong, Tricor Investor Services Limited, details of which are as follows:

Tricor Investor Services Limited

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Email: is-enquiries@hk.tricorglobal.com

Tel: (852) 2980 1333

Fax: (852) 2810 8185

The Shareholders may at any time raise any enquiry in respect of the Company at the following designated contacts, correspondence addresses, email addresses and enquiry hotlines of the Company:

Attention: Board of Directors/Company Secretary

Address: Beizhou Road, Lidian Town, Guangling District, Yangzhou City, Jiangsu Province, the PRC

Email: ray@gltaihe.com

Tel: (86) 514-87947629

Fax: (86) 514-87948990

The Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

Procedures for the Shareholders to put forward proposals at general meeting

According to the Article 66 of the Articles of Association of the Company, when a general meeting is convened by the Company, the Shareholders who individually or collectively hold 3% or more of the total voting shares of the Company shall be entitled to propose new resolutions in writing to the Company. Such Shareholders shall submit ad hoc proposals in writing to the Board 10 days before the convening of the general meeting. The Board shall notify other Shareholders within 2 days upon receipt of the proposals and submit the ad hoc proposals to the general meeting for consideration. The Company shall place such proposals on the agenda for such meeting if they are matters falling within the scope of duties of the general meeting.

J. CONSTITUTIONAL DOCUMENTS

Pursuant to resolutions of the Shareholders passed on 31 January 2015, the Articles of Association were adopted with effect from the listing date. In 2018, certain amendments were made to the Articles of Association to align with current condition of the Company's management. These amendments were passed by the Shareholders at the extraordinary general meeting of the Company held on 9 January 2018 and the amended version of the Articles of Association has been adopted since then. In 2019, In light of the Transfer of Listing, the articles amendments were made to comply with the requirements of the Listing Rules and the relevant regulations in the PRC and Hong Kong. These amendments were passed by the Shareholders at the extraordinary general meeting, H Shareholders at the H Shareholders Class Meeting, Domestic Shareholders at the Domestic Shareholders Class Meeting of the Company respectively held on 6 March 2019 and the amended version of the Articles of Association has been adopted since 17 July 2019.

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

Report of the Board of Directors

The Board of Directors of the Company is pleased to present the annual report and the audited financial statements of the Company for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company's strategic goal is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, microenterprises and individual proprietors. With the successful listing of Taihe Micro-finance on the Stock Exchange on 8 May 2017 and Transfer of Listing on 17 July 2019, the Company had further strengthened the competitive advantages and provided the services to more SMEs, microenterprises and individual proprietors. As at 31 December 2019, the Company's balance of outstanding loans (before allowance for impairment losses) was approximately RMB901.6 million, representing an increase of approximately 7.1% as compared to approximately RMB841.5 million in the previous year. For the year ended 31 December 2019, we granted loans to 526 customers, representing an increase of approximately 2.5% as compared to 513 customers for the year ended 31 December 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

As a microfinance company dedicated to serving the interim business financing needs of SMEs, microenterprises and individual proprietors, credit risk is the most significant risk inherent to our business. With the aim of addressing credit risks, we have put in place a standardized and centralized risk management system, and adopted a policy of "separation of due diligence and approval (審貸分離)". While our risk management system is designed to manage our credit risk, there can be no assurance that such system will be effective in avoiding all undue credit risk. Meanwhile, the business operation of the Company is subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Company closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company's operations are mainly carried out in Hong Kong and the PRC while the Company itself is listed on the Stock Exchange of Hong Kong Limited. The Company's establishment and operations accordingly shall comply with all PRC laws and applicable laws in the jurisdictions where it has operations. During the year ended 31 December 2019 and up to the date of this annual report, the Company has complied with all the relevant laws and regulations in the PRC and Hong Kong.

The Directors are not aware of any laws and regulations which are industry specific, and have material implication or impact to the business and operation of the Company.

RESULTS

The Company's results for the year ended 31 December 2019 and the state of affairs of the Company and the Company at that date are set out in the financial statements on pages 63 to 113.

Report of the Board of Directors

PROFIT DISTRIBUTION PLAN AND DIVIDENDS

The profit distribution plan of the Company for the year ended 2019 was as follows: (i) 10% of 2019 net profit amounting to RMB5,011,924 was appropriated to the statutory surplus reserve; and (ii) RMB611,682 was appropriated to the general reserve. The above profit distribution proposal for 2019 is subject to the approval of the Shareholders at the 2019 annual general meeting of the Company.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.025 per share (tax inclusive) for the year ended 31 December 2019 to the Shareholders whose names appear on the register of members of the Company on 10 July 2020. The final dividend will be payable on or about 28 August 2020.

The proposed dividend will be denominated in Renminbi. Dividend payable to holders of Domestic Shares will be paid in Renminbi, whereas dividend payable to holders of H Shares will be paid in Hong Kong dollars. The exchange rate of Renminbi to Hong Kong dollars to be adopted will be the average middle rate of the five business days preceding the date of declaration of such dividend (exclusive) (being 12 June 2020 (Friday)), the date of the 2019 annual general meeting of the Company) as announced by the People's Bank of China.

TAX RELIEF (H SHAREHOLDERS)

Dividend payable to holders of Domestic Shares will be paid in Renminbi, whereas dividend payable to holders of the H shares will be declared in Renminbi and paid in Hong Kong dollars. The exchange rate of which will be calculated in accordance with the related national regulations on foreign exchange control.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Administrative Measures of the State Administration of Taxation on Tax Convention Treatment for Non-resident Taxpayers (No. 60 of the Announcement of the State Administration of Taxation for 2015) (《國家稅務總局非居民納稅人享受稅收協定待遇管理辦法》) (國家稅務總局公告2015年第60號), the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (國稅函[2011]348號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H shares in respect of the dividend to be distributed to them. However, the individual holders of H shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled and the tax arrangements between Mainland China, Hong Kong or Macau. For individual holders of H shares in general, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H shares in the distribution of the dividend. However, the tax rates applicable to individual holders of H shares overseas may vary depending on the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled, and the Company will withhold and pay individual income tax on behalf of the individual holders of H shares in the distribution of the dividend accordingly.

Report of the Board of Directors

For non-resident enterprise holders of H shares, i.e., any Shareholders who hold the Company's shares in the name of non-individual shareholders, including but not limited to HKSCC Nominee Limited, other nominees, trustees, or holders of H shares registered in the name of other groups and organisations, the Company will withhold and pay the enterprise income tax at the tax rate of 10% for such holders of H shares pursuant to the Notice of the State Administration of Taxation on the Issues. Concerning Withholding the Enterprises Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Nonresident Enterprises (Guo Shui Han [2008] No. 897) (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)). Should the holders of H shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H shares of the Company.

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual holders of H shares and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual holders of H shares or any disputes over the withholding mechanism or arrangements.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

The 2019 annual general meeting (the "AGM") of the Company will be held at 10 a.m. on Friday, 12 June 2020 at 2/F, No. 1 Hongqi Avenue, Jiangwang Town, Hanjiang District, Yangzhou City, Jiangsu Province, the PRC. In order to determine the shareholders' eligibility to attend the AGM, the register of members of the Company will be closed from Wednesday, 13 May 2020 to Friday, 12 June 2020, both days inclusive, during which no transfer of shares will be registered. Only Shareholders whose names appear on the register of members of the Company on Friday, 12 June 2020 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's H share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares), or the Company's principal place of business in the PRC at 2/F, No. 1 Hongqi Avenue, Jiangwang Town, Hanjiang District, Yangzhou City, Jiangsu Province, the PRC (for holders of domestic shares) not later than 4:30 p.m. on Tuesday, 12 May 2020.

The register of members of the Company will also be closed from 6 July 2020 (Monday) to 10 July 2020 (Friday), both days inclusive, in order to determine the entitlement of the Shareholders to the final dividend. The Shareholders whose names appear on the register of members of the Company on 10 July 2020 (Friday) will be entitled to the final dividend. In order to be eligible to entitle to the final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's H share register, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares), or the Company's registered office in the PRC at 2/F, No. 1 Hongqi Avenue, Jiangwang Town, Hanjiang District, Yangzhou City, Jiangsu Province, the PRC (for holders of domestic shares) not later than 4:30 p.m. on 3 July 2020 (Friday).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the past five financial years is set out in the financial summary on page 114 of this annual report. This summary does not form part of the audited financial statements.

Report of the Board of Directors

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the Statement of Changes in Equity section of this annual report.

PRE-EMPTIVE RIGHTS

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

FIXED ASSETS

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

DISTRIBUTABLE RESERVES

Details of movements in reserves of the Company during the year ended 31 December 2019 are set out in the Statement of Changes in Equity section of this annual report. As at 31 December 2019, the Company's retained earnings amounted to approximately RMB152.7 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the percentage of revenue attributable to the Company's major customers is set out below:

Revenue

– The largest customer	1.3%
– The total of five largest customers	5.0%

As far as the Directors aware, neither the Directors nor their respective close associates nor any Shareholder (which to the knowledge of Directors own more than 5% of the Company's issued shares) had any interest in the five largest customers of the Company.

Due to the business nature of the Company, the Company does not have major suppliers.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors

Mr. Bo Wanlin (*Chairman*)

Ms. Bai Li

Ms. Zhou Yinqing

Report of the Board of Directors

Non-executive Directors

Mr. Bo Nianbin
Mr. Zuo Yuchao

Independent non-executive Directors

Mr. Bao Zhenqiang
Mr. Wu Xiankun
Mr. Chan So Kuen

Pursuant to Article 103 of the Company's Articles of Association, all current Directors were re-elected at the extraordinary general meeting on 9 January 2018 for a term of three years.

The Company has received annual confirmations of independence from all three independent non-executive Directors pursuant to the Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors to be independent.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report.

DIRECTORS' SERVICE AGREEMENTS

No Director or Supervisor has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

CHANGES IN DIRECTORS' INFORMATION

There were no changes to the Directors' information since the date of the 2019 interim report of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

No Directors or Supervisors, or entity connected with any Directors or Supervisors had material interest, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of the Company during the year ended 31 December 2019.

CONTRACT OF SIGNIFICANCE WITH A CONTROLLING SHAREHOLDER OR ANY OF ITS SUBSIDIARIES

Apart from the leasing agreement between the Company (as lessee) and Liantai Guangchang (as lessor), details of which are disclosed on page 102 of this annual report, there was neither contract of significance between the Company and a controlling Shareholder (as defined in the Listing Rules) or any of its subsidiaries, nor contract of significance for the provision of services to the Company by a controlling Shareholder or any of its subsidiaries during the year ended 31 December 2019.

Report of the Board of Directors

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except as disclosed in this annual report, none of the Directors or Supervisors or any of their respective associates was granted by the Company any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY

During the year ended 31 December 2019, the Company has purchased liability insurance for Directors and Supervisors which provides proper insurance for the Directors and Supervisors in respect of liabilities from legal actions against them arising from corporate activities.

DONATIONS

During the year ended 31 December 2019, the Company has made a total of donations of Nil (2018: RMB10,000).

RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Company are set out in note 24 to the financial statements. None of the related party transactions constitutes a connected transaction or continuing connected transaction that is required to be disclosed under Chapter 14A of the Listing Rules.

EMOLUMENT POLICY

The Remuneration Committee was set up for reviewing the Company's emolument policy and structure of all remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance and comparable market practices. No long-term incentive schemes have been adopted by the Company.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five individuals with highest emoluments are set out in note 8 and note 9 to the financial statements.

EMPLOYEE RETIREMENT SCHEMES

The Company participates in pension scheme organized by the municipal government of Yangzhou City, Jiangsu for the Company's employees based in the PRC. During the year end 31 December 2019, the Company has no forfeited contributions used by the employer to reduce the existing level of contributions.

Report of the Board of Directors

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

During the year 31 December 2019, Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd.* (江蘇聯泰時尚購物廣場置業有限公司) ("**Liantai Guangchang**") disposed of 10% interest in Jiangsu Hanjiang Mintai Rural Bank Co., Ltd.* (江蘇邗江民泰村鎮銀行股份有限公司) ("**Mintai Bank**"), being all of its interest in Mintai Bank, to an independent third party.

Mintai Bank principally engages in certain banking business such as taking public deposit; providing short term, medium term and long term loans; domestic exchange settlement; notes acceptance and discount; interbank borrowing; debit card issuing; issuing and cashing agency, undertaking governmental bond; accounts receivable and payable agency; and other business approved by China Banking Regulatory Commission ("**Banking Business**") in Hanjiang District of Yangzhou.

As at the date of this report, Botai Group (a Controlling Shareholder of our Company (as defined in the Listing Rules)) held 8% interest in Yangzhou Guangling Zhongcheng Rural Bank Co., Ltd.* (揚州廣陵中成村鎮銀行股份有限公司) ("**Zhongcheng Bank**") and 10% interest in Mintai Bank in the capacity as passive investor.

Zhongcheng Bank principally engages in the Banking Business in Guangling District of Yangzhou City.

For further details on the general information of Mintai Bank and Zhongcheng Bank and the reasons that our Directors are of the view that the competition between the principal businesses of Mintai Bank and Zhongcheng Bank and the Company is limited and not extreme, please refer to the paragraph titled "Relationship with the Controlling Shareholders – other Businesses Invested by our Controlling Shareholders" in the Company's prospectus dated 24 April 2017.

Save as disclosed above, as at 31 December 2019, none of the controlling Shareholders of the Company, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with our principal business, which would require disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

As disclosed in the Company's prospectus dated 24 April 2017, Botai Group, Liantai Guangchang, Mr. Bo Wanlin (柏萬林), Ms. Wang Zhengru (王正茹) (spouse of Mr. Bo Wanlin), Mr. Bo Nianbin (柏年斌) and Ms. Bai Li (柏莉) have executed a non-competition agreement with the Company on 6 April 2017, which was substituted by a new one executed on 9 July 2019 (the "**Non-competition Agreement**") due to the Company's Transfer of Listing, which is in substantially the same terms as the non-competition agreement executed on 6 April 2017, with references to GEM being amended to the main board of the Stock Exchange.

Save for what has been disclosed in the paragraph headed "Directors' and Controlling Shareholders' Interest in Competing Business", each of the controlling Shareholders has confirmed in writing to the Company of his/her/its compliance with the Non-competition Agreement for disclosure in this report during the year ended 31 December 2019 and up to the date of this report. The independent non-executive Directors have also reviewed the status of compliance by each of Botai Group, Liantai Guangchang, Mr. Bo Wanlin (柏萬林), Ms. Wang Zhengru (王正茹), Mr. Bo Nianbin (柏年斌), Ms. Bai Li (柏莉) with the undertakings in the Non-competition Agreement and have confirmed that, as far as they can ascertain, there is no breach of any of the undertakings in the Non-competition Agreement.

Report of the Board of Directors

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2019, interests or short positions of the Directors, the Supervisors and chief executive of the Company and their associates in any of the shares (the "Shares") and debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including circumstance of interests or short positions deemed or taken to have under such provisions of the SFO), or interests or short positions in the underlying shares and debt securities of the Company recorded in the register required to be kept pursuant to Section 352 of the SFO or share transaction as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules were as follows:

Shares of the Company

Director/Supervisor	Nature of interest	Number of shares held ⁽¹⁾	Approximate shareholding percentage in the relevant class of shares ⁽²⁾	Approximate percentage of shareholding in the total issued shares of the Company ⁽³⁾
Mr. Bo Wanlin	Interest in controlled corporation ⁽⁴⁾⁽⁵⁾	430,100,000 Domestic Shares (L)	95.58%	71.68%
Ms. Bai Li	Beneficial owner	10,000,000 Domestic Shares (L)	2.22%	1.67%
Mr. Zuo Yuchao	Beneficial owner	2,600,000 Domestic Shares (L)	0.58%	0.43%
Ms. Zhou Yinqing	Beneficial owner	700,000 Domestic Shares (L)	0.16%	0.12%

Notes:

- (1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the domestic shares of the Company (the "Domestic Shares").
- (2) The calculation is based on the percentage of shareholding in Domestic Shares (namely, ordinary shares in the Company capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC-incorporated entities).
- (3) The calculation is based on the total number of 600,000,000 Shares in issue.

Report of the Board of Directors

- (4) Botai Group is directly interested in approximately 40.03% in the Company. The disclosed interest represents the interest in the Company held by Botai Group which is in turn held as to approximately 33.33% by Mr. Bo Wanlin, approximately 25.00% by Mr. Bo Nianbin, approximately 25.00% by Ms. Bai Li and approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin). Mr. Bo Wanlin and his spouse control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in the Company by virtue of the SFO.
- (5) Liantai Guangchang is directly interested in approximately 31.65% in the Company. The disclosed interest represents the interest in the Company held by Liantai Guangchang which is in turn held as to approximately 48.67% by Botai Group, approximately 26.33% by Mr. Bo Wanlin, approximately 20.00% by Mr. Bo Nianbin and 5.00 % by Ms. Bai Li. On 12 December 2017, Botai Group and Liantai Guangchang, the Controlling Shareholders of the Company, pledged 45,000,000 and 35,000,000 domestic shares of the Company in favour of an independent commercial bank as securities for bank facilities in the amount of RMB40,000,000 and RMB30,000,000 respectively. As at 31 December 2019, Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO, and Mr. Bo Wanlin and his spouse Ms. Wang Zhengru, control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in Liantai Guangchang and the Company by virtue of the SFO, so Mr. Bo Wanlin is deemed to be interested in 45,000,000 and 35,000,000 Domestic Shares which Botai Group and Liantai Guangchang were deemed to have a security interest. Details are set out in the announcement dated 12 December 2017.

Associated Corporation

Director/Supervisor	Associated Corporation	Nature of interest	Approximate shareholding percentage in the relevant class of Shares in the Associated Corporation
Mr. Bo Wanlin	Botai Group	Beneficial owner ⁽¹⁾	33.33%
		Family interest of spouse ⁽²⁾	16.67%
Ms. Bai Li	Botai Group	Beneficial owner ⁽¹⁾	25.00%
Mr. Bo Nianbin	Botai Group	Beneficial owner ⁽¹⁾	25.00%

Notes:

- (1) The disclosed interest represents the interests in Botai Group, the associated corporation which is wholly owned as to approximately 33.33% by Mr. Bo Wanlin, approximately 25.00% by Mr. Bo Nianbin, approximately 25.00% by Ms. Bai Li and approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin).
- (2) Mr. Bo Wanlin is the spouse of Ms. Wang Zhengru and is deemed to be interested in Ms. Wang Zhengru's interest in Botai Group by virtue of the SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors, Supervisors and chief executive of the Company nor their associates had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept pursuant to section 352 of the SFO, or transactions of shares and debt securities otherwise required to be notified to the Company and the Stock Exchange pursuant to Appendix 10 of the Listing Rules.

Report of the Board of Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2019, so far as the Directors are aware, each of the following persons has an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be entered into the register referred to in section 336 of the SFO:

Shareholders	Nature of interest	Number of Shares held ⁽¹⁾	Approximate shareholding percentage in the relevant class of Shares	Approximate percentage of shareholding in the total issued shares of the Company ⁽³⁾
Botai Group ⁽⁸⁾	Beneficial owner	240,200,000 Domestic Shares (L)	53.38% ⁽²⁾	40.03%
	Interest in controlled corporation ⁽⁴⁾	189,900,000 Domestic Shares (L)	42.20% ⁽²⁾	31.65%
Mr. Bo Wanlin ⁽⁸⁾	Interest in controlled corporation ⁽⁵⁾	430,100,000 Domestic Shares (L)	95.58% ⁽²⁾	71.68%
Ms. Wang Zhengru ⁽⁸⁾	Family interest of spouse ⁽⁶⁾	430,100,000 Domestic Shares (L)	95.58% ⁽²⁾	71.68%
Liantai Guangchang ⁽⁸⁾	Beneficial owner	189,900,000 Domestic Shares (L)	42.20% ⁽²⁾	31.65%
Mr. Suen Cho Hung, Paul	Beneficial owner	19,208,000(L) H Shares	12.81% ⁽⁷⁾	3.20%
Mr. Lai Ming Wai	Beneficial owner	10,090,000(L) H Shares	6.73% ⁽⁷⁾	1.68%

* For identification purpose only

Report of the Board of Directors

Notes:

- (1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Shares of the Company.
- (2) The calculation is based on the percentage of shareholding in the Domestic Shares.
- (3) The calculation is based on the total number of 600,000,000 Shares in issue after the Listing.
- (4) As at 31 December 2019, Liantai Guangchang is held as to approximately 48.67% by Botai Group, approximately 26.33% by Mr. Bo Wanlin, approximately 20.00% by Mr. Bo Nianbin and approximately 5.00% by Ms. Bai Li. Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO.
- (5) As at 31 December 2019, Botai Group is held as to approximately 33.33% by Mr. Bo Wanlin, approximately 25.00% by Mr. Bo Nianbin, approximately 25.00% by Ms. Bai Li and approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin). Mr. Bo Wanlin and his spouse control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in the Company by virtue of the SFO.
- (6) Ms. Wang Zhengru, the spouse of Mr. Bo Wanlin, is deemed to be interested in Mr. Bo Wanlin's interest in the Company by virtue of the SFO.
- (7) The calculation is based on the percentage of shareholding in the H Shares.
- (8) On 12 December 2017, Botai Group and Liantai Guangchang, the Controlling Shareholders of the Company, pledged 45,000,000 and 35,000,000 Domestic Shares of the Company in favour of an independent commercial bank as securities for bank facilities in the amount of RMB40,000,000 and RMB30,000,000 respectively. As at 31 December 2019, Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO, and Mr. Bo Wanlin and his spouse Ms. Wang Zhengru, control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in Liantai Guangchang and the Company by virtue of the SFO, so Mr. Bo Wanlin and Ms. Wang Zhengru are deemed to be interested in the 45,000,000 and 35,000,000 Domestic Shares held by Botai Group and Liantai Guangchang, respectively. Details of the said pledge was set out in the announcement of the Company dated 12 December 2017.

Save as disclosed above, as at 31 December 2019, so far as known to the Directors, no interests or short positions of substantial Shareholders of the Company and other persons in any Shares and debentures or underlying Shares of the Company were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or were required to be entered into the register referred to in section 336 of the SFO.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

On 12 December 2017, Botai Group and Liantai Guangchang, the Controlling Shareholders of the Company, pledged 45,000,000 and 35,000,000 domestic shares of the Company in favour of an independent commercial bank as securities for bank facilities in the amount of RMB40,000,000 and RMB30,000,000 respectively. The pledged Domestic Shares represent approximately 18.6% of the aggregate Domestic Shares held by Botai Group and Liantai Guangchang, approximately 17.8% of the total number of Domestic Shares in issue, and approximately 13.3% of the total issued shares of the Company on 12 December 2017. Details are set out in the announcement of the Company dated 12 December 2017.

Report of the Board of Directors

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

ANNUAL FINANCIAL BUDGET FOR 2020

Considering the macro-economic situation, financial condition and the business growth of the Company in last three years, the Company has formulated the annual financial budget for 2020 after detailed calculation and analysis and collecting different opinions. The details are set out as follows:

- I. The estimated maximum total administrative expenses will be RMB20 million;
- II. According to the needs of strategic development and business expansion, the planned maximum capital expenditure of the Company will be RMB4 million, mainly including the expenses for properties renovation, IT system development and purchasing other fixed assets.

The annual financial budget for 2020 of the Company was considered and approved by the Board on 25 March 2020 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

AUDIT COMMITTEE

The Audit Committee was established by the Board on 31 January 2015. The role, function and composition of the Audit Committee are set out in the paragraph headed "Audit Committee" of the Corporate Governance Report of this annual report.

The Company's results and the results announcement for the year ended 31 December 2019 have been reviewed by the Audit Committee. The Audit Committee and Board is of opinion that the preparation of such financial information complied with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE AND COMPLIANCE OFFICER

The Company has complied with the requirements of the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules since 8 May 2017 being the date of listing of the Company's H shares on the Stock Exchange up to 16 July 2019, and the Corporate Governance Code set out in Appendix 14 to the Listing Rules since 17 July 2019 and up to the date of this report.

The compliance officer of the Company is Ms. Bai Li, whose biographical details are set out on page 15 of this annual report.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the year of 2019 and up to the date of this report, at least 25% of the issued shares of the Company was held by public Shareholders.

Report of the Board of Directors

AUDITOR

The financial statements of the Company for the year ended 31 December 2019 have been audited by Ernst & Young, who will retire and a resolution to re-appoint Ernst & Young as auditor of the Company will be proposed at the annual general meeting of the Company.

The Company did not change its auditors in the preceding 3 years.

EVENTS AFTER THE PERIOD

The Company proposes to amend the Articles of Association and issue debt financing instruments at the 2019 annual general meeting. For further details, please refer to the notice and circular of the 2019 annual general meeting to be published and disseminated to the Shareholders in due course.

On behalf of the Board

Bo Wanlin

Chairman

Hong Kong, 25 March 2020

Report of the Board of Supervisors

The board of Supervisors has executed its duties earnestly, safeguarded the rights and interests of the Company and Shareholders, complied with the principle of good faith and carried out its work in a diligent and proactive manner pursuant to the provisions of the Company Law of the PRC, other relevant laws and regulations and the Articles of Association.

During the year of 2019, the board of Supervisors reviewed cautiously the operation and development plans of the Company and put forward reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the significant policies and specific decisions made by the management of the Company to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association, and in the interests of the Shareholders.

The board of Supervisors have reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming annual general meeting. We are of the opinion that the Board, chief executive and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association. Up to the date of this report, none of the Directors, chief executive or senior management of the Company has been found to have been in breach of any laws or regulations or the Articles of Association and damaged the interests of the Company or the Shareholders.

The board of Supervisors is satisfied with the various tasks carried out by the Company in 2019 and the economic benefits generated there from. It has full confidence in the future development outlook of the Company.

By order of the Board of Supervisors of

Yangzhou Guangling District Taihe Rural Micro-Finance Company Limited

Wang Chunhong

Chairman of the Board of Supervisors

Hong Kong, 25 March 2020

Environmental, Social and Governance Report

ABOUT THIS REPORT

This Environmental, Social and Governance report (the “**ESG Report**”) is prepared in compliance with the requirements of Appendix 27 Environmental, Social and Governance Reporting Guide (the “**ESG Reporting Guide**”) to the Rules Governing the Listing of Securities on the Stock Exchange. This ESG report intends to give insight into the approach adopted and actions taken by the Company regarding its operations and sustainability that have implication for the Company and the interest to stakeholders. The Company understands the importance of the ESG report and is committed to make continuous improvements in corporate social responsibility into its business in order to better meet the changing needs of an advancing society.

REPORTING PERIOD AND SCOPE OF THE REPORT

This ESG Report covers the environmental and social performance within the operational boundaries of the Company that includes the Company’s offices in Yangzhou, Guangling District. The ESG Report covers the period from 1 January 2019 to 31 December 2019 (the “**Reporting Period**”).

STAKEHOLDER ENGAGEMENT

With the goal to strengthen the sustainability approach and performance of the Company, the Company put in tremendous effort to listen to both its internal and external stakeholders. The Company actively collects feedback from its stakeholders to maintain a high standard of sustainability within the Company, while also building a trustful and supportive relationship with them. The Company connects with its stakeholders through their preferred communication channels as listed in the table below.

Environmental, Social and Governance Report

Table 1. Communication with Stakeholders

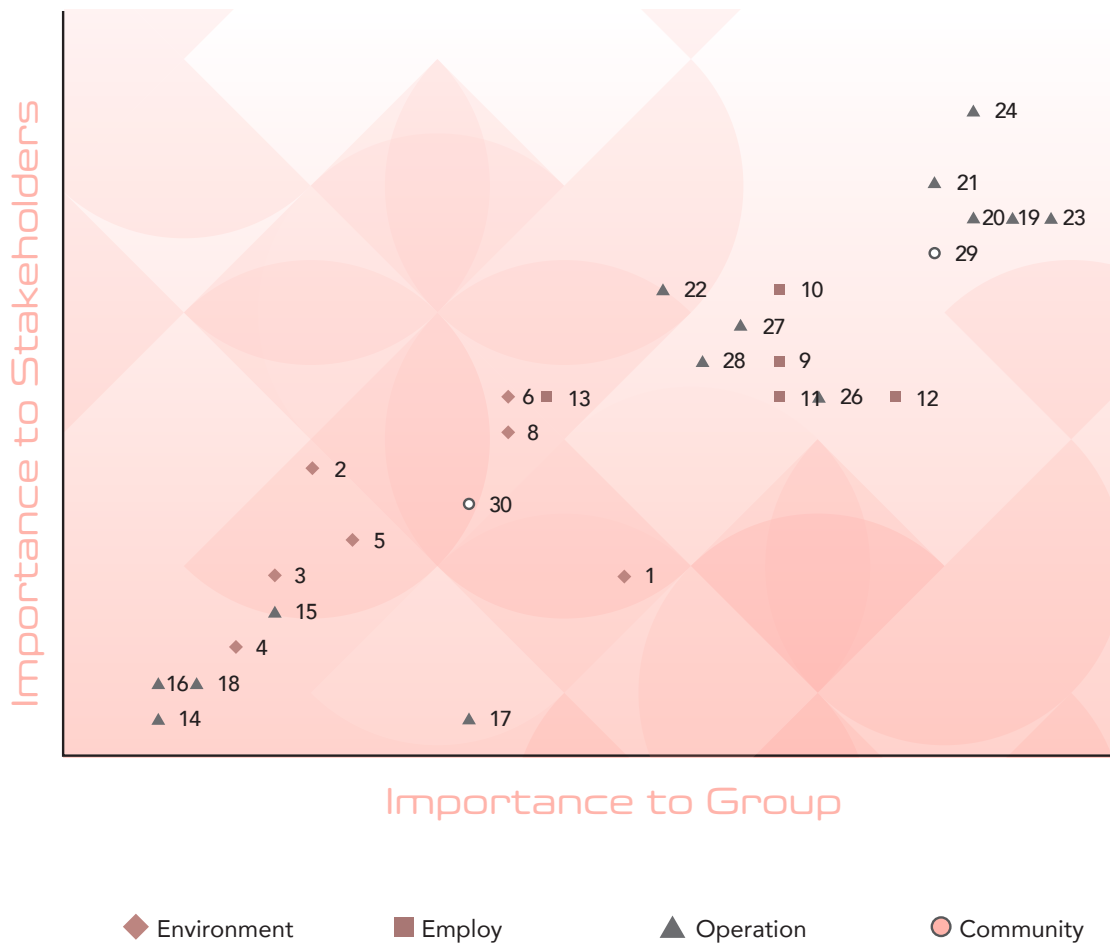
Stakeholders	Expectations and concerns	Communication Channels
Government and regulatory authorities	<ul style="list-style-type: none"> – Compliance with laws and regulations – Support economic development 	<ul style="list-style-type: none"> – Supervision on complying with local laws and regulations – Routing reports and taxes paid
Shareholders	<ul style="list-style-type: none"> – Return on investments – Corporate governance – Business compliance 	<ul style="list-style-type: none"> – Regular reports and announcements – Regular general meetings – Official website
Employees	<ul style="list-style-type: none"> – Employees' compensation and benefits – Career development – Health and safety working environment 	<ul style="list-style-type: none"> – Performance reviews – Regular meetings and trainings – Emails, notice boards, hotline, caring activities with management
Customers	<ul style="list-style-type: none"> – High quality products and services – Protect the rights of customers 	<ul style="list-style-type: none"> – Customer satisfaction survey – Face-to-face meetings and on-site visits – Customer service hotline and email
Suppliers	<ul style="list-style-type: none"> – Fair and open procurement – Win-win cooperation 	<ul style="list-style-type: none"> – Open tendering – Suppliers' satisfactory assessment – Face-to-face meetings and on-site visits – Industry seminars
General public	<ul style="list-style-type: none"> – Involvement in communities – Business compliance – Environmental protection awareness 	<ul style="list-style-type: none"> – Media conferences and responses to enquiries – Public welfare activities – Face-to-face interview

Environmental, Social and Governance Report

Materiality Assessment

The Company undertakes annual review in identifying and understanding its stakeholders' main concerns and material interests for the ESG Report. During the Reporting Period, the Company engaged its stakeholders to conduct a materiality assessment survey. Both internal and external stakeholders were selected based on their influence and dependence on the Company. Stakeholders with high level of influence and dependence on the Company were selected by the management of the Company. The selected stakeholders were then invited to express their views and concerns on a list of sustainability issues via an online survey. As a result, the Company was able to prioritise the issues for discussion. The result from the materiality assessment survey was mapped and presented as below.

Stakeholders Engagement Materiality Matrix



Environmental, Social and Governance Report

1 Air and greenhouse gas emissions	11 Occupational health and safety	21 Marketing and promotion
2 Sewage treatment	12 Employee development and training	22 Observing and protecting intellectual property rights
3 Land use, pollution and restoration	13 Preventing child and forced labour	23 Product quality control and management
4 Solid waste treatment	14 Suppliers by geographical region	24 Protection of consumer information and privacy
5 Energy use	15 Selection of suppliers and assessment of their product/ services	25 Labelling relating to products/ services
6 Water use	16 Environmental protection assessment of the suppliers	26 Information disclosure
7 Use of other raw/packaging materials	17 Social risks assessment of the suppliers	27 Preventing bribery, extortion, fraud and money laundering
8 Mitigation measures to protect natural resources	18 Procurement Practices	28 Anti-corruption policies and whistle-blowing procedure
9 Composition of employees	19 Compliance with operation	29 Understanding local communities' need
10 Employee remuneration and benefits	20 Customers satisfaction	30 Public welfare and charity

The Company built a materiality analysis matrix and prioritised the 30 issues accordingly. With respect to this ESG Report, the Company identified health and safety relating to products/services, customer satisfaction, marketing and promotion, product quality assurance and recall percentage, and protection of customer information and privacy as issues of the highest importance to its stakeholders and the Company. This review helped the Company to prioritise its corresponding sustainability issues and highlight the material and relevant aspects to align them with stakeholders' expectations.

Stakeholders Feedback

As the Company strives for excellence, stakeholders' feedback is always welcomed, especially on topics listed as high importance in the materiality assessment. Readers are also welcome to share their views with the Company at "ray@gltaihe.com".

Environmental, Social and Governance Report

ENVIRONMENTAL SUSTAINABILITY

The Company believes saving energy is key to long-term sustainability of the environment, the community, and thus the Company's business. The Company stringently controls its emissions and consumption of resources, and complies with all relevant environmental laws and regulations in the PRC in its daily operation. All offices of the Company implemented effective energy conservation measures to reduce emissions and resource consumption.

This section primarily discloses the policies and practices of the Company on emissions, use of resources, and the environment and natural resources during the Reporting Period.

Emissions

The Company strictly adheres to emission related laws and regulations in the PRC. It is included in the Company's policy to reduce the impacts of these emissions on the environment by controlling energy consumption and reducing the Company's travel by private vehicles.

Air Emissions & Greenhouse Gase Emissions ("GHG")

During the Reporting Period, the Company's direct emissions came from the use of company vehicles. The driving of company vehicles generated air emissions and released GHG emissions.

The Company adopted policy to focus its purchase on environmentally friendly vehicles, and to lower the frequency of vehicles use in its daily operation. In addition, the Company encourages its employees to take electricity fuelled public transports when commuting for work to keep the amount of air and GHG emissions at a low level.

Meanwhile, GHG emissions were also generated through the Company's use of purchased electricity. Since the amount of GHG emissions indirectly emitted depends on the amount of electricity used, the Company has made it a goal to reduce electricity consumption in its daily operation. Specific measures the Company adopted to reduce electricity consumption are set out in the section headed "Use of Resources-Electricity" of this ESG Report.

During the Reporting Period, the Company's GHG emissions under Scope 1 (Direct Emissions), Scope 2 (Energy Indirect Emissions), and Scope 3 (Paper Waste Indirect Emissions) were 63.2 tonnes CO₂e, 71.6 tonnes CO₂e and 0.3 tonnes CO₂e, respectively. The Company's total GHG emissions amounted to 135.1 tonnes CO₂e and the GHG intensity for the Company was 4.7 tonnes CO₂e/employee.

Wastewater

No hazardous wastewater was generated by the Company in 2019, as the only type of wastewater produced was domestic wastewater from its daily office operation. Domestic wastewater was directly discharged into the sewage pipe network and treated at a local municipal wastewater treatment plant. During the Reporting Period, the Company generated 0.2 tones of domestic wastewater. Since the amount of wastewater generated depends on the amount of water consumed, the Company has adopted specific measures to reduce the water consumption, which are further explained in the section headed "Use of Resources-Water" of this ESG Report.

Environmental, Social and Governance Report

Solid Wastes

Solid wastes produced by the Company in its daily operation include only domestic solid wastes. No hazardous solid waste was generated during the Reporting Period. The Company has adopted recycling policy to require its employees to source separate and recycle recyclables such as wasted paper and canned drinks. The non-recyclables were collected and properly sent to the land fill. The Company also encourages its employees to reduce the consumption of paper and stationary in its daily operation. During the Reporting Period, the Company generated 0.6 tonnes of non-hazardous solid wastes.

During the year under review, the Company was not in violation of any relevant laws and regulations, which have a significant impact on the Company, related to emissions.

Total Emissions of the Company

Emissions	Key Performance Indicator (KPI)	Unit	Year ended 31 December			
			2019		2018	
			Amount	Intensity* (Peremployee)	Amount	Intensity* (Peremployee)
GHG emissions	Scope 1 (Direct Emission)	Tonnes CO2e	63.2	2.2	74.9	2.4
	Scope 2 (Energy Indirect Emissions)	Tonnes CO2e	71.6	2.5	67.8	2.1
	Scope 3 (Paper Waste Indirect Emissions)	Tonnes CO2e	0.3	—	0.3	—
	Total (Scope 1 & 2 & 3)	Tonnes CO2e	135.1	4.7	143.0	4.5
Non-hazardous waste	Non-hazardous wastewater	Tonnes	0.2	0.01	0.3	0.01
	Non-hazardous solid waste	Tonnes	0.6	0.02	0.6	0.02

* Intensity = amount ÷ annual average workforce of the Company

Environmental, Social and Governance Report

USE OF RESOURCES

The Company complied with the relevant laws and regulations in relation to the Company's use of resources during the year under review. Since the Company did not engage in manufacturing business, it did not have any issue in sourcing water that is fit for purpose and did not use any packaging materials. During the Reporting Period, resources used by the Company were mainly electricity, water and gasoline.

Electricity

The Company adopts measures to save energy in its daily operation as the Company understands that the reduction in electricity consumption can reduce GHG emissions indirectly. The Company has formulated internal policies to keep the average electricity use per employee at a relatively low level with an expectation that all employees of the Company stringently comply with the Company's policy on saving energy. The Company strives to achieve its goal by educating its employees regularly about energy conservation and emission reduction.

To strengthen each individual employee's awareness on environmental protection and energy saving, the Company placed stickers "Saving electricity, switch off the light when leaving" in prominent places in the office. The Company included environmental protection topics in its regular meetings with the aim to have employees supervise themselves, and urge each other to help achieve the overall goal of the Company in terms of reducing electricity use and GHG emissions.

All electricity consumption by the Company came directly from daily office operation. During the Reporting Period, the total electricity consumption of the Company amounted to 101,740 kWh'000. To reduce electricity consumption, the Company has implemented the following measures:

- Switch off all lights and electronic equipment in the office at the end of the day;
- Modify the set temperature of air conditioners in the office based on the season;
- Clean office equipment regularly and make sure they are working efficiently; and
- Replace office lightings with electricity saving LED lights.

Water

The Company educated its employees on saving water during the daily working hours. During the Reporting Period, the total water consumption of the Company was 220 m³. The amount of water consumed was minimal and need-based. The policy also requests the Company's employees to change their consumption behavior including, but not limited to the followings:

- Regularly educate and promote employees to save water;
- Use water-saving taps to increase the efficiency of water usage;
- Place water saving slogans in prominent places to encourage water conservation; and
- Fix dripping taps immediately when the taps are broken.

Environmental, Social and Governance Report

Gasoline

The Company owns vehicles that consume gasoline for transportation purpose. The Company encourages energy saving through simple measures, such as fully utilise the space to avoid unnecessary transport, lowering the frequency of using vehicles in its daily operation and replacing heavy-polluting vehicles with more environmental-friendly vehicles. Apart from saving energy consumed by the Company's vehicles, the Company also highly encourages its staff to take public transportation or environmental-friendly buses instead of driving to work. The Company is dedicated to reducing the GHG emissions due to transportation. During the Reporting Period, the gasoline consumed by the Company's vehicles amounted to 26,800 litres.

Total Use of Resources by the Company

Use of Resources	Key Performance Indicator (KPI)	Unit	Year ended 31 December			
			2019	2018		
			Amount	Intensity*	Amount	Intensity*
Electricity consumption	Electricity	KWh'000	101,170	3,508.3	96,374	3,011.7
Water consumption	Water	m ³	220	7.6	293	9.2
Gasoline consumption	Gasoline	L	26,800	924.1	31,753	992.3

* Intensity = amount ÷ annual average workforce of the Company

The Environment and Natural Resources

"Protect the environment, operate in a green manner" (節約能源, 綠色經營) has always been the Company's vision for environmental protection. To firmly adhere to this vision, the Company sets a series of policies to encourage its employees to operate with a minimum impact to the environment. Since paper is the main resource used in the Company's office, the Company has taken the following measures to reduce overall paper consumption:

- Choose more environmental friendly paper suppliers, to indirectly minimise tree loss while consuming the same amount of paper;
- Achieve paperless office, electronically distributes information (i.e. via email or e-bulletin boards) as much as possible;
- Set duplex printing as the default mode for most network printers when printing is needed;
- Promote the idea of "Think before print" by using posters and stickers in the offices to remind the staff to avoid unnecessary printing;
- Place boxes and trays beside photocopiers as containers to collect single-sided printing for reuse and double-sided printing for recycling; and
- Use the back of used single-sided documents for printing or as draft paper.

In addition, the Company requires choosing environmental-friendly vehicles when purchasing new vehicles, and encourages its employees to reduce the frequency of vehicle use, so to reduce carbon emissions. The Company will educate its employees to ensure employees are helping the Company to achieve its environmental goals.

Environmental, Social and Governance Report

SOCIAL RESPONSIBILITIES

Employees

Employees are not only a component of operation, but also a foundation for establishing long term relationship with customers. Everything they carry out represents the corporate image of the Company at all times. The core duties of human resource are attracting and retaining talented employees. The Company facilitated the staff career development through comprehensive performance assessments and effective communication mechanisms, and improved the employee's skills through staff training.

During the reporting period, the Company has strictly complied with applicable laws and regulations, including the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and Social Insurance Law of the People's Republic of China in establishing and maintaining a safe, healthy and people-oriented office environment to guarantee employees' interests and rights.

The Company respects gender, age and religion of every individual employee. Discrimination against individual difference between employees is strictly prohibited. The Company complied with the relevant legislations and regulations and strictly prohibited the employment of child labor or forced labor. As at 31 December 2019, the Company did not employ any child labor or forced labor.

Statistics of employee	Unit	As at 31 December 2019	As at 31 December 2018
Male employee	person	14	17
Female employee	person	12	15
Total	person	26	32
Within Jiangsu province	person	26	32
Outside Jiangsu province	person	—	—
Total	person	26	32
Contracted employee	person	26	32
Bachelor's Degree	person	14	16
Higher education	person	5	7
Below higher education (exclusive)	person	7	9
Total	person	26	32
Under 30 years old (inclusive)	person	10	12
31-40 years old	person	5	8
41-50 years old	person	9	7
Above 50 years old	person	2	5
Total	person	26	32

Environmental, Social and Governance Report

Environmental, Social and Governance Report

Statistics of employee	Unit	As at 31 December 2019	As at 31 December 2018
Staff turnover	person	8	2
Staff turnover rate	%	23.5	6.3
Turnover rate of male employee	%	8.8	3.1
Turnover rate of female employee	%	14.7	3.1
Turnover rate of employee under 30 years old (inclusive)	%	2.9	3.1
Turnover rate of employee between 31-40 years old	%	8.8	3.1
Turnover rate of employee between 41-50 years old	%	2.9	—
Turnover rate of employee over 50 years old	%	8.8	—
Turnover rate of employee within Jiangsu Province	%	23.5	6.3

Training

The Company devotes adequate resources to staff training on professional skills, operation process, knowledge, corporate culture and morality every year in order to enhance our staff's abilities and the social influence of the Company, including staff induction trainings and several professional skill trainings after induction every year. During the Reporting Period, the Company organised staff training on law, finance, micro-credit practices, time management and etc.

Staff training	Unit	2019	2018
Total training time	hours	888	648
Training time per capita	hours	34.2	20.3
Number of senior management	person	4	4
Training time of senior management per capita	hours	34	32.0
Number of junior employee	person	22	20
Training time of junior employee per capita	hours	34.2	26.0
Number of male employee	person	14	14
Training time of male employee per capita	hours	36	27.7
Number of female employee	person	12	10
Training time of female employee per capita	hours	32	26.0

Occupational Health and Safety

Occupational health and safety of the employee are always concerns of the Company. During the Reporting Period, the Company provided body checks for all employees and encouraged them to participate in cultural and sports activities for their health. The Company formulated regulations and organised staff training to increase their abilities of prevention from and emergency of fire, thus lowering the risk of occupational safety of the staff. During the Reporting Period, there was no work-related death or injury at the workplace.

Environmental, Social and Governance Report

Suppliers

The Company only has very few suppliers due to the business nature. Our suppliers are mainly located in Jiangsu Province. The Company selected a list of suppliers for office and computer equipment, stationary and promotion activities gifts. The Company has set up a procurement policy to select reliable suppliers and service providers to support its business operation. The Company takes into account the suppliers' reputation and their track record when selecting them to ensure purchased items are complied with national standard.

Customers

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

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

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

Protection of Customer's Data

The Company handles significant amounts of personal data and credit information of customers. It has implemented rigorous policy and procedures to ensure confidentiality and privacy when collecting, processing and using customers data. As specified in the "Staff Hand Book", the Company's employees are required to sign a confidentiality agreement acknowledging receipt and agreement of their obligation and responsibility regarding protection and non-disclosure of customer data. Also, access to confidential information or documents is restricted and granted on a need-to-know basis. During the reporting period, the Company has strictly complied with the Anti-Unfair Competition Law of the People's Republic of China and other applicable laws and regulations relating to health and safety, advertising, labeling and privacy matters of products and services and redress method. In 2019, the Company has not received any complaints from customers related to breach of the confidentiality of personal information.

Anti-Corruption and Anti-Money Laundering

The Company is committed to maintain the ethics and integrity throughout its operations and does not tolerate corruption or bribery in any form, and the Company has strictly complied with "The Anti-money laundering Law of the People's Republic of China" and other relevant laws and regulations relating to anticorruption, bribery, extortion, fraudulent behavior and money-laundering in the reporting period. The Company has established an "Anti-money Laundering Policy" with reference to the above laws and regulations which requires its business department officers to fully understand the background of potential customers through documentation and communication in accordance with relevant internal guidelines before doing business with them. The Company's risk management department also gathers information on our existing customer's use of proceeds, the source of funding for repayment, the operating condition of our customers, from time to time in obtaining their updated status and promptly reports any abnormal situation for the purpose of risk management. The Company has included in the "Staff Handbook" a whistle-blowing policy and promotes integrity and prevents unethical conducts. The Company encourages the reporting of suspected business irregularities and provides clear channels specifically for this purpose.

Environmental, Social and Governance Report

Rewarding the Society

The Company hopes not only to help people in need through participation in social activities, but also helps to cultivate employees to contribute to the community. During the reporting period, our employees participated in about 60 hours of community-based volunteer activities, focusing particularly on the social well-being of vulnerable and underprivileged groups, improved financial literacy, and environmental issues. The Company will continue to uphold the principle of being responsible for its customers, employees, business partners, shareholders and the society, and will seek further opportunities to develop a harmonious relationship with its stakeholders.

Number	Details	Place of Disclosure
A1.1	The types of emissions and respective emissions data	Page 50-51
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Page 51
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	N/A
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Page 51
A1.5	Description of measures to mitigate emissions and results achieved	Page 50-51
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Page 51
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Page 53
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Page 53
A2.3	Description of energy use efficiency initiatives and results achieved	Page 52-53
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Page 52
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Page 52
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Page 50-53
B1.1	Total workforce by gender, employment type, age group and geographical region	Page 54
B1.2	Employee turnover rate by gender, age group and geographical region	Page 55

Environmental, Social and Governance Report

Number	Details	Place of Disclosure
B2.1	Number and rate of work-related fatalities	N/A
B2.2	Lost days due to work injury	N/A
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Page 55
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	Page 55
B3.2	The average training hours completed per employee by gender and employee category	Page 55
B4.1	Description of measures to review employment practices to avoid child and forced labour	N/A
B4.2	Description of steps taken to eliminate such practices when discovered	N/A
B5.1	Number of suppliers by geographical region	Page 56
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Page 56
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	N/A
B6.2	Number of products and service related complaints received and how they are dealt with	Page 56
B6.3	Description of practices relating to observing and protecting intellectual property rights	N/A
B6.4	Description of quality assurance process and recall procedures	N/A
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Page 56
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	N/A
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Page 56
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Page 57
B8.2	Resources contributed (e.g. money or time) to the focus area	Page 57

Independent Auditor's Report



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To the members of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited

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

OPINION

We have audited the financial statements of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the "**Company**") set out on pages 63 to 113, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**"), which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"), and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants* ("**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditor's Report

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter

How our audit addressed the key audit matter

Allowance for loans receivable

The Company has adopted a forward-looking "expected-loss" impairment model to recognise the expected credit losses ("ECLs") for its loans receivable. The measurement of ECLs requires the application of significant judgement and estimate which include the identification of exposures with a significant increase in credit risk, and assumptions used in the ECL models (for exposures assessed individually or collectively), such as the expected future cash flows and forward-looking macroeconomic factors. Due to the significance of the loans receivable (representing 97.9% of the total assets of the Company as at 31 December 2019) and the corresponding uncertainty inherent in such estimates, we considered this as a key audit matter.

The disclosures relating to the loans receivable and allowance for loans receivable are included in Note 4 and Note 14 to the financial statements.

We understood and assessed the controls over the approval, recording and monitoring of the loans receivable. We also assessed the design and execution of the key controls over the application of the impairment methodology.

For the collectively assessed ECLs, we assessed the Company's ECLs models, including the model design, model input and model performance. We assessed the Company's criteria for assessing if there has been a significant increase in credit risk and the qualitative assessment, and we assessed the forward-looking adjustments.

For exposures that were subject to individual impairment assessment, we specifically reviewed the Company's assumptions on the expected future cash flows, valuation of underlying collateral and estimates of recoverable amounts.

We also assessed the adequacy of the disclosures relating to the loans receivable and allowance for the loans receivable.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2020

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019
(Amounts expressed in RMB unless otherwise stated)

Year ended 31 December

	Notes	2019	2018
Interest income	5	104,156,252	108,332,583
Interest expense	5	(283,127)	—
Interest income, net	5	103,873,125	108,332,583
Accrual of provision for impairment losses	14/17	(11,817,288)	(3,037,970)
Accrual of provision for guarantee losses	18	(668,754)	(25,852)
Administrative expenses	6	(24,881,541)	(15,291,369)
Other income, net	7	1,367,943	2,271,534
PROFIT BEFORE TAX		67,873,485	92,248,926
Income tax expense	10	(17,754,240)	(23,494,218)
PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		50,119,245	68,754,708
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		0.08	0.11
Diluted		0.08	0.11

Statement of Financial Position

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

As at 31 December			
	Notes	2019	2018
ASSETS			
Cash and cash equivalents	13	3,779,385	4,337,348
Loans receivable	14	862,691,722	814,275,722
Property and equipment	15	6,277,330	2,324,103
Deferred tax	16	7,826,271	5,003,496
Other assets	17	429,652	1,516,837
TOTAL ASSETS		881,004,360	827,457,506
LIABILITIES			
Deferred income		678,206	112,070
Income tax payable		7,912,322	8,044,735
Liabilities from guarantees	18	752,606	83,852
Lease liabilities	19	2,289,406	—
Other liabilities	20	7,941,496	7,905,770
TOTAL LIABILITIES		19,574,036	16,146,427
EQUITY			
Share capital	21	600,000,000	600,000,000
Reserves	22	108,698,142	103,074,536
Retained earnings		152,732,182	108,236,543
TOTAL EQUITY		861,430,324	811,311,079
TOTAL EQUITY AND LIABILITIES		881,004,360	827,457,506

Bai Li
Director

Zhou Yinqing
Director

Statement of Changes in Equity

Year ended 31 December 2019
(Amounts expressed in RMB unless otherwise stated)

	Reserves					Total
	Paid-in capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	
Balance as at 1 January 2018	600,000,000	54,417,191	33,403,729	8,084,486	94,650,965	790,556,371
Profit for the year and total comprehensive income	—	—	—	—	68,754,708	68,754,708
Appropriation to surplus reserve	—	—	6,875,471	—	(6,875,471)	—
Appropriation to general reserve	—	—	—	293,659	(293,659)	—
Dividends paid	—	—	—	—	(48,000,000)	(48,000,000)
Balance as at 31 December 2018	600,000,000	54,417,191	40,279,200	8,378,145	108,236,543	811,311,079
Balance as at 1 January 2019	600,000,000	54,417,191	40,279,200	8,378,145	108,236,543	811,311,079
Profit for the year and total comprehensive income	—	—	—	—	50,119,245	50,119,245
Appropriation to surplus reserve	—	—	5,011,924	—	(5,011,924)	—
Appropriation to general reserve	—	—	—	611,682	(611,682)	—
Balance as at 31 December 2019	600,000,000	54,417,191	45,291,124	8,989,827	152,732,182	861,430,324

Statement of Cash Flows

Year ended 31 December 2019

(Amounts expressed in RMB unless otherwise stated)

		Year ended 31 December	
	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		67,873,485	92,248,926
Adjustments for:			
Depreciation and amortisation	15	1,931,615	822,688
Accrual of provision for impairment losses	14/17	11,817,288	3,037,970
Accrual of provision for guarantee losses	18	668,754	25,852
Accreted interest on impaired loans	5	(197,170)	(285,704)
Net gain on disposal of property and equipment and other assets	7	—	(107,864)
Interest expense	5	283,127	—
Foreign exchange loss, net		(17)	(103)
		82,377,082	95,741,765
Increase in loans receivable		(60,099,405)	(29,542,265)
Decrease/(increase) in other assets		(16,468)	181,568
Increase in other liabilities		798,307	161,195
Net cash flows from operating activities before tax		23,059,516	66,542,263
Income tax paid		(20,709,428)	(22,629,427)
Net cash flows from operating activities		2,350,088	43,912,836
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of property and equipment and other long-term assets		(1,976,136)	(2,248,679)
Proceeds from disposal of property and equipment		—	107,864
Net cash flows used in investing activities		(1,976,136)	(2,140,815)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of borrowings	23	(135,985)	(13,280)
Repayment of lease liabilities	23	(700,679)	—
Interest paid	23	(95,268)	—
Dividends paid	11	—	(48,000,000)
Net cash flows used in financing activities		(931,932)	(48,013,280)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the year		4,337,348	10,578,504
Effect of foreign exchange rate changes, net		17	103
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	13	3,779,385	4,337,348

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

1. CORPORATE INFORMATION

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited ("**Taihe Micro-credit**" or the "**Company**") was established as a limited liability company in the People's Republic of China (the "**PRC**") on 12 November 2008 based on "Su Jin Rong Ban Fa [2008] No 47" issued by the Pilot Leading Group Office for Rural Micro-finance Organisations of Jiangsu Province.

According to the resolution of the shareholders' meeting on 8 August 2012 and "Yang Fu Jin [2012] No. 77" approved by the Yangzhou Municipal Government Financial Office, the Company was converted from a limited liability company to a joint stock company on 10 August 2012. Upon its conversion, the Company issued 260 million shares at a par value of RMB1 each to its shareholders, based on the asset appraisal result of RMB300.48 million in respect of its net assets in the financial statements as at 31 July 2012.

In May 2017, the Company conducted a public offering of overseas listed foreign shares ("H shares"). Upon the completion of the H share offering, the issued capital was increased to RMB600 million. The Company's H shares are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange and trading of its H shares commenced on 8 May 2017. Upon the approval of the Hong Kong Stock Exchange, the Company's H shares were listed on the Main Board and delisted from the Growth Enterprise Market by way of Transfer of Listing since the last day of trading on 17 July 2019.

The Company obtained its business licence with Unified Social Credit No. 91321000682158920M. The legal representative of the Company is Bo Wanlin. Its registered office is located at Beizhou Road, Lidian Village, Guangling District, Yangzhou City.

The principal activities of the Company are the granting of loans to "Agriculture, Rural Areas and Farmers", provision of financial guarantees, acting as a financial institution agent and other financial businesses.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Jianguo Botai Group Co., Ltd., which is incorporated in the People's Republic of China.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") except when otherwise indicated.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes In Accounting Policies And Disclosures

The Company has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to IFRSs 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9, IAS 19 and IAS 28, and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Company's financial statements, the nature and the impact of the new and revised IFRSs are described below:

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions.

The Company has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Company has lease contracts for buildings, which were used by the Company for operation. As a lessee, the Company previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Company. Under IFRS 16, the Company applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases. Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Company recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were included in property, plant and equipment and measured at the amount of the lease liability, adjusted by the amount of accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

Financial impact at 1 January 2019

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	RMB
Assets	
Increase in property, plant and equipment	2,626,966
Increase in total assets	2,626,966
Liabilities	
Increase in lease liabilities	2,802,226
Decrease in other liabilities	(175,260)
Increase in total liabilities	2,626,966

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB
Operating lease commitments as at 31 December 2018	1,496,920
Less: The impact of VAT	(71,282)
Add: Payments in optional extension periods not recognised as at 31 December 2018	2,085,379
	<u>3,511,017</u>
Weighted average incremental borrowing rate as at 1 January 2019	12.00%
Discounted operating lease commitments at 1 January 2019	<u>2,802,226</u>
Lease liabilities as at 1 January 2019	<u>2,802,226</u>

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the financial position or performance of the Company.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	<i>Definition of a Business</i> ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ¹
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-Current</i> ³

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ No mandatory effective date yet determined but available for adoption

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Interest income

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

Guarantee fee income

Revenue from the provision of guarantee services is recognised over the period of the guarantee on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Company.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss and other comprehensive income by way of a reduced depreciation charge.

Where the Company receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

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

Categories	Estimated useful life	Estimated residual rate	Annual depreciation rate
Motor vehicles	4 to 10 years	0%	10% - 25%
Fixtures and furniture	5 to 10 years	0%	10% - 20%
Leasehold improvements	Over the shorter period of the lease terms and the useful lives of the assets		

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019)

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

As a lessee

The Company applies a single recognition and measurement approach for all leases. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

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

Buildings	1 to 5 years
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(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate).

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Borrowing costs

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

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency. Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of the advance consideration.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus transaction costs.

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

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

Impairment of financial assets

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

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

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

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

The Company may consider a financial asset to be in default taking into account quantitative and qualitative criteria as disclosed in Note 29. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for other receivables which apply the simplified approach as detailed below.

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

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Company's financial liabilities include interest-bearing borrowings and other payables.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Company measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Provisions

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

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

Employee benefits

Employee retirement scheme

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

Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the shareholders and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Company. Dividends for the year/period that are approved after the end of the reporting period is disclosed as an event after the reporting period.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

or

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

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Impairment losses on loans receivable

The measurement of impairment losses under IFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal rating grade model, which assigns probabilities of default to the individual grades;
- The Company's criteria for assessing if there has been a significant increase in credit risk and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs; and
- Determination of associations between the forecast economic conditions and the effect on probabilities of default (PDs), losses given default (LGDs) and exposures at default (EADs).

Deferred tax assets and liabilities and current income tax charge

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

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

5. INTEREST INCOME, NET

	Year ended 31 December	
	2019	2018
Interest income on:		
Loans receivable	104,143,104	108,265,708
Cash at banks	13,148	25,281
Cash at a third party	—	41,594
Subtotal	104,156,252	108,332,583
Interest expense on:		
Lease liabilities	(262,440)	—
Borrowing from other institutions	(20,687)	—
Subtotal	(283,127)	—
Interest income, net	103,873,125	108,332,583
Included: Interest income on impaired loans (Note 14)	197,170	285,704

6. ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2019	2018
Staff costs	4,809,136	4,513,331
Tax and surcharges	553,559	700,155
Depreciation (Note 15)	1,931,615	822,688
Leasing expense	—	622,784
Auditor's remuneration	2,387,972	1,527,123
Office expenses	181,099	126,670
Entertainment expenses	1,887,325	1,779,576
Service fee	11,700,928	3,880,966
Others	1,429,907	1,318,076
Total	24,881,541	15,291,369

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

7. OTHER INCOME, NET

	Year ended 31 December	
	2019	2018
Other income:		
Guarantee fee income	339,525	414,063
Government grants	1,541,000	1,877,500
Others	11,684	9,758
Gain on disposal of fixed assets	—	107,864
Subtotal	1,892,209	2,409,185
Other expenses:		
Foreign exchange gain or loss	17	(104,052)
Fee and commission expense	(28,488)	(23,599)
Charitable contributions	—	(10,000)
Others	(495,795)	—
Subtotal	(524,266)	(137,651)
Other income, net	1,367,943	2,271,534

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Year ended 31 December 2019

Name	Position	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
Mr. Bo Wanlin	Executive director	—	500,000	—	500,000
Ms. Bai Li	Executive director and chief executive	—	262,500	66,234	328,734
Ms. Zhou Yinqing	Executive director	—	210,000	60,315	270,315
Mr. Bo Nianbin	Non-executive director	—	—	—	—
Mr. Zuo Yuchao	Non-executive director	—	—	—	—
Mr. Chan So Kuen	Non-executive director	—	106,693	—	106,693
Mr. Wu Xiankun	Non-executive director	—	20,000	—	20,000
Mr. Bao Zhenqiang	Non-executive director	—	20,000	—	20,000
Mr. Zhang Yi	Supervisor	—	191,584	36,733	228,317
Ms. Wang Chunhong	Supervisor	—	20,000	—	20,000
Ms. Li Guoyan	Supervisor	—	20,000	—	20,000
		—	1,350,777	163,282	1,514,059

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

Year ended 31 December 2018

Name	Position	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
Mr. Bo Wanlin	Executive director	—	500,000	—	500,000
Ms. Bai Li	Executive director and chief executive	—	150,000	59,366	209,366
Ms. Zhou Yinqing	Executive director	—	120,000	47,496	167,496
Mr. Bo Nianbin	Non-executive director	—	—	—	—
Mr. Zuo Yuchao	Non-executive director	—	—	—	—
Mr. Chan So Kuen	Non-executive director	—	100,867	—	100,867
Mr. Wu Xiankun	Non-executive director	—	20,000	—	20,000
Mr. Bao Zhenqiang	Non-executive director	—	20,000	—	20,000
Mr. Zhang Yi	Supervisor	—	168,571	38,765	207,336
Ms. WangChunhong	Supervisor	—	20,000	—	20,000
Ms. Li Guoyan	Supervisor	—	20,000	—	20,000
		—	1,119,438	145,627	1,265,065

No director, supervisor or senior management has waived or agreed to waive any emoluments for the year ended 31 December 2019.

During the year, there was no amount paid or payable by the Company to the directors or the supervisors as discretionary bonuses.

During the year, there was no amount paid or payable by the Company to the directors, the supervisors, senior management or any of the five highest paid individuals set out in Note 9 below as an inducement to join or upon joining the Company or as compensation for loss of office.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

9. FIVE HIGHEST PAID INDIVIDUALS

Four directors (one was also the chief executive) were amongst the five highest paid individuals during the year (2018: three directors (one was also the chief executive)), details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining one (2018: two) highest paid employee for the year who is neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2019	2018
Salaries, allowances and benefits in kind	210,000	307,618
Pension scheme contributions	60,315	97,155
	270,315	404,773

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

	Year ended 31 December	
	2019	2018
Nil – RMB1,000,000	1	2

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
Current income tax	20,577,015	24,031,855
Deferred income tax (Note 16)	(2,822,775)	(537,637)
	17,754,240	23,494,218

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

10. INCOME TAX EXPENSE (continued)

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

	Year ended 31 December	
	2019	2018
Profit before tax	67,873,485	92,248,926
Tax at the applicable tax rate	16,968,372	23,062,231
Adjustments in respect of current income tax of previous years	324,807	187,500
Expenses not deductible for tax	461,061	244,487
Total tax expense for the year at the Company's effective tax rate	17,754,240	23,494,218

11. DIVIDENDS

	Year ended 31 December	
	2019	2018
Declared and paid dividends	—	48,000,000

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

	Year ended 31 December	
	2019	2018
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	50,119,245	68,754,708
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (i)	600,000,000	600,000,000
Basic and diluted earnings per share	0.08	0.11

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

(i) Weighted average number of ordinary shares

	Year ended 31 December	
	2019	2018
Issued ordinary shares at the beginning of the year	600,000,000	600,000,000
Weighted average number of ordinary shares at the end of the year	600,000,000	600,000,000

There were no dilutive potential ordinary shares during the reporting period, and therefore, diluted earnings per share is the same as the basic earnings per share.

13. CASH AND CASH EQUIVALENTS

	31 December	
	2019	2018
Cash at a third party	3,676,788	6,253
Cash at banks	102,597	4,331,095
	3,779,385	4,337,348

At the end of the reporting period, the cash and cash equivalents of the Company denominated in RMB amounted to RMB3,778,222 (As at 31 December 2018: RMB4,335,026).

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(Amounts expressed in RMB unless otherwise stated)

14. LOANS RECEIVABLE

	31 December	
	2019	2018
Loans receivables	901,615,352	841,515,947
Less: Allowance for impairment losses	38,923,630	27,240,225
	862,691,722	814,275,722

The types of loans receivable are as follows:

	31 December	
	2019	2018
Guaranteed loans	857,535,282	801,348,948
Collateral-backed loans	44,080,070	40,166,999
	901,615,352	841,515,947
Less: Allowance for impairment losses	38,923,630	27,240,225
	862,691,722	814,275,722

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's internal credit rating system (Five-Tier Principle) and year-end stage classification.

Internal rating grades	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Normal	856,766,734	—	—	856,766,734
Special mention	—	15,140,518	—	15,140,518
Sub-standard	—	—	12,485,000	12,485,000
Doubtful	—	—	9,727,893	9,727,893
Loss	—	—	7,495,207	7,495,207
Total	856,766,734	15,140,518	29,708,100	901,615,352

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14. LOANS RECEIVABLE (continued)

31 December 2018

Internal rating grades	Stage 1	Stage 2	Stage 3	Total
Normal	826,671,468	—	—	826,671,468
Special mention	—	3,301,005	—	3,301,005
Sub-standard	—	—	3,237,467	3,237,467
Doubtful	—	—	1,164,800	1,164,800
Loss	—	—	7,141,207	7,141,207
Total	826,671,468	3,301,005	11,543,474	841,515,947

An analysis of changes in the outstanding exposures is as follows:

	Stage 1	Stage 2	Stage 3	Total
	(12-month ECLs) Collectively assessed	(Lifetime ECLs) Collectively assessed	(Lifetime ECLs – impaired) Individually assessed	
Outstanding exposure as at 31 December 2018	826,671,468	3,301,005	11,543,474	841,515,947
New exposures	869,640,354	—	—	869,640,354
Exposure derecognised	(804,088,970)	(1,277,076)	(4,174,903)	(809,540,949)
Transfers to Stage 2	(18,940,518)	18,940,518	—	—
Transfers to Stage 3	(16,515,600)	(5,823,929)	22,339,529	—
At 31 December 2019	856,766,734	15,140,518	29,708,100	901,615,352

	Stage 1	Stage 2	Stage 3	Total
	(12-month ECLs) Collectively assessed	(Lifetime ECLs) Collectively assessed	(Lifetime ECLs – impaired) Individually assessed	
Outstanding exposure as at 31 December 2017	800,984,711	2,029,650	8,959,321	811,973,682
New exposures	830,341,630	—	—	830,341,630
Exposure derecognised	(798,116,401)	(864,850)	(1,818,114)	(800,799,365)
Transfers to Stage 2	(6,301,005)	6,301,005	—	—
Transfers to Stage 3	(237,467)	(4,164,800)	4,402,267	—
At 31 December 2018	826,671,468	3,301,005	11,543,474	841,515,947

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14. LOANS RECEIVABLE (continued)

An analysis of changes of the corresponding expected credit losses ("ECLs") is as follows:

	Stage 1	Stage 2	Stage 3	
	(12-month ECLs) Collectively assessed	(Lifetime ECLs) Collectively assessed	(Lifetime ECLs – impaired) Individually assessed	Total ECLs allowance
ECLs as at 31 December 2018	17,816,242	318,462	9,105,521	27,240,225
New exposures	19,188,663	—	—	19,188,663
Exposures derecognised	(17,330,209)	(117,893)	(2,087,257)	(19,535,359)
Transfers to Stage 2	(407,555)	407,555	—	—
Transfers to Stage 3	(355,281)	(586,355)	941,636	—
Net remeasurement of ECLs arising from transfer of stage	—	1,532,524	10,566,649	12,099,173
Changes to inputs used for ECL calculations	—	—	128,098	128,098
Accreted interest on impaired loans (Note 5)	—	—	(197,170)	(197,170)
At 31 December 2019	18,911,860	1,554,293	18,457,477	38,923,630

	Stage 1	Stage 2	Stage 3	
	(12-month ECLs) Collectively assessed	(Lifetime ECLs) Collectively assessed	(Lifetime ECLs – impaired) Individually assessed	Total ECLs allowance
ECLs as at 31 December 2017	17,057,494	203,105	7,313,843	24,574,442
New exposures	17,892,786	—	—	17,892,786
Exposures derecognised	(16,996,410)	(87,237)	(1,742,836)	(18,826,483)
Transfers to Stage 2	(132,571)	132,571	—	—
Transfers to Stage 3	(5,057)	(412,800)	417,857	—
Net remeasurement of ECLs arising from transfer of stage	—	482,823	1,546,458	2,029,281
Changes to inputs used for ECL calculations	—	—	1,855,903	1,855,903
Accreted interest on impaired loans	—	—	(285,704)	(285,704)
At 31 December 2018	17,816,242	318,462	9,105,521	27,240,225

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15. PROPERTY AND EQUIPMENT

	Motor vehicles	Fixtures and furniture	Leasehold improvements	Right-of-use assets	Total
Cost:					
At 1 January 2018	1,429,490	871,032	7,602,632	—	9,903,154
Additions	844,670	112,141	179,418	—	1,136,229
Disposals	(248,526)	—	—	—	(248,526)
At 31 December 2018	2,025,634	983,173	7,782,050	—	10,790,857
Effect of adopting IFRS 16	—	—	—	2,626,966	2,626,966
At 1 January 2019	2,025,634	983,173	7,782,050	2,626,966	13,417,823
Additions	—	502,407	2,755,469	—	3,257,876
Disposals	—	(93,622)	—	—	(93,622)
At 31 December 2019	2,025,634	1,391,958	10,537,519	2,626,966	16,582,077
Accumulated depreciation:					
At 1 January 2018	545,704	530,905	6,815,983	—	7,892,592
Depreciation charge for the year	321,858	121,193	379,637	—	822,688
Disposals	(248,526)	—	—	—	(248,526)
At 31 December 2018	619,036	652,098	7,195,620	—	8,466,754
Depreciation charge for the year	477,970	176,901	721,061	555,683	1,931,615
Disposals	—	(93,622)	—	—	(93,622)
At 31 December 2019	1,097,006	735,377	7,916,681	555,683	10,304,747
Net carrying amount:					
At 31 December 2018	1,406,598	331,075	586,430	—	2,324,103
At 31 December 2019	928,628	656,581	2,620,838	2,071,283	6,277,330

As at 31 December 2019, one of the Company's motor vehicles with a net carrying amount of RMB499,363 was pledged to secure the instalment loan payable of the Company (As at 31 December 2018: RMB670,574).

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16. DEFERRED TAX

(a) Analysed by nature

	31 December			
	2019		2018	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Impairment allowance	30,815,776	7,703,944	19,818,063	4,954,516
Liabilities from guarantees	752,606	188,152	83,852	20,963
Deferred income	678,206	169,551	112,070	28,017
Leases	169,213	42,303	—	—
Depreciation	(1,110,716)	(277,679)	—	—
Deferred income tax	31,305,085	7,826,271	20,013,985	5,003,496

(b) Movements of deferred tax assets and liabilities

Deferred tax assets

	Impairment allowance	Liabilities		Deferred income	Others	Total
		from guarantees				
At 1 January 2018	4,351,934	14,500		99,425	—	4,465,859
Recognised in profit or loss (Note 10)	602,582	6,463		(71,408)	—	537,637
At 31 December 2018	4,954,516	20,963		28,017	—	5,003,496
Recognised in profit or loss	2,749,428	167,189		141,534	42,303	3,100,454
At 31 December 2019	7,703,944	188,152		169,551	42,303	8,103,950

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16. DEFERRED TAX (continued)

(b) Movements of deferred tax assets and liabilities (continued)

Deferred tax liabilities

	Depreciation of property and equipment
At 31 December 2018	—
Recognised in profit or loss	(277,679)
At 31 December 2019	(277,679)

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

	As at 31 December 2019
Net deferred tax assets recognised in the statement of financial position (Note 10)	2,822,775

17. OTHER ASSETS

	31 December	
	2019	2018
Prepayments	257,643	1,384,071
Other receivables	1,053,981	1,088,749
Less: Allowance for doubtful debt	881,972	955,983
	429,652	1,516,837

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17. OTHER ASSETS (continued)

Movements of allowance for doubtful debts are as follows:

	31 December	
	2019	2018
As at 1 January	955,983	917,779
Charge for the year	(63,287)	86,483
Amount written off as uncollectible	(10,724)	(48,279)
As at 31 December	881,972	955,983

As comparable companies with credit ratings for most of the counterparties are hard to identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Company based on an ageing analysis of other receivables. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

Set out below are the maximum exposure to credit risk and expected credit losses on other receivables based on the ageing analysis.

31 December 2019

Ageing analysis	Gross carrying amount		Expected credit loss	
	Amount	Percentage	Amount	Expected credit loss rate
Up to 90 days	146,016	13.85%	—	0.00%
91 to 365 days	49,585	4.70%	23,592	47.58%
Over 365 days	858,380	81.45%	858,380	100.00%
Total	1,053,981	100.00%	881,972	83.68%

31 December 2018

Ageing analysis	Gross carrying amount		Expected credit loss	
	Amount	Percentage	Amount	Expected credit loss rate
Up to 90 days	29,817	2.74%	—	0.00%
91 to 365 days	167,899	15.42%	64,950	38.68%
Over 365 days	891,033	81.84%	891,033	100.00%
Total	1,088,749	100.00%	955,983	87.81%

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18. LIABILITIES FROM GUARANTEES

Liabilities from guarantees are provisions made for the guarantees. The table below shows the changes in the expected credit losses ("ECLs") for the outstanding exposure of guarantees.

	Stage 1	
	(12-month ECLs) Collectively assessed	Total
ECLs as at 31 December 2017	58,000	58,000
New exposure	83,852	83,852
Exposure derecognised	(58,000)	(58,000)
At 31 December 2018	83,852	83,852
New exposure	752,606	752,606
Exposure derecognised	(83,852)	(83,852)
At 31 December 2019	752,606	752,606

19. LEASE LIABILITIES

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

	31 December 2019
Carrying amount at 1 January	2,802,226
Accretion of interest recognised during the year	262,440
Payments	(775,260)
	2,289,406

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20. OTHER LIABILITIES

	31 December	
	2019	2018
Payrolls payable	677,308	652,207
Instalment loan payable (i)	285,015	421,000
Other payables	6,979,173	6,832,563
	7,941,496	7,905,770

(i) An analysis of the instalment loan payable as at the end of the reporting period is as follows:

	31 December	
	2019	2018
Due within one year	145,278	135,986
Due in one year to two years	139,736	145,278
Due in two year to three years	—	139,736
	285,015	421,000

21. SHARE CAPITAL

	31 December	
	2019	2018
Issued and fully paid	600,000,000	600,000,000

There were no movements during the year of 2019 (2018: There were no movements).

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22. RESERVES

The amounts of the Company's reserves and the movements therein for the reporting period are presented in the statement of changes in equity.

Capital reserve

Capital reserve comprises share premium arising from the difference between the par value of the shares issued by the Company and the net asset value in the financial statements as at 31 July 2012 during the conversion of the Company into a joint stock company and the difference between the par value of the shares of the Company and the proceeds received from the issuance of the shares of the Company.

Surplus reserve

Surplus reserve represents statutory surplus reserve.

The Company is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles of Association of the Company to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Company, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

General reserve

According to the <Financial regulations of micro-finance rural companies in Jiangsu (Trial)> (Su Cai Gui [2009] No.1), the Company is required to set aside a general reserve which is not less than 1% of the ending balance of loans receivable through equity.

For the year ended 31 December 2019, the Company made appropriations amounting to RMB611,682 to the general reserve.

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23. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Company had recognised lease liabilities of RMB2,802,226 at 1 January 2019, in respect of lease arrangements for office premises (2018: the Company entered into an instalment loan arrangement in respect of purchasing motor vehicles, with a total capital value at the inception of the loan of RMB434,280).

(b) Changes in liabilities arising from financing activities are as follows:

	Borrowing from other institutions	Lease liabilities	Total
At 1 January 2018	—	—	—
New instalment loan	434,280	—	434,280
Repayment of the instalment loan	(13,280)	—	(13,280)
At 31 December 2018	421,000	—	421,000
Impact of adopting IFRS 16	—	2,802,226	2,802,226
At 1 January 2019	421,000	2,802,226	3,223,226
Repayment of the instalment loan	(135,985)	—	(135,985)
Repayment of lease liabilities	—	(700,679)	(700,679)
Interest expense	20,687	262,440	283,127
Repayment of interest expense	(20,687)	(74,581)	(95,268)
At 31 December 2019	285,015	2,289,406	2,574,421

(c) Total cash outflow for leases:

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

	2019
Within financing activities	775,260
	775,260

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24. RELATED PARTY TRANSACTIONS

(a) Leasing

	Note	Year ended 31 December	
		2019	2018
Leasing expense	(i)	—	571,429
Depreciation of right-of-use assets	(i)	513,416	—
Interest expense on lease liabilities	(i)	254,722	—

Notes:

- (i) The Company entered into a lease contract in respect of the Company's office with an entity with significant influence over the Company. As at 28 November 2017, the Company agreed with the lessor and renewed the lease contract. The leasing period is from 1 January 2018 to 31 December 2020. The leasing expense for year 2019 was RMB600,000 (2018: RMB571,429) (not including VAT).

The Company has adopted IFRS 16 since 1 January 2019 and recognised lease liabilities as well as right-of-use assets accordingly. The depreciation of right-of-use assets and interest expense on lease liabilities for the year ended 31 December 2019 were RMB513,416 and RMB254,722, respectively.

(b) Key management personnel's remuneration

	Year ended 31 December	
	2019	2018
Key management personnel's remuneration	1,560,777	1,432,563

Remuneration for key management personnel includes amounts paid to certain directors and the chief executive of the Company as disclosed in Note 8.

(c) Outstanding balances with related parties

Amounts due to related parties	Note	Year ended 31 December	
		2019	2018
Entity with significant influence over the Company:			
Liantai Guangchang	(i)	2,228,855	—
Total		2,228,855	—

Notes:

- (i) As at 31 December 2019, the outstanding balance of the Company's lease liability due to Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd. ("Liantai Guangchang") was RMB2,228,855 (as at 1 January 2019: RMB2,574,132).

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25. SEGMENT INFORMATION

Almost all of the Company's revenue was generated from the provision of loans to small and medium sized and micro enterprises ("SMEs") located at Yangzhou, Jiangsu Province in the PRC during the reporting period. There is no other main segment except the loan business.

26. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	31 December	
	2019	2018
Financial guarantee contracts	34,000,000	4,000,000

27. COMMITMENTS

(a) The Company had the following capital commitments at the end of the reporting period:

	31 December	
	2019	2018
Contracted, but not provided for:		
– Property and equipment	—	199,999
– Leasehold improvements	21,200	791,613
	21,200	991,612

(b) Operating lease commitments as at 31 December 2018:

The Company leases office premises under various operating lease agreements as the lessee. Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2018
Within one year	681,355
In the second year	712,855
In the third year	51,355
After three years	51,355
	1,496,920

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28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	31 December	
	2019	2018
Financial assets		
Financial assets at amortised cost		
– Cash at banks and a third party	3,779,385	4,337,348
– Loans receivable	862,691,722	814,275,722
– Other receivables	172,009	132,766
	866,643,116	818,745,836

	31 December	
	2019	2018
Financial liabilities		
Financial liabilities at amortised cost		
– Other payables	2,274,669	2,142,882
– Lease liabilities	2,289,406	—
	4,564,075	2,142,882

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. The Company manages the loans granted to SMEs, micro-enterprises and individual proprietors with the same rules and procedures. There is also credit risk in off-balance sheet financial instruments, which mainly consist of financial guarantees.

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

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

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29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

A loan classification approach has been adopted to manage loan portfolio risk. The loans are categorised as “normal”, “special-mention”, “substandard”, “doubtful” or “loss” according to their levels of risk. The core definitions of the five categories of loans receivable are set out below:

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

To enhance the credit risk management practices, the Company also launches training programs periodically for credit officers at different levels.

Financial guarantees carry similar credit risk to loans and the Company takes a similar approach on risk management.

The Company’s financial assets include cash at banks, loans receivable and other receivables. The credit risk of these assets mainly arose from the counterparties’ failure to discharge their contractual obligations, with major exposure equal to the carrying amounts.

Credit risk measurement

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

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

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29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Criteria for judging significant increases in credit risk

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

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

Quantitative criteria

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

Qualitative criteria

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

Backstop criteria

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

Definition of credit-impaired financial asset

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

- Significant financial difficulty of the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue; and
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;

The credit impairment of a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Company measures the impairment loss for different assets with ECLs of 12 months or the entire lifetime. The key measuring parameters of ECLs include the probability of PD, LGD and EAD. The Company takes into account the quantitative analysis of historical statistics (such as internal rating grade, manners of guarantees and types of collateral, repayments, etc.) and forward-looking information in order to establish the models of PD, LGD and EAD.

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

Forward-looking information

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

Collateral and other credit enhancements

The Company implements guidelines on the acceptability of specific classes of collateral from customers. The principal collateral types for loans to customers are:

- Real estate, including residential and commercial properties; and
- Equipment.

The Company also focuses on ascertaining legal ownership, condition and the valuation of the collateral. A collateral-backed loan is granted on the basis of the fair value of the collateral. The Company continues to monitor the value of the collateral throughout the loan period.

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29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Collateral and other credit enhancements (continued)

The following table sets out a breakdown of the Company's overdue loans by security as of the dates indicated:

At 31 December 2019	Overdue within 3 months	Overdue for more than 3 to 12 months	Overdue for more than 1 year	Total
Guaranteed loans	12,604,553	13,300,000	2,142,019	28,046,572
Collateral-backed loans	4,566,565	5,394,454	6,841,027	16,802,046
	17,171,118	18,694,454	8,983,046	44,848,618

At 31 December 2018	Overdue within 3 months	Overdue for more than 3 to 12 months	Overdue for more than 1 year	Total
Guaranteed loans	17,743	3,104,816	2,566,106	5,688,665
Collateral-backed loans	3,132,392	132,652	5,739,900	9,004,944
	3,150,135	3,237,468	8,306,006	14,693,609

Analysis of risk concentration

The Company manages its exposure to the concentration of credit risk by customer, geographic region and industry. The customers of the Company are located mainly in rural areas, and they are concentrated in a geographic region, Yangzhou, but the Company provides loans to a wide variety of customers that operate in different industries to mitigate its exposure to such risks. Given the regulatory restriction on the Company's geographical area of operation, there is credit risk arising from the geographic concentration.

Write-off policy

The Company writes off loans and other receivables, in whole or in part, when it was 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 bankruptcy, termination or the expected cost significantly greater than the carrying amount of loans and other receivables. The Company may write off loans and other receivables that are still subject to enforcement activity. Where recoveries are made, they are recognised in the statement of profit or loss.

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(Amounts expressed in RMB unless otherwise stated)

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets).

	31 December	
	2019	2018
Changes in HKD exchange rate	Impact on profit before tax	Impact on profit before tax
+5%	58	116
- 5%	(58)	(116)

(c) Interest rate risk

The Company's exposure to the risk of changes in interest rates relates primarily to its cash at banks, loans receivable and interest-bearing borrowings. All of the Company's loans receivable bear interest at fixed rates. They are much influenced by the mismatch of repricing days of interest-generating assets and interest-bearing liabilities. The Company does not use derivative financial instruments to manage its interest rate risk.

The following table demonstrates the sensitivity as at the end of each reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate of cash at banks and cash at a third party). The Company's equity is not affected, other than the consequential effect on retained earnings (a component of the Company's equity) affected by the changes in profit before tax.

	31 December	
	2019	2018
Changes in RMB interest rate	Impact on profit before tax	Impact on profit before tax
+ 50 basis points	18,897	21,687
- 50 basis points	(18,897)	(21,687)

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31 December 2019

(Amounts expressed in RMB unless otherwise stated)

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company seeks to manage its liquidity risk by circulating liquidity facilities, considering the maturity date of financial instruments and estimated cash flows from operation.

The tables below summarise the maturity profiles of the financial assets and financial liabilities of the Company based on undiscounted contractual cash flows:

	As at 31 December 2019					
	On demand	Past due	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets:						
Cash at banks and a third party	3,779,385	—	—	—	—	3,779,385
Loans receivable	—	44,848,618	77,738,364	831,025,455	—	953,612,437
Other assets	1,053,981	—	—	—	—	1,053,981
Subtotal	4,833,366	44,848,618	77,738,364	831,025,455	—	958,445,803
Financial liabilities:						
Other liabilities	—	—	1,909,223	124,104	256,376	2,289,703
Lease liabilities	—	—	61,137	630,000	2,085,379	2,776,516
Subtotal	—	—	1,970,360	754,104	2,341,755	5,066,219
Net	4,833,366	44,848,618	75,768,004	830,271,351	(2,341,755)	953,379,584
Off-balance sheet guarantee	—	—	—	34,000,000	—	34,000,000

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31 December 2019

(Amounts expressed in RMB unless otherwise stated)

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

	As at 31 December 2018					Total
	On demand	Past due	Less than 3 months	3 to 12 months	1 to 5 years	
Financial assets:						
Cash at banks and a third party	4,337,348	—	—	—	—	4,337,348
Loans receivable	—	14,693,609	133,786,542	756,629,225	—	905,109,376
Other assets	1,088,749	—	—	—	—	1,088,749
Subtotal	5,426,097	14,693,609	133,786,542	756,629,225	—	910,535,473
Financial liabilities:						
Other liabilities	—	—	1,553,150	308,799	280,933	2,142,882
Subtotal	—	—	1,553,150	308,799	280,933	2,142,882
Net	5,426,097	14,693,609	132,233,392	756,320,426	(280,933)	908,392,591
Off-balance sheet guarantee	—	—	—	4,000,000	—	4,000,000

(e) Capital management

According to the Opinions on Supporting and Restricting the Rural Micro-Finance Companies in Jiangsu Province (Provisional) (Su Jin Rong Ban Fa [2013] No. 103), the liabilities of micro-finance rural companies should not exceed 100% of the net capital and the contingent liabilities should not exceed 250% of the net capital for Grade AA companies.

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(e) Capital management (continued)

The Company monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing borrowings, less cash and cash equivalents. Management regards total equity which includes share capital, reserves and retained earnings as capital. The gearing ratios as at the end of the reporting periods were as follows:

	Note	31 December	
		2019	2018
Instalment loan payable		285,015	421,000
Lease liabilities	(i)	2,289,406	—
Less: Cash and cash equivalents		3,779,385	4,337,348
Net debt		(1,204,964)	(3,916,348)
Share capital		600,000,000	600,000,000
Reserves		108,698,142	103,074,536
Retained earnings		152,732,182	108,236,543
Capital		861,430,324	811,311,079
Capital and net debt		860,225,360	807,394,731
Gearing ratio		N/A	N/A

Note:

- (i) The Company has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Company's net debt when compared with the position as at 31 December 2018.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The Company's financial assets mainly include cash at banks and a third party and loans receivable.

The Company's financial liabilities mainly include lease liabilities and other payables.

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

Notes to Financial Statements

31 December 2019

(Amounts expressed in RMB unless otherwise stated)

31. EVENTS AFTER THE REPORTING PERIOD

As approved at the board of directors' meeting held on 25 March 2020, the profit distribution plan of 2019 was as follows:

1. 10% of 2019 net profit amounting to RMB5,011,924 is appropriated to the statutory surplus reserve;
2. RMB611,682 is appropriated to the general reserve.
3. A cash dividend of RMB0.025 per share amounting to RMB15,000,000 was approved, and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The coronavirus outbreak has spread rapidly since January 2020 and will have a certain impact on the business operation and overall economic operation nationwide, which will furtherly affect the Company. The degree of impact will depend on the duration of the situation as well as the effect of various macroeconomic policies. The Company will continue to pay close attention to the development of pneumonia. As of the date of this report, the assessment the impact is still in progress.

Except for the above, there were no significant events after the reporting period.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved and authorised for issue by the Company's board of directors on 25 March 2020.

Financial Summary

Below is a summary of the Company's results for the last five financial years and the assets and liabilities of the Company as at 31 December 2019, 2018, 2017, 2016 and 2015, as extracted from the published audited financial statements for the years ended 31 December 2019, 2018, 2017, 2016 and 2015. The amounts set out in this financial summary are prepared as if the current structure of the Company had been in existence throughout the year presented.

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest income	104,156	108,333	91,338	74,495	95,947
Interest expense	(283)	—	(98)	(596)	(1,442)
Interest income, net	103,873	108,333	91,240	73,899	94,505
(Accrual)/reversal of provision for impairment losses	(11,817)	(3,037)	(7,260)	2,374	849
Accrual of provision for guarantee losses	(669)	(26)	(58)	—	—
Administrative expenses	(24,882)	(15,291)	(20,728)	(22,593)	(17,647)
Other income/(expenses), net	1,368	2,272	(2,162)	453	361
Profit before tax	67,873	92,249	61,032	54,133	78,068
Income tax expense	(17,754)	(23,494)	(15,198)	(13,653)	(16,666)
PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	50,119	68,755	45,834	40,480	61,402
ASSETS AND LIABILITIES					
Total assets	881,004	827,458	804,692	597,951	610,659
Total liabilities	19,574	16,146	14,136	17,168	25,357
Net assets	861,430	811,311	790,556	580,783	585,302