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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- (1) For the six months ended 30 June 2020, Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the "**Company**") recorded interest income of approximately RMB37.3 million, representing a decrease of approximately 32.8% as compared to approximately RMB55.5 million in the corresponding period in 2019.
- (2) For the six months ended 30 June 2020, profit after tax of the Company amounted to approximately RMB14.1 million, representing a decrease of approximately 53.7% as compared to approximately RMB30.4 million in the corresponding period in 2019, which was mainly due to the lower interest income and higher provisions for loan impairment losses for the Company's lending business during the on-going COVID-19 situation and market conditions.
- (3) As at 30 June 2020, the balance of outstanding loans (before allowance for impairment losses) of the Company amounted to approximately RMB921.8 million, representing an increase of approximately 2.2% as compared to approximately RMB901.6 million as at 31 December 2019.

The board of directors of the Company (the “**Board**”) hereby announces the unaudited results of the Company for the six months ended 30 June 2020, together with the unaudited comparative figures for the corresponding period in 2019 as follows:

Condensed Statement of Profit or Loss and other Comprehensive Income

Six months ended 30 June 2020

(Amounts expressed in RMB unless otherwise stated)

| | Notes | Six months ended 30 June | |
|---|-------|---------------------------------|--------------------|
| | | 2020 | 2019 |
| | | (unaudited) | (unaudited) |
| Interest income | 4 | 37,299,531 | 55,499,995 |
| Interest expense | 4 | (118,949) | (147,524) |
| Interest income, net | 4 | 37,180,582 | 55,352,471 |
| Accrual of provision for impairment losses | | (11,971,468) | (569,072) |
| Accrual of provision for guarantee losses | | (856,772) | (2,526) |
| Administrative expenses | 5 | (6,175,769) | (14,506,991) |
| Other income, net | 6 | 703,614 | 69,523 |
| PROFIT BEFORE TAX | | 18,880,187 | 40,343,405 |
| Income tax expense | 7 | (4,819,626) | (9,957,988) |
| PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 14,060,561 | 30,385,417 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 9 | | |
| Basic | | 0.02 | 0.05 |
| Diluted | | 0.02 | 0.05 |

Condensed Statement of Financial Position

As at 30 June 2020

(Amounts expressed in RMB unless otherwise stated)

| | Notes | As at 30 June 2020 (unaudited) | As at 31 December 2019 (audited) |
|-------------------------------------|-------|--------------------------------------|---|
| ASSETS | | | |
| Cash and cash equivalents | 10 | 732,059 | 3,779,385 |
| Loans receivable | 11 | 877,835,869 | 862,691,722 |
| Property and equipment | 12 | 5,526,027 | 6,277,330 |
| Deferred tax | 13 | 9,402,434 | 7,826,271 |
| Other assets | 14 | 600,292 | 429,652 |
| TOTAL ASSETS | | 894,096,681 | 881,004,360 |
| LIABILITIES | | | |
| Deferred income | | 1,077,793 | 678,206 |
| Income tax payable | | 7,620,969 | 7,912,322 |
| Liabilities from guarantees | 15 | 1,609,378 | 752,606 |
| Lease liabilities | 16 | 1,771,716 | 2,289,406 |
| Other liabilities | 17 | 6,525,940 | 7,941,496 |
| TOTAL LIABILITIES | | 18,605,796 | 19,574,036 |
| EQUITY | | | |
| Share capital | 18 | 600,000,000 | 600,000,000 |
| Reserves | 19 | 108,698,142 | 108,698,142 |
| Retained earnings | | 166,792,743 | 152,732,182 |
| TOTAL EQUITY | | 875,490,885 | 861,430,324 |
| TOTAL EQUITY AND LIABILITIES | | 894,096,681 | 881,004,360 |

Condensed Statement of Changes in Equity

Six months ended 30 June 2020

(Amounts expressed in RMB unless otherwise stated)

| | | Reserves | | | | |
|---|--------------------|--------------------|--------------------|--------------------|----------------------|--------------------|
| | Paid in capital | Capital reserve | Surplus reserve | General reserve | Retained earnings | Total |
| 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 period and total comprehensive income | — | — | — | — | 30,385,417 | 30,385,417 |
| Balance as at 30 June 2019 (unaudited) | 600,000,000 | 54,417,191 | 40,279,200 | 8,378,145 | 138,621,960 | 841,696,496 |
| Balance as at 1 January 2020 | 600,000,000 | 54,417,191 | 45,291,124 | 8,989,827 | 152,732,182 | 861,430,324 |
| Profit for the period and total comprehensive income | — | — | — | — | 14,060,561 | 14,060,561 |
| Balance as at 30 June 2020 (unaudited) | 600,000,000 | 54,417,191 | 45,291,124 | 8,989,827 | 166,792,743 | 875,490,885 |

Condensed Statement of Cash Flows

Six months ended 30 June 2020

(Amounts expressed in RMB unless otherwise stated)

| | | Six months ended 30 June | |
|--|-------|--------------------------|---------------------|
| | Notes | 2020 (unaudited) | 2019 (unaudited) |
| CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | | | |
| Profit before tax | | 18,880,187 | 40,343,405 |
| Adjustments for: | | | |
| Depreciation and amortisation | 12 | 1,006,991 | 927,218 |
| Accrual of provision for impairment losses | | 11,971,468 | 569,072 |
| Accrual of provision for guarantee losses | | 856,772 | 2,526 |
| Accreted interest on impaired loans | 4 | (620,661) | (157,143) |
| Interest expense | 4 | 118,949 | 147,524 |
| Foreign exchange loss/(gain), net | 6 | (13) | 3 |
| Increase in loans receivable | | (26,909,819) | (21,616,917) |
| Decrease in other assets | | 101,886 | 53,690 |
| Increase/(decrease) in other liabilities | | (944,269) | 2,251,713 |
| Net cash flows from operating activities before tax | | 4,461,491 | 22,521,091 |
| Income tax paid | | (6,687,142) | (10,939,092) |
| Net cash flows from/(used in) operating activities | | (2,225,651) | 11,581,999 |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | | |
| Purchases of property and equipment and other long-term assets | | (113,352) | (1,654,935) |
| Net cash flows used in investing activities | | (113,352) | (1,654,935) |
| CASH FLOWS USED IN FINANCING ACTIVITIES | | | |
| Repayment of borrowings | | (71,697) | (66,124) |
| Repayment of lease liabilities | | (383,639) | (700,679) |
| Interest paid on borrowings | | (253,000) | (86,793) |
| Net cash flows used in financing activities | | (708,336) | (853,596) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | | (3,047,339) | 9,073,468 |
| Cash and cash equivalents at beginning of the period | | 3,779,385 | 4,337,348 |
| Effect of foreign exchange rate changes, net | 6 | 13 | (3) |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 10 | 732,059 | 13,410,813 |

Notes to the Condensed Interim Financial Statements

30 June 2020

(Amounts expressed in RMB unless otherwise stated)

1. CORPORATE INFORMATION

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (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 were listed on GEM (formerly known as “Growth Enterprise Market”) of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) and trading of its H shares commenced on 8 May 2017. Upon the approval of the Stock Exchange, the Company’s H shares were listed on the Main Board by way of Transfer of Listing and delisted from GEM 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 Jiangsu Botai Group Co., Ltd., which is incorporated in the People’s Republic of China.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 BASIS OF PREPARATION

The interim condensed financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company’s annual financial statements as at 31 December 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The newly adopted standards have no impact on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The nature and assumptions related to the Company's accounting estimates are consistent with those adopted in the Company's financial statements for the year ended 31 December 2019.

4. INTEREST INCOME, NET

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2020 | 2019 |
| Interest income on: | | |
| Loans receivable | 37,294,432 | 55,492,600 |
| Cash at banks | 5,099 | 5,860 |
| Cash at a third party | — | 1,535 |
| Subtotal | 37,299,531 | 55,499,995 |
| Interest expense on: | | |
| Lease liabilities | (112,310) | (135,312) |
| Borrowing from other institutions | (6,639) | (12,212) |
| Subtotal | (118,949) | (147,524) |
| Interest income, net | 37,180,582 | 55,352,471 |
| Included: Interest income on impaired loans | 620,661 | 157,143 |

5. ADMINISTRATIVE EXPENSES

| | Six months ended 30 June | |
|--|--------------------------|-------------------|
| | 2020 | 2019 |
| Staff costs | 2,044,685 | 2,367,189 |
| Tax and surcharges | 221,107 | 303,936 |
| Transfer of listing expense | — | 7,395,463 |
| Depreciation and amortisation | 1,006,991 | 927,218 |
| Office expenses | 43,605 | 92,833 |
| Auditor's remuneration | 600,000 | 672,170 |
| Advertising and entertainment expenses | 607,082 | 893,823 |
| Service fees | 1,124,137 | 1,156,122 |
| Others | 528,162 | 698,237 |
| Total | <u>6,175,769</u> | <u>14,506,991</u> |

6. OTHER INCOME, NET

| | Six months ended 30 June | |
|----------------------------|--------------------------|-----------------|
| | 2020 | 2019 |
| Other income: | | |
| Guarantee fee income | 739,092 | 74,851 |
| Foreign exchange gain | 13 | — |
| Others | 22,358 | 10,000 |
| Subtotal | <u>761,463</u> | <u>84,851</u> |
| Other expenses: | | |
| Foreign exchange loss | — | (3) |
| Fee and commission expense | (7,549) | (15,225) |
| Others | (50,300) | (100) |
| Subtotal | <u>(57,849)</u> | <u>(15,328)</u> |
| Other income, net | <u>703,614</u> | <u>69,523</u> |

7. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---------------------|---------------------------------|------------------|
| | 2020 | 2019 |
| Current income tax | 6,395,789 | 9,737,090 |
| Deferred income tax | (1,576,163) | 220,898 |
| | <u>4,819,626</u> | <u>9,957,988</u> |

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:

| | Six months ended 30 June | |
|--|---------------------------------|-------------------|
| | 2020 | 2019 |
| Profit before tax | <u>18,880,187</u> | <u>40,343,405</u> |
| Tax at the applicable tax rate | 4,720,047 | 10,085,851 |
| Adjustments in respect of current income tax of previous years | — | (281,875) |
| Expenses not deductible for tax | <u>99,579</u> | <u>154,012</u> |
| Total tax expense for the year at the Company's effective tax rate | <u>4,819,626</u> | <u>9,957,988</u> |

8. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2020 and 2019.

9. 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 shareholders of the Company and the weighted average number of ordinary shares in issue for the period as follows:

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2020 | 2019 |
| <u>Earnings</u> | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation | <u>14,060,561</u> | <u>30,385,417</u> |
| <u>Shares</u> | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (i) | <u>600,000,000</u> | <u>600,000,000</u> |
| Basic and diluted earnings per share | <u>0.02</u> | <u>0.05</u> |

(i) Weighted average number of ordinary shares

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2020 | 2019 |
| Issued ordinary shares at the beginning of the period | 600,000,000 | 600,000,000 |
| Weighted average number of ordinary shares at the end of the period | <u>600,000,000</u> | <u>600,000,000</u> |

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

10. CASH AND CASH EQUIVALENTS

| | As at 30 June 2020 | As at 31 December 2019 |
|-----------------------|-----------------------------------|------------------------------|
| Cash at a third party | 5,105 | 3,676,788 |
| Cash at banks | 726,954 | 102,597 |
| | 732,059 | 3,779,385 |

At the end of the reporting period, the cash and cash equivalents of the Company denominated in RMB amounted to RMB731,287 (As at 31 December 2019: RMB3,778,222).

11. LOANS RECEIVABLE

| | As at 30 June 2020 | As at 31 December 2019 |
|---------------------------------------|-----------------------------------|------------------------------|
| Loans receivable | 921,813,445 | 901,615,352 |
| Less: Allowance for impairment losses | 43,977,576 | 38,923,630 |
| | 877,835,869 | 862,691,722 |

The types of loans receivable are as follow:

| | As at 30 June 2020 | As at 31 December 2019 |
|---------------------------------------|-----------------------------------|------------------------------|
| Guaranteed loans | 885,881,724 | 857,535,282 |
| Collateral-backed loans | 35,931,721 | 44,080,070 |
| | 921,813,445 | 901,615,352 |
| Less: Allowance for impairment losses | 43,977,576 | 38,923,630 |
| | 877,835,869 | 862,691,722 |

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 six months-end stage classification.

| Internal rating grades | 30 June 2020 | | | Total |
|------------------------|--------------------|----------------|-------------------|--------------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| Normal | 885,059,740 | — | — | 885,059,740 |
| Special mention | — | 121,647 | — | 121,647 |
| Sub-standard | — | — | 1,000,000 | 1,000,000 |
| Doubtful | — | — | 34,524,058 | 34,524,058 |
| Loss | — | — | 1,108,000 | 1,108,000 |
| Total | <u>885,059,740</u> | <u>121,647</u> | <u>36,632,058</u> | <u>921,813,445</u> |

| Internal rating grades | 31 December 2019 | | | Total |
|------------------------|--------------------|-------------------|-------------------|--------------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| 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 | <u>856,766,734</u> | <u>15,140,518</u> | <u>29,708,100</u> | <u>901,615,352</u> |

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

| | Stage 1 (12-month ECL) Collectively assessed | Stage 2 (Lifetime ECL) Collectively assessed | Stage 3 (Lifetime ECL– impaired) Individually assessed | Total |
|----------------------------|---|---|---|---------------------------|
| Outstanding exposure as at | | | | |
| 31 December 2019 | 856,766,734 | 15,140,518 | 29,708,100 | 901,615,352 |
| New exposures | 198,445,410 | — | — | 198,445,410 |
| Exposure derecognised | (168,737,189) | (494,553) | (2,736,450) | (171,968,192) |
| Transfers to Stage 2 | (415,215) | 415,215 | — | — |
| Transfers to Stage 3 | (1,000,000) | (14,939,533) | 15,939,533 | — |
| Amounts written off | — | — | (6,279,125) | (6,279,125) |
| At 30 June 2020 | <u>885,059,740</u> | <u>121,647</u> | <u>36,632,058</u> | <u>921,813,445</u> |

| | Stage 1 (12-month ECL) Collectively assessed | Stage 2 (Lifetime ECL) Collectively assessed | Stage 3 (Lifetime ECL– impaired) Individually assessed | Total |
|----------------------------|---|---|---|---------------------------|
| 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 | <u>856,766,734</u> | <u>15,140,518</u> | <u>29,708,100</u> | <u>901,615,352</u> |

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

| | Stage 1 (12-month ECL) Collectively assessed | Stage 2 (Lifetime ECL) Collectively assessed | Stage 3 (Lifetime ECL– impaired) Individually assessed | Total ECL allowance |
|--|---|---|---|--------------------------------------|
| ECLs as at 31 December 2019 | 18,911,860 | 1,554,293 | 18,457,477 | 38,923,630 |
| Net charge/(reversal) of the impairment | 3,345,000 | (30,215) | 1,002,890 | 4,317,675 |
| Transfers to Stage 2 | (8,362) | 8,362 | — | — |
| Transfers to Stage 3 | (22,930) | (1,554,251) | 1,577,181 | — |
| Net remeasurement of ECL arising from transfer of stage | — | 34,510 | 7,601,547 | 7,636,057 |
| Accreted interest on impaired loans (Note 4) | — | — | (620,661) | (620,661) |
| Amounts written off | — | — | (6,279,125) | (6,279,125) |
| At 30 June 2020 | <u>22,225,568</u> | <u>12,699</u> | <u>21,739,309</u> | <u>43,977,576</u> |
| | Stage 1 (12-month ECL) Collectively assessed | Stage 2 (Lifetime ECL) Collectively assessed | Stage 3 (Lifetime ECL– impaired) Individually assessed | Total ECL allowance |
| ECLs as at 31 December 2018 | 17,816,242 | 318,462 | 9,105,521 | 27,240,225 |
| Net charge/(reversal) of the impairment | 1,858,454 | (117,893) | (1,959,159) | (218,598) |
| Transfers to Stage 2 | (407,555) | 407,555 | — | — |
| Transfers to Stage 3 | (355,281) | (586,355) | 941,636 | — |
| Net remeasurement of ECL arising from transfer of stage | — | 1,532,524 | 10,566,649 | 12,099,173 |
| Accreted interest on impaired loans | — | — | (197,170) | (197,170) |
| At 31 December 2019 | <u>18,911,860</u> | <u>1,554,293</u> | <u>18,457,477</u> | <u>38,923,630</u> |

12. PROPERTY AND EQUIPMENT

| | Motor vehicles | Fixtures and furniture | Leasehold improvements | Right-of- use asset | Total |
|------------------------------------|-------------------|------------------------------|---------------------------|------------------------|-------------------|
| Cost: | | | | | |
| 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 |
| Additions | — | 45,488 | 210,200 | — | 255,688 |
| Disposals | — | — | (6,654,032) | — | (6,654,032) |
| At 30 June 2020 | 2,025,634 | 1,437,446 | 4,093,687 | 2,626,966 | 10,183,733 |
| Accumulated depreciation: | | | | | |
| At 1 January 2019 | 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 |
| Depreciation charge for the period | 238,985 | 91,449 | 409,282 | 267,275 | 1,006,991 |
| Disposals | — | — | (6,654,032) | — | (6,654,032) |
| At 30 June 2020 | 1,335,991 | 826,826 | 1,671,931 | 822,958 | 4,657,706 |
| Net carrying amount: | | | | | |
| At 31 December 2019 | 928,628 | 656,581 | 2,620,838 | 2,071,283 | 6,277,330 |
| At 30 June 2020 | 689,643 | 610,620 | 2,421,756 | 1,804,008 | 5,526,027 |

As at 30 June 2020, one of the Company's motor vehicles with net carrying amounts of RMB413,758 was pledged to secure the installment loan payable of the Company (As at 31 December 2019: RMB499,363).

13. DEFERRED TAX

(a) Analysed by nature

| | As at 30 June 2020 | | As at 31 December 2019 | |
|-----------------------------|----------------------------------|----------------------------|----------------------------------|----------------------------|
| | Deductible temporary differences | Deferred income tax assets | Deductible temporary differences | Deferred income tax assets |
| Impairment allowance | 35,685,215 | 8,921,304 | 30,815,776 | 7,703,944 |
| Liabilities from guarantees | 1,609,378 | 402,345 | 752,606 | 188,152 |
| Deferred income | 1,077,793 | 269,448 | 678,206 | 169,551 |
| Leases | 225,885 | 56,471 | 169,213 | 42,303 |
| Depreciation | (988,536) | (247,134) | (1,110,716) | (277,679) |
| Deferred income tax | <u>37,609,735</u> | <u>9,402,434</u> | <u>31,305,085</u> | <u>7,826,271</u> |

(b) The movements of deferred tax assets and liabilities are as follows:

Deferred tax assets

| | Impairment allowance | Liabilities from guarantees | Deferred income | Others | Total |
|------------------------------|----------------------|-----------------------------|-----------------|---------------|------------------|
| At 1 January 2019 | 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 | <u>7,703,944</u> | <u>188,152</u> | <u>169,551</u> | <u>42,303</u> | <u>8,103,950</u> |
| Recognised in profit or loss | <u>1,217,360</u> | <u>214,193</u> | <u>99,897</u> | <u>14,168</u> | <u>1,545,618</u> |
| At 30 June 2020 | <u>8,921,304</u> | <u>402,345</u> | <u>269,448</u> | <u>56,471</u> | <u>9,649,568</u> |

Deferred tax liabilities

| | Depreciation of property and equipment | Total |
|------------------------------|---|------------------|
| At 1 January 2019 | — | — |
| Recognised in profit or loss | (277,679) | (277,679) |
| At 31 December 2019 | (277,679) | (277,679) |
| Recognised in profit or loss | 30,545 | 30,545 |
| At 30 June 2020 | (247,134) | (247,134) |

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 30 June 2020 | As at 31 December 2019 |
|--|--------------------------|------------------------------|
| Net deferred tax assets recognised in the statement of financial position | 9,402,434 | 7,826,271 |

14. OTHER ASSETS

| | As at 30 June 2020 | As at 31 December 2019 |
|-----------------------------------|--------------------------|------------------------------|
| Prepayments | 101,089 | 257,643 |
| Other receivables | 966,311 | 1,053,981 |
| Reposessed asset (i) | 432,600 | — |
| Less: Allowance for doubtful debt | 899,708 | 881,972 |
| | 600,292 | 429,652 |

Notes:

- (i) Reposessed asset is a property located at Yangzhou City, Jiangsu Province in the PRC. The Company plans to dispose of the reposessed assets held at June 30, 2020 by auction or transfer.

15. 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 ECL) Collectively assessed | Total |
|-----------------------|---|-------------------------|
| At 31 December 2018 | 83,852 | 83,852 |
| New exposure | 752,606 | 752,606 |
| Exposure derecognised | (83,852) | (83,852) |
| At 31 December 2019 | <u>752,606</u> | <u>752,606</u> |
| New exposure | 1,299,481 | 1,299,481 |
| Exposure derecognised | (442,709) | (442,709) |
| At 30 June 2020 | <u>1,609,378</u> | <u>1,609,378</u> |

16. LEASE LIABILITIES

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

| | 30 June 2020 | 31 December 2019 |
|---|-------------------------|---------------------|
| Carrying amount at 1 January | 2,289,406 | 2,802,226 |
| Accretion of interest recognised during the year/period | 112,310 | 135,312 |
| Payments | (630,000) | (648,132) |
| | <u>1,771,716</u> | <u>2,289,406</u> |

17. OTHER LIABILITIES

| | As at 30 June 2020 | As at 31 December 2019 |
|--------------------------|-----------------------------------|------------------------------|
| Payrolls payable | 444,466 | 677,308 |
| Installment loan payable | 213,318 | 285,015 |
| Other payables | 5,868,156 | 6,979,173 |
| | <u>6,525,940</u> | <u>7,941,496</u> |

18. SHARE CAPITAL

| | As at 30 June 2020 | As at 31 December 2019 |
|-----------------------|-----------------------------------|------------------------------|
| Issued and fully paid | <u>600,000,000</u> | <u>600,000,000</u> |

No movement occurred of the Company during the period of six-months ended 30 June 2020.

19. 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.

20. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Changes in liabilities used in financing activities are as follows:

| | Borrowing from other institutions | Lease liabilities | Total |
|-----------------------------------|--|------------------------------|-------------------------|
| At 1 January 2019 | 421,000 | 2,802,226 | 3,223,226 |
| Repayment of the installment loan | (66,124) | — | (66,124) |
| Repayment of lease liabilities | — | (700,679) | (700,679) |
| Interest expense | 12,212 | 135,312 | 147,524 |
| Repayment of interest expense | (12,212) | (74,581) | (86,793) |
| At 30 June 2019 | <u>354,876</u> | <u>2,162,278</u> | <u>2,517,154</u> |
| At 1 January 2020 | 285,015 | 2,289,406 | 2,574,421 |
| Repayment of the installment loan | (71,697) | — | (71,697) |
| Repayment of lease liabilities | — | (383,639) | (383,639) |
| Interest expense | 6,639 | 112,310 | 118,949 |
| Repayment of interest expense | (6,639) | (246,361) | (253,000) |
| At 30 June 2020 | <u>213,318</u> | <u>1,771,716</u> | <u>1,985,034</u> |

(b) Total cash outflow for leases:

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

| | Six months ended 30 June 2020 |
|-----------------------------|--|
| Within financing activities | <u>630,000</u> |
| | <u>630,000</u> |

21. RELATED PARTY TRANSACTIONS

(a) Leasing

| | | Six months ended 30 June | |
|---------------------------------------|-------|--------------------------|---------|
| | Notes | 2020 | 2019 |
| Depreciation of right-of-use asset | (i) | 256,708 | 253,887 |
| Interest expense on lease liabilities | (i) | 111,724 | 130,957 |

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 2019 to 31 December 2020.

The interest expense on lease liabilities and depreciation of right-of-use asset for the period of six months ended 30 June 2020 were RMB111,724 and RMB256,708, respectively (six months ended 30 June 2019: RMB130,957 and RMB253,887).

(b) Key management personnel's remuneration

| | Six months ended 30 June | |
|---|--------------------------|---------|
| | 2020 | 2019 |
| Key management personnel's remuneration | 874,749 | 792,118 |

(c) Outstanding balances with related parties

| Amounts due to related parties | | As at 30 June 2020 | As at 31 December 2019 |
|---|-------|--------------------------|------------------------------|
| | Notes | | |
| Entity with significant influence over the Company: | | | |
| Liantai Guangchang | (i) | 1,710,579 | 2,228,855 |
| Total | | 1,710,579 | 2,228,855 |

Notes:

- (i) As at 30 June 2020 the Company had an outstanding balance of lease liability due to Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd ("Liantai Guangchang"), amounting to RMB1,710,579 (as at 31 December 2019: RMB2,228,855).

22. 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.

23. CONTINGENT LIABILITIES

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

| | As at 30 June 2020 | As at 31 December 2019 |
|-------------------------------|-----------------------------------|------------------------------|
| Financial guarantee contracts | <u>63,450,000</u> | <u>34,000,000</u> |

24. COMMITMENTS

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

| | As at 30 June 2020 | As at 31 December 2019 |
|-----------------------------------|-----------------------------------|------------------------------|
| Contracted, but not provided for: | | |
| – Leasehold improvements | <u>—</u> | <u>21,200</u> |
| | <u>—</u> | <u>21,200</u> |

25. 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:

| | As at 30 June 2020 | As at 31 December 2019 |
|---|--------------------------|------------------------------|
| Financial assets | | |
| Financial assets at amortised cost | | |
| – Cash at banks and a third party | 732,059 | 3,779,385 |
| – Loans receivable | 877,835,869 | 862,691,722 |
| – Other receivables | 66,604 | 172,009 |
| | 878,634,532 | 866,643,116 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | | |
| – Other payables | 1,090,363 | 2,274,669 |
| – Lease liabilities | 1,771,716 | 2,289,406 |
| | 2,862,079 | 4,564,075 |

26. 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

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

| | Overdue within 3 months | Overdue more than 3 to 12 months | Overdue more than 1 year | Total |
|-------------------------|--|---|---|--------------------------|
| At 30 June 2020 | | | | |
| Guaranteed loans | 279,252 | 23,700,000 | 700,113 | 24,679,365 |
| Collateral-backed loans | 18,581,480 | 10,170,965 | 1,803,330 | 30,555,775 |
| | <u>18,860,732</u> | <u>33,870,965</u> | <u>2,503,443</u> | <u>55,235,140</u> |
| | Overdue within 3 months | Overdue more than 3 to 12 months | Overdue more than 1 year | Total |
| At 31 December 2019 | | | | |
| 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 |
| | <u>17,171,118</u> | <u>18,694,454</u> | <u>8,983,046</u> | <u>44,848,618</u> |

(b) Foreign currency risk

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).

| | As at 30 June 2020 Impact on profit before tax | As at 31 December 2019 Impact on profit before tax |
|-------------------------------------|---|---|
| Changes in HKD exchange rate | | |
| +5% | 60 | 58 |
| – 5% | (60) | (58) |

(c) 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.

| | As at 30 June 2020 Impact on profit before tax | As at 31 December 2019 Impact on profit before tax |
|-------------------------------------|---|---|
| Changes in RMB interest rate | | |
| + 50 basis points | 3,660 | 18,897 |
| – 50 basis points | (3,660) | (18,897) |

(d) Liquidity risk

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 30 June 2020 | | | | | 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 | 732,059 | — | — | — | — | 732,059 |
| Loans receivable | — | 55,235,140 | 252,476,817 | 643,756,558 | — | 951,468,515 |
| Other assets | 966,312 | — | — | — | — | 966,312 |
| Subtotal | <u>1,698,371</u> | <u>55,235,140</u> | <u>252,476,817</u> | <u>643,756,558</u> | <u>—</u> | <u>953,166,886</u> |
| Financial liabilities: | | | | | | |
| Other liabilities | 1,800 | — | 843,646 | 237,104 | 65,040 | 1,147,590 |
| Lease liabilities | 61,137 | — | — | 661,500 | 1,423,879 | 2,146,516 |
| Subtotal | <u>62,937</u> | <u>—</u> | <u>843,646</u> | <u>898,604</u> | <u>1,488,919</u> | <u>3,294,106</u> |
| Net | <u>1,635,434</u> | <u>55,235,140</u> | <u>251,633,172</u> | <u>642,857,954</u> | <u>(1,488,919)</u> | <u>949,872,780</u> |
| Off-balance sheet guarantee | <u>—</u> | <u>—</u> | <u>9,000,000</u> | <u>54,450,000</u> | <u>—</u> | <u>63,450,000</u> |
| | | | | | | |
| | As at 31 December 2019 | | | | | 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 | 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 | <u>4,833,366</u> | <u>44,848,618</u> | <u>77,738,364</u> | <u>831,025,455</u> | <u>—</u> | <u>958,445,803</u> |
| 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 | <u>—</u> | <u>—</u> | <u>1,970,360</u> | <u>754,104</u> | <u>2,341,755</u> | <u>5,066,219</u> |
| Net | <u>4,833,366</u> | <u>44,848,618</u> | <u>75,768,004</u> | <u>830,271,351</u> | <u>(2,341,755)</u> | <u>953,379,584</u> |
| Off-balance sheet guarantee | <u>—</u> | <u>—</u> | <u>—</u> | <u>34,000,000</u> | <u>—</u> | <u>34,000,000</u> |

27. 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.

28. EVENTS AFTER THE REPORTING PERIOD

There were no significant events of the Company after the reporting period.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The interim financial statements have been approved and authorised for issue by the Company's board of directors on 26 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2020, the Company continued to pursue business opportunities and strengthen its market position. For the six months ended 30 June 2020, the Company recorded interest income of approximately RMB37.3 million, representing a decrease of approximately 32.8% as compared to approximately RMB55.5 million in the corresponding period in 2019; and profit after tax of approximately RMB14.1 million, representing a decrease of approximately 53.7% as compared to approximately RMB30.4 million for the corresponding period in 2019, which was mainly due to the lower interest income and higher provisions for loan impairment losses for the Company's lending business during the on-going COVID-19 situation and market conditions. As at 30 June 2020, the Company's balance of outstanding loans (before allowance for impairment losses) amounted to approximately RMB921.8 million, representing an increase of approximately 2.2% as compared to approximately RMB901.6 million as at 31 December 2019. The total assets of the Company as at 30 June 2020 were approximately RMB894.1 million, representing an increase of approximately 1.5% as compared to approximately RMB881.0 million as at 31 December 2019, and net assets were approximately RMB875.5 million as at 30 June 2020, representing an increase of approximately 1.6%, as compared to approximately RMB861.4 million as at 31 December 2019.

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 six months ended 30 June 2019 and 2020, we granted loans to 246 and 116 customers, respectively. The following table sets forth the number of customers to whom we have granted loans for the periods indicated:

| | Six months ended 30 June | | | |
|----------------------------|--------------------------|--------------|------------------|----------|
| | 2020 | | 2019 | |
| | <i>No. of</i> | | <i>No. of</i> | |
| | <i>Customers</i> | <i>%</i> | <i>Customers</i> | <i>%</i> |
| Customer by type | | | | |
| SMEs and micro-enterprises | 7 | 6.0 | 13 | 5.3 |
| Individual proprietors | 109 | 94.0 | 233 | 94.7 |
| Total | 116 | 100.0 | 246 | 100.0 |

Loan portfolio by size

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

| | As at 30 June 2020 | | As at 31 December 2019 | |
|---|--------------------|--------------|------------------------|--------------|
| | RMB'000 | % | RMB'000 | % |
| Less than or equal to RMB0.5 million | | | | |
| – Guaranteed loans | 22,368 | 2.4 | 25,835 | 2.9 |
| – Collateralized loans | 4,739 | 0.5 | 8,650 | 1.0 |
| | 27,107 | 2.9 | 34,485 | 3.9 |
| Over RMB0.5 million but less than or equal to RMB1 million | | | | |
| – Guaranteed loans | 131,235 | 14.2 | 112,563 | 12.5 |
| – Collateralized loans | 4,301 | 0.5 | 3,415 | 0.4 |
| | 135,536 | 14.7 | 115,978 | 12.9 |
| Over RMB1 million but less than or equal to RMB2 million | | | | |
| – Guaranteed loans | 286,539 | 31.1 | 253,118 | 28.1 |
| – Collateralized loans | 8,608 | 0.9 | 10,971 | 1.2 |
| | 295,147 | 32.0 | 264,089 | 29.3 |
| Over RMB2 million but less than or equal to RMB3 million | | | | |
| – Guaranteed loans | 445,739 | 48.4 | 466,018 | 51.6 |
| – Collateralized loans | 18,284 | 2.0 | 21,045 | 2.3 |
| | 464,023 | 50.4 | 487,063 | 53.9 |
| Total | 921,813 | 100.0 | 901,615 | 100.0 |

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 30 June 2020 | | As at 31 December 2019 | |
|---|--------------------|--------------|------------------------|--------------|
| | RMB'000 | % | RMB'000 | % |
| Guaranteed loans | 885,881 | 96.1 | 857,534 | 95.1 |
| Collateralized loans | 35,932 | 3.9 | 44,081 | 4.9 |
| included: Guaranteed and collateralized loans | 35,824 | 3.9 | 42,548 | 4.7 |
| | 921,813 | 100.0 | 901,615 | 100.0 |

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

| | Six months ended 30 June | |
|---|---------------------------------|------|
| | 2020 | 2019 |
| Guaranteed loans | 131 | 241 |
| Collateralized loans | 6 | 12 |
| included: Guaranteed and collateralized loans | 6 | 12 |
| Included: Interest income on impaired loans | 137 | 253 |

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 (“CBIRC”). 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 30 June 2020 | | As at 31 December 2019 | |
|-----------------|---------------------------|--------------|-------------------------------|----------|
| | RMB'000 | % | RMB'000 | % |
| Normal | 885,059 | 96.0 | 856,767 | 95.0 |
| Special-Mention | 122 | 0.1 | 15,140 | 1.7 |
| Substandard | 1,000 | 0.1 | 12,485 | 1.4 |
| Doubtful | 34,524 | 3.7 | 9,728 | 1.1 |
| Loss | 1,108 | 0.1 | 7,495 | 0.8 |
| Total | 921,813 | 100.0 | 901,615 | 100.0 |

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

| | As at 30 June 2020 | As at 31 December 2019 |
|--|-----------------------------------|---------------------------------------|
| Impaired loan ratio ⁽¹⁾ | 4.0% | 3.3% |
| Balance of impaired loans (RMB'000) | 36,632 | 29,708 |
| Total amount of loans receivable (RMB'000) | 921,813 | 901,615 |
| | As at 30 June 2020 | As at 31 December 2019 |
| Allowance coverage ratio ⁽²⁾ | 120.1% | 131.0% |
| Allowance for impairment losses (RMB'000) ⁽³⁾ | 43,978 | 38,924 |
| Balance of impaired loans (RMB'000) | 36,632 | 29,708 |
| Provisions for impairment losses ratio ⁽⁴⁾ | 4.8% | 4.3% |

| | As at 30 June 2020 | As at 31 December 2019 |
|--|-----------------------------------|------------------------------|
| Balance of overdue loans (RMB'000) | 55,235 | 44,848 |
| Total amount of loans receivable (RMB'000) | 921,813 | 901,615 |
| Overdue loan ratio ⁽⁵⁾ | 6.0% | 5.0 % |

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.

FINANCIAL REVIEW

Interest income

Our interest income decreased by approximately 32.8% from approximately RMB55.5 million for the six months ended 30 June 2019 to approximately RMB37.3 million for the six months ended 30 June 2020. 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 Company's average daily balance of loans receivable increased from approximately RMB850.0 million for the six months ended 30 June 2019 to approximately RMB907.4 million for the six months ended 30 June 2020, mainly attributable to the deployment of the net profits generated by the Company during the past years to expand the Company's loan business. Meanwhile, the effective interest rate per annum decreases from 13.1% for the six months ended 30 June 2019 to 8.2% for the six months ended 30 June 2020.

Interest expense

Our interest expense was RMB147,524 and RMB118,949 for the six months ended 30 June 2019 and 2020, respectively. Interest expense for the six months ended 30 June 2019 and 2020 was accrued from an instalment loan arrangement in respect of purchasing motor vehicles at the end of 2018 and recognised lease liabilities related to the lease contracts in respect of our office as we have adopted IFRS 16 Leases since 1 January 2019.

Accrual of provision for impairment losses

We had accrual of provision for impairment losses of approximately RMB0.6 million and RMB12.0 million for the six months ended 30 June 2019 and 2020, respectively. Such increase in accrual of provision for impairment losses was mainly due to the increase of the Company's impaired loans from approximately RMB29.7 million as at 31 December 2019 to approximately RMB36.6 million as at 30 June 2020. The higher balance of impaired loans as at 30 June 2020 was primarily a result of certain clients who experienced financial difficulties because of the on-going COVID-19 situation and market conditions, and hence defaulted in repayment of our loans.

Accrual of provision for guarantee losses

We had accrual of provision for guarantee losses of RMB2,526 and RMB856,772 for our outstanding financing guarantee obligation for the six months ended 30 June 2019 and 2020, respectively. The increase in accrual of provision for guarantee losses was due to the increase in the outstanding exposure of financial guarantee contracts as at 30 June 2020 as compared to that as at 30 June 2019.

Administrative expenses

Our administrative expenses decreased by approximately 57.4% from approximately RMB14.5 million for the six months ended 30 June 2019 to approximately RMB6.2 million for the six months ended 30 June 2020. This decrease was primarily due to the fact that the Company did not incur any expenses for the transfer of listing (the "**Transfer of Listing**") from GEM to The Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the six months ended 30 June 2020.

Other income, net

We had net other income of RMB69,523 and RMB703,614 for the six months ended 30 June 2019 and 2020 respectively. Such increase was primarily due to the increase in guarantee fee income of RMB664,241.

Income tax expense

Income tax expense decreased by approximately 51.6% from approximately RMB10.0 million for the six months ended 30 June 2019 to approximately RMB4.8 million for the six months ended 30 June 2020. 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 lower interest income and higher provisions for loan impairment losses for the Company's lending business during the on-going COVID-19 situation and market conditions, our profit after tax and total comprehensive income decreased by approximately 53.7% from approximately RMB30.4 million for the six months ended 30 June 2019 to approximately RMB14.1 million for the six months ended 30 June 2020.

Significant investments

The Company has no significant investment during the six months ended 30 June 2020 and up to the date of this announcement.

Material acquisitions or disposals of subsidiaries and affiliated companies

The Company has no material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2020 and up to the date of this announcement.

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 six months ended 30 June 2020 and up to the date of this announcement.

Foreign exchange risk

The Company operates principally in 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 30 June 2020, the Company did not have any outstanding hedge instruments.

Liquidity, financial resources and capital structure

As at 30 June 2020, the Company had bank balances and cash of approximately RMB0.7 million (31 December 2019: approximately RMB3.8 million). As at 30 June 2020, the Company had installment loan payable which was denominated in RMB with fixed interest rate, amounting to approximately RMB213,318 (31 December 2019: RMB285,015). The gearing ratio, representing the ratio of total borrowings to total assets of the Company, was nil as at 30 June 2020 (31 December 2019: nil).

During the six months ended 30 June 2020, 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 installment loan arrangement in respect of purchasing motor vehicles at the end of 2018, the balance of which was RMB213,318 as at 30 June 2020. One of the Company's motor vehicles with net carrying amounts of RMB413,758 was pledged to secure the installment 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 RMB1.8 million as at 30 June 2020.

Contingent liabilities

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

| | As at 30 June 2020 RMB | As at 31 December 2019 RMB |
|-------------------------------|---|---|
| Financial guarantee contracts | <u>63,450,000</u> | <u>34,000,000</u> |

The Company provides financial guarantee services on an occasional basis. The increase was due to the growth in customer demand.

Off-balance sheet arrangements

The Company did not have any off-balance sheet arrangements during the six months ended 30 June 2020 and up to the date of this announcement.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019 interim: nil).

MATERIAL LITIGATION AND ARBITRATION

As at 30 June 2020, the Company was not involved in any material litigation or arbitration.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Company had 24 full-time employees (31 December 2019: 26 full-time employees). The quality of our employees is the most important factor in maintaining a sustained development and growth of the Company and in improving its profitability. 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 six months ended 30 June 2020 was approximately RMB2.0 million (for the six months ended 30 June 2019: approximately RMB2.4 million).

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 COVID-19 pandemic has also accelerated the digitalization process of the credit industry. As a result, the Company has actively launched a digitalized and intelligent retail credit platform to satisfy its clients' needs for various credit transformations, and to provide more convenient and intelligent credit solutions to the clients.

Others

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 30 June 2020, interests or short positions of the directors (the “**Directors**”), supervisors (the “**Supervisors**”) and the chief executive of the Company and their associates in any of the shares of the Company (the “**Shares**”), underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 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 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 Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) were as follows:

Shares of the Company

| Director | 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 share capital of the Company ⁽³⁾ |
|------------------------------|--|---|---|---|
| Mr. Bo Wanlin ⁽⁵⁾ | Interest in controlled corporation ⁽⁴⁾ | 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 Yingqing | 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 RMB 1.00 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.
- (4) Jiangsu Botai Group Co., Ltd.* (江蘇柏泰集團有限公司) (“**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) as at the date of this announcement. 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) 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**”) 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 approximately 5.00% by Ms. Bai Li as at the date of this announcement. 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. 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 in favor of an independent commercial bank in the PRC as securities for bank facilities in the amount of RMB40,000,000 and RMB30,000,000 respectively.

Associated Corporation

| Director | 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 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) as at the date of this announcement.

- (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.

* For identification purpose only

Save as disclosed above, as at 30 June 2020, 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 the Model Code contained in Appendix 10 of the Listing Rules.

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

As at 30 June 2020, 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 share capital 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 ⁽⁹⁾ | Beneficial owner | 17,208,000 H Shares(L) | 11.47% ⁽⁷⁾ | 2.87% |
| Mr. Lai Ming Wai ⁽⁹⁾ | Beneficial owner | 10,090,000 H Shares(L) | 6.73% ⁽⁷⁾ | 1.68% |

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 the date of this announcement, 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 the date of this announcement, 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 in favour of an independent commercial bank in the PRC as securities for bank facilities in the amount of RMB 40,000,000 and RMB 30,000,000 respectively.
- (9) Both Mr. Suen Cho Hung and Mr. Lai Ming Wai are independent third parties, other than being shareholders of the Company.

Save as disclosed above, as at 30 June 2020, 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 (as defined in the Listing Rules), pledged 45,000,000 and 35,000,000 Domestic Shares in favour of an independent commercial bank in the PRC 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 share capital of the Company on 12 December 2017. Details are set out in the announcement of the Company dated 12 December 2017.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the six months ended 30 June 2020 and up to the date of this announcement, at least 25% of the issued shares of the Company are held by public shareholders and the Company has maintained the prescribed public float required by the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not purchase, sell or redeem any of the Company's listed securities during the six months ended 30 June 2020.

INTERESTS IN COMPETING BUSINESS

Directors' and Controlling Shareholders' Interest in Competing Business

As at the date of this announcement, 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 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**") in the capacity as passive investor.

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, whereas Zhongcheng Bank principally engages in the Bank 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 30 June 2020, 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.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") on 31 January 2015 in accordance with Rules 3.21 to 3.23 of the Listing Rules. The written terms of reference of the Audit Committee was adopted in compliance with paragraphs C.3.3 and C.3.7 of the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting, risk management and internal control systems, oversee the audit process and to provide advice and comments to the Board. The Audit Committee consists of three independent non-executive Directors, being Mr. Chan So Kuen, Mr. Bao Zhenqiang and Mr. Wu Xiankun. Mr. Chan So Kuen currently serves as the chairman of our audit committee. The Audit Committee had reviewed the 2020 interim report and the unaudited financial statements of the Company for the six months ended 30 June 2020 and was of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements of the Stock Exchange and legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE

The Company has complied with the requirements of the Corporate Governance Code set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2020 and up to the date of this announcement.

* For identification purpose only

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company adopted a code of conduct regarding securities transactions by Directors and the Supervisors (the “**Code of Conduct**”) on terms no less exacting than the required standard of dealings as set out in the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors and Supervisors, the Directors and Supervisors have confirmed that they have complied with such Code of Conduct and required standard of dealings during the six months ended 30 June 2020 and up to the date of this announcement. The Company continues and will continue to ensure compliance with the Code of Conduct.

EVENT AFTER THE REPORTING PERIOD

Up to the date of this announcement, there has been no significant event relevant to the business or financial performance of the Company that comes to the attention of the Directors after the six months ended 30 June 2020.

By order of the Board
**Yangzhou Guangling District Taihe Rural
Micro-finance Company Limited**
Bo Wanlin
Chairman

Yangzhou, the PRC, 26 August 2020

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Bo Wanlin, Ms. Bai Li and Ms. Zhou Yinqing; two non-executive Directors, namely Mr. Bo Nianbin and Mr. Zuo Yuchao and three independent non-executive Directors, namely Mr. Bao Zhenqiang, Mr. Wu Xiankun and Mr. Chan So Kuen.