**China Success Finance Group Holdings Limited**
**中國金融發展(控股)有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 3623)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

| FINANCIAL HIGHLIGHTS | FOR THE YEAR ENDED 31 DECEMBER 2019 *(RMB'000)* | FOR THE YEAR ENDED 31 DECEMBER 2018 *(RMB'000)* | CHANGE IN |
|---|---|---|---|
| Revenue | **69,043** | 56,078 | 23.1% |
| Other revenue | **17,306** | 4,964 | >100% |
| (Loss)/Profit before taxation | **(463,393)** | 23,181 | <-100% |
| (Loss)/Profit for the year | **(431,249)** | 5,281 | <-100% |
| Total comprehensive (loss)/income for the year | **(433,177)** | 8,003 | <-100% |
| Basic (loss)/earnings per share *(RMB per share)* | **(0.82)** | 0.01 | <-100% |
| | **AS AT 31 DECEMBER 2019** *(RMB'000)* | **AS AT 31 DECEMBER 2018** *(RMB'000)* | **CHANGE IN** |
| Total assets | **2,151,341** | 1,938,278 | 11.0% |
| Total equity | **546,949** | 978,237 | -44.1% |

## ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of China Success Finance Group Holdings Limited (the "**Company**") is pleased to announce the consolidated financial statements of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019 together with the comparative figures for preceding financial year, as follows:

**Consolidated statement of profit or loss for the year ended 31 December 2019**
*(Expressed in Renminbi)*

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| | | | *(Note)* |
| Guarantee income | | **1,419,386** | 343,435 |
| Less: guarantee service fee | | **(1,338,833)** | (312,607) |
| Net guarantee fee income | | **80,553** | 30,828 |
| Interest income | | **9,754** | 36,099 |
| Less: interest expenses | | **(22,518)** | (16,452) |
| Net interest (expenses)/income | | **(12,764)** | 19,647 |
| Service fee from consulting services | | **1,254** | 5,603 |
| Revenue | 3 | **69,043** | 56,078 |
| Other revenue | 4 | **17,306** | 4,964 |
| Impairment and provision charged | 5(a) | **(471,989)** | (2,291) |
| Operating expenses | | **(55,028)** | (53,077) |
| Net fair value gain on other financial assets | | **4,336** | 15,885 |
| Share of (losses)/gains of associates | | **(27,061)** | 1,622 |
| **(Loss)/Profit before taxation** | 5 | **(463,393)** | 23,181 |
| Income tax | 6(a) | **32,144** | (17,900) |
| **(Loss)/Profit for the year** | | **(431,249)** | 5,281 |

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| | | | *(Note)* |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(430,061)** | 5,662 |
| Non-controlling interests | | **(1,188)** | (381) |
| **(Loss)/Profit for the year** | | **(431,249)** | 5,281 |
| **(Loss)/Earnings per share** *(RMB per share)* | | | |
| Basic | 8(a) | **(0.82)** | 0.01 |
| Diluted | 8(b) | **(0.82)** | 0.01 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c).

**Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019**
*(Expressed in Renminbi)*

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| | | | *(note)* |
| **(Loss)/Profit for the year** | | **(431,249)** | 5,281 |
| **Other comprehensive (loss)/income for the year (after tax and reclassification adjustments)** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Exchange differences on translation of financial statements of operations outside the mainland China | | **(1,928)** | 2,722 |
| **Total comprehensive (loss)/income for the year** | | **(433,177)** | 8,003 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(431,989)** | 8,384 |
| Non-controlling interests | | **(1,188)** | (381) |
| **Total comprehensive (loss)/income for the year** | | **(433,177)** | 8,003 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c)

**Consolidated statement of financial position at 31 December 2019**
*(Expressed in Renminbi)*

| | Note | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| | | | *(Note)* |
| **Assets** | | | |
| Cash and bank deposits | 9 | **1,067,291** | 719,072 |
| Pledged bank deposits | 10 | **95,289** | 86,188 |
| Trade and other receivables | 11 | **705,669** | 725,219 |
| Factoring receivable | 12 | **59,112** | 90,999 |
| Finance lease receivable | 13 | **45,339** | 186,906 |
| Interests in associates | | **68,541** | 91,602 |
| Equipment | | **843** | 1,420 |
| Intangible assets | | **3** | 11 |
| Goodwill | 15 | — | 5,695 |
| Other financial assets | 14 | **43,753** | 23,951 |
| Deferred tax assets | | **65,127** | 7,215 |
| Other assets | | **374** | — |
| **Total assets** | | **2,151,341** | 1,938,278 |
| **Liabilities** | | | |
| Liabilities from guarantees | 16 | **486,645** | 128,187 |
| Pledged deposits received | | **766,997** | 309,021 |
| Interest-bearing borrowings | 17 | **38,555** | - |
| Liability component of convertible bonds | 18 | **66,771** | 110,640 |
| Accruals and other payables | 19 | **223,450** | 393,937 |
| Current tax | | **21,305** | 17,867 |
| Obligations under finance leases | | — | 389 |
| Lease liabilities | 20 | **669** | — |
| **Total liabilities** | | **1,604,392** | 960,041 |

| | Note | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| | | | *(Note)* |
| **NET ASSETS** | | **546,949** | 978,237 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 21(a) | **4,187** | 4,187 |
| Reserves | | **542,079** | 972,179 |
| **Total equity attributable to equity shareholders of the Company** | | **546,266** | 976,366 |
| **Non-controlling interests** | | **683** | 1,871 |
| **TOTAL EQUITY** | | **546,949** | 978,237 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c).

**Notes to the financial statements**

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

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

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— investments in debt and equity securities; and

— derivative financial instruments.

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

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

**(c) Changes in accounting policies**

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

### a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

### b. *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

| | **1 January 2019** |
|---|---|
| | *RMB'000* |
| Operating lease commitments at 31 December 2018 | 2,523 |
| Less: commitments relating to leases exempt from capitalisation: | |
| — short-term leases and other leases with remaining lease term ending on or before 31 December 2019 | (1,425) |
| | 1,098 |
| Less: total future interest expenses | (232) |
| Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 | 866 |
| Total lease liabilities recognised at 1 January 2019 | 866 |

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summaries the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

| | **Carrying amount at 31 December 2018** | **Capitalisation of operating lease contracts** | **Carrying amount at 1 January 2019** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:** | | | |
| Other assets | — | 866 | 866 |
| **Total assets** | **1,938,278** | **866** | **1,939,144** |
| Lease liabilities | — | (866) | (866) |
| **Total liabilities** | **(960,041)** | **(866)** | **(960,907)** |
| **Net assets** | **978,237** | **—** | **978,237** |

The impact on the financial result, segment results and cash flows of the group are immaterial.

## 2 SEGMENT REPORTING

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

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

During the reporting period, the directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing financing solutions to customers, which is the basis to allocate resources and assess performance of the Group.

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile. All the Group's revenue and non-current assets are principally attributable to the PRC, being the single geographical region.

## 3 REVENUE

The principal activities of the Group are the provision of guarantees, financial leasing, factoring and financial consultancy services. The amount of each significant category of revenue recognised during the year is as follows:

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Guarantee fee income** | | |
| — Income from financial guarantees | **8,447** | 6,159 |
| — Income from online financial guarantees | **1,409,603** | 332,976 |
| — Income from performance guarantees | **1,279** | 3,725 |
| — Income from litigation guarantees | **57** | 575 |
| Gross guarantee fee income | **1,419,386** | 343,435 |
| Less: guarantee service fee | **(1,338,833)** | (312,607) |
| **Net guarantee fee income** | **80,553** | 30,828 |
| **Interest (expenses)/income** | | |
| — Interest income from receivables | **305** | 416 |
| — Interest income from finance leasing | **5,381** | 18,295 |
| — Interest income from factoring | **4,068** | 6,067 |
| — Interest income from down payments for investment | **—** | 11,321 |
| Less: interest expenses | **(22,518)** | (16,452) |
| **Net interest (expenses)/income** | **(12,764)** | 19,647 |
| Service fee from consulting services | **1,254** | 5,603 |
| **Total** | **69,043** | 56,078 |

During the year 2019, the Group's largest single customer contributed 10.45% of the Group's revenue (2018: 12.70%); while the percentage of the Group's top 5 customers' revenue was 17.33% (2018: 42.87%).

During the year 2019, the Group's largest single cooperation third party that referring customers to the Group has referred customers' revenue of 33.98% (2018: 25.39%) of the Group's revenue; while the percentage of the Group's top 5 cooperation third parties that referring customers to the Group have referred customers' revenue was 77.72% (2018: 37.65%).

## 4 OTHER REVENUE

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Fair value gain on modification of the terms of convertible bonds | | **4,274** | — |
| Interest income from bank deposits | | **12,073** | 2,846 |
| Interest income from related parties | | — | 1,860 |
| Government grants | (a) | **922** | 120 |
| Others | | **37** | 138 |
| Total | | **17,306** | 4,964 |

(a) Guangdong Success Finance Guarantee Company Limited ("Success Guarantee") received funding support mainly from Foshan Municipal Bureau of Finance. The entitlement of the government grants was under the discretion of the relevant government bureaus. The government grants were provided to the Group for its support to small and medium enterprises. The grants were unconditional and were therefore recognised as income when received. For the year ended 31 December 2019, a government grant amounted to RMB865,672 (2018: RMB60,000) was rewarded to Success Guarantee.

Guangdong Success Asset Management Company Limited ("Success Asset") received funding support mainly from the Economic Promotion Bureau of Shunde District of Foshan City. The entitlement of the government grants was under the discretion of the relevant government bureaus. The purpose of the government grants was to grant financial assistance to enterprises above certain designated size. For the year ended 31 December 2019, a government grant amounted to RMB50,000 (2018: RMB50,000) was rewarded to Success Asset.

## 5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is arrived at after charging/(crediting):

### (a) Impairment and provision - charged/(written back)

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Provision charged/(written back) for guarantees issued | 16(a) | **2,945** | (1,567) |
| Impairment allowances charged for: | | | |
| — receivables from guarantee payments | 11(a)(ii) | **167,185** | 1,614 |
| — factoring receivable | 12(b) | **26,446** | 787 |
| — finance lease receivable | 13(b) | **140,471** | 1,827 |
| — trade and other receivable | | **129,119** | — |
| Intangible assets written off | | — | 61 |
| Recoveries of amounts previously written off | | — | (431) |
| Impairment of goodwill | | **5,823** | — |
| Total | | **471,989** | 2,291 |

### (b) Staff costs

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, wages and other benefits | **21,597** | 23,441 |
| Contributions to defined contribution retirement plan | **610** | 485 |
| Equity settled share-based payment expenses | — | 174 |
| Total | **22,207** | 24,100 |

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Schemes based on certain percentages of the eligible employees' salaries. The local government authority is responsible for the entire pension obligations payable to the retired employees.

The Group has no other material obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

### (c) Other items

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Depreciation charge | | **1,469** | 599 |
| — right-of-use assets | | **903** | — |
| — owned equipment | | **566** | 599 |
| Amortisation | | **173** | 397 |
| Operating lease charges in respect of leasing of properties | 1(c)b(i) | **1,890** | 4,132 |
| Auditors' remuneration | | **2,920** | 2,407 |
| — audit services | | **1,798** | 1,710 |
| — other services | | **1,122** | 697 |
| Net foreign exchange loss | | **291** | 4,094 |

The operating lease charges above are exempted from HKFRS 16 since the remaining lease term ends within 12 months.

## 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### (a) Taxation in the consolidated statement of profit or loss represents:

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| Provision for PRC income tax for the year | **(30,818)** | (20,665) |
| Tax filing differences | **5,050** | (25) |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **57,912** | 2,790 |
| Total | **32,144** | (17,900) |

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (Loss)/Profit before taxation | **(463,393)** | 23,181 |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable in the jurisdictions concerned | **115,848** | (5,795) |
| Tax effect of unused tax losses not recognised | **(88,486)** | (11,918) |
| Tax effect of non-deductible expenses | **(268)** | (162) |
| Tax filing differences | **5,050** | (25) |
| Actual income tax | **32,144** | (17,900) |

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands, respectively.

(ii) No provision for Hong Kong Profits Tax has been made for the Company and the subsidiaries located in Hong Kong as the Company and the subsidiaries had not derived any income subject to Hong Kong Profits Tax during the year.

(iii) According to the PRC Corporate Income Tax ("CIT") Law that took effect on 1 January 2008, the Group's PRC subsidiaries are subject to PRC income tax at the statutory tax rate of 25%.

(iv) Pursuant to the CIT Law and its related regulations, non-PRC-resident enterprises are levied withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from PRC enterprises for profits earned since 1 January 2008. Distributions of earnings generated prior to 1 January 2008 are exempt from such withholding tax. As a part of the continuing evaluation of the Group's dividend policy, management considered that for the purpose of business development, the undistributed earnings from 1 January 2008 of the PRC subsidiaries amounted to RMB139,972,000 as at 31 December 2019 (2018: RMB241,622,000) will not be distributed in the foreseeable future. As such, no deferred tax liabilities were recognised in respect of the PRC withholding tax.

## 7 DIVIDENDS

The Company did not declare dividend through the year of 2019 and 2018. Thus, there is no balance for dividend payable at 31 December 2019.

## 8 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB430,061,000 (2018 profit: RMB5,662,000) and the weighted average of 524,635,000 ordinary shares (2018: 528,212,000 ordinary shares) in issue during the year, calculated as follows.

Weighted average number of ordinary shares

| | **2019** | 2018 |
|---|---|---|
| | ***'000*** | *'000* |
| Issued ordinary shares at 1 January | **524,635** | 530,805 |
| Effect of shares repurchase | **—** | (2,593) |
| Weighted average number of ordinary shares at 31 December | **524,635** | 528,212 |

### (b) Diluted (loss)/earnings per share

The Group has convertible bonds as dilutive potential ordinary shares during the year ended 31 December 2019.

As the Group's convertible bonds have an anti-dilutive effect to the basic earnings per share calculation for the year ended 31 December 2019, and, therefore, diluted (loss)/earnings per share are the same as the basic (loss)/earnings per share.

## 9 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

### (a) Cash and cash equivalents comprise

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Demand deposits and term deposits with banks with original maturity less than three months | **193,765** | 235,609 |
| Bank deposit with original maturity over three months | **102,400** | — |
| Restricted customer pledged deposits | **71** | 61 |
| Restricted third-party pledged deposits | **766,926** | 308,960 |
| Other restricted funds | **4,057** | 174,390 |
| Cash in hand | **72** | 52 |
| **Cash and bank deposits in the consolidated statement of financial position** | **1,067,291** | 719,072 |
| Bank deposit with original maturity over three months | **(102,400)** | — |
| Restricted customer pledged deposits | **(71)** | (61) |
| Restricted third-party pledged deposits | **(766,926)** | (308,960) |
| Other restricted funds | **(4,057)** | (174,390) |
| **Cash and cash equivalents in the consolidated cash flow statement** | **193,837** | 235,661 |

Pursuant to the Implementing Rules for the Administration of Financial Guarantee Companies promulgated by the People's Government of the Guangdong Province on 27 September 2010 and the Notice on Regulating the Management of Customer Pledged Deposits of Financial Guarantee Institutions announced by the Joint Committee for the Regulation of the Financial Guarantee Industry on 15 April 2012, the Group is required to set up certain arrangements to manage the customers' pledged deposits by 31 March 2011.

These arrangements include: (i) enter into tripartite custodian agreement among lending bank, customer or the third party and the Group, for ensuring the entrustment of lending bank to manage the deposits; (ii) deposit the pledged deposit received from the customer/third party into a designated custodian bank account; and (iii) such deposit is not available for use by the Group.

In order to comply with the aforesaid rules and regulations, the Group had set up internal guidelines which were adopted by the Group in May 2012. However, the aforesaid rules and regulations are not enforceable to banks and the Group could not enter into tripartite custodian arrangement with certain lending banks. As at 31 December 2019, restricted customer pledged deposits of RMB66,000 (2018: RMB56,000) were deposited into a designated bank account under tripartite custodian arrangements. For those guarantee services without setting up tripartite custodian arrangements, the Group has maintained the restricted customer pledged deposits received in the Group's bank accounts.

Pursuant to the agreements in relation to the online financial guarantee business, the Group set up certain arrangements to manage the third parties' pledged deposits.

These arrangements include: (i) enter into tripartite custodian agreement among lending bank, the third party and the Group, for ensuring the entrustment of lending bank to manage the deposits; (ii) deposit the pledged deposit received from the third party into a designated custodian bank account; and (iii) such deposit is not available for use by the Group. As at 31 December 2019, restricted third-party pledged deposits of RMB766,926,000 (2018: RMB308,960,000) were deposited into a designated bank account under tripartite custodian arrangements. There are corresponding same amount of balances being recorded in pledged deposits received.

As at 31 December, the restricted pledged deposits received were maintained as follows:

| | **31 December 2019** *RMB'000* | 31 December 2018 *RMB'000* |
|---|---|---|
| Restricted third-party pledged deposits | **766,926** | 308,960 |
| Restricted customer pledged deposits: | | |
| — designated custodian bank accounts | **66** | 56 |
| — the Group's bank accounts | **5** | 5 |
| Total | **766,997** | 309,021 |

(b) **Reconciliation of profit before taxation to cash generated from operations**

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Profit before taxation** | | **(463,393)** | 23,181 |
| **Adjustments for:** | | | |
| Depreciation and amortisation | 5(c) | **1,642** | 996 |
| Impairment and provision charged | 5(a) | **471,989** | 2,291 |
| Share of losses/(gains) of associates | | **27,061** | (1,622) |
| Unrealised foreign exchange losses | | **754** | 15,339 |
| Interest income | 4 | **(12,073)** | (4,706) |
| Equity settled share-based payment expenses | 5(b) | **—** | 174 |
| Interest expenses | 3 | **22,518** | 16,452 |
| Net fair value gain on other financial assets | | **(4,336)** | (15,885) |
| Other revenue on modification of the terms of convertible bonds | 18 | **(4,274)** | — |
| **Changes in working capital:** | | | |
| (Increase)/decrease in pledged bank deposits | 10 | **(9,101)** | 9,311 |
| (Increase) in trade and other receivables | | **(239,520)** | (383,304) |
| Decrease in factoring receivable | 12 | **5,441** | 1,943 |
| Decrease/(increase) in finance lease receivable | 13 | **1,096** | (14,112) |
| (Decrease)/increase in accruals and other payables | 19 | **(170,307)** | 342,719 |
| Increase in deferred income | 16 | **355,513** | 112,984 |
| **Cash (used in)/generated from operating activities** | | **(16,990)** | 105,761 |

## (c) Reconciliation of liabilities arising from financing activities

| | *Note* | **Interest-bearing borrowings** *RMB'000* | **Liability component of convertible bonds** *RMB'000* | **Lease liabilities** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|---|
| **At 1 January 2019** | | — | 110,640 | 1,255 | 111,895 |
| **Changes from financing cash flows:** | | | | | |
| Recognition of the terms of the convertible bonds and interest-bearing borrowings upon modification | 18 | 41,257 | (41,257) | — | — |
| Repayment of interest-bearing borrowings | 17 | (8,958) | — | — | (8,958) |
| Capital and interest element of lease rentals paid | | — | — | (1,102) | (1,102) |
| Interest paid | | (4,079) | (5,532) | - | (9,611) |
| **Total changes from financing cash flows** | | 28,220 | (46,789) | (1,102) | (19,671) |
| **Exchange adjustments** | | 179 | 2,825 | 10 | 3,014 |
| **Other changes:** | | | | | |
| Interest expenses | 3 | 10,311 | 11,879 | 92 | 22,282 |
| Other revenue | | — | (2,576) | — | (2,576) |
| Increase in lease liabilities | 20 | — | — | 414 | 414 |
| Increase in other payables | | 366 | 968 | — | 1,334 |
| Decrease in other receivables | | (521) | (10,176) | — | (10,697) |
| **Total other changes** | | 10,156 | 95 | 506 | 10,757 |
| **At 31 December 2019** | | 38,555 | 66,771 | 669 | 105,995 |

## 10 PLEDGED BANK DEPOSITS

Pledged bank deposits represent the deposits pledged to banks for the financial guarantees that the Group provides to the customers for their borrowings from banks.

## 11 TRADE AND OTHER RECEIVABLES

| | *Note* | **31 December 2019** *RMB'000* | 31 December 2018 *RMB'000* |
|---|---|---|---|
| Receivables from guarantee payments | (a)(i) | **245,197** | 247,083 |
| Less: allowances for doubtful debts | (a)(ii) | **(181,617)** | (14,432) |
| | | **63,580** | 232,651 |
| Trade debtors from consultancy services | | **369** | 13,344 |
| Trade debtors from guarantees | | **79,947** | 22,801 |
| | | **80,316** | 36,145 |
| Trade receivables | (a) | **143,896** | 268,796 |
| Down payments for investments net of impairment allowances | (b) | **24,857** | 74,850 |
| Deposit and other receivables, net of impairment allowances | (c) | **70,540** | 210,378 |
| Amounts due from related parties | | **20,480** | 27,568 |
| | | **259,773** | 581,592 |
| Deferred expenses of online financial guarantee business | | **425,580** | 98,075 |
| Mortgage assets | | **3,199** | 3,380 |
| Others | | **17,117** | 42,172 |
| Total | | **705,669** | 725,219 |

## (a) Ageing analysis of trade receivables

As of the end of the reporting period, the ageing analysis of trade receivables (net of allowances for doubtful debts), based on the guarantee income recognition date or advance payment date, is as follows:

| | *Note* | **31 December 2019** *RMB'000* | 31 December 2018 *RMB'000* |
|---|---|---|---|
| Within 1 month | | 66,275 | 14,563 |
| Over 1 month but less than 3 months | | 3,233 | — |
| Over 3 months but less than 1 year | | 12,464 | 7,381 |
| More than 1 year | | 243,541 | 261,284 |
| Total | | **325,513** | 283,228 |
| Less: allowances for doubtful debts | (ii) | **(181,617)** | (14,432) |
| Total | | **143,896** | 268,796 |

### *(i) Receivables from guarantee payments*

Receivables from guarantee payments represented payments made by the Group to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurred because the customers fail to make payments when due in accordance with the terms of the corresponding debt instruments. Receivables from guarantee payments were interest-bearing and the Group holds certain collaterals over certain customers.

During the year ended 31 December 2019, the Group did not dispose of receivables from guarantee payments.

### *(ii) Trade receivables that are impaired*

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against debtors directly.

At 31 December 2019, the Group's debtors of RMB325,513,000 (2018: RMB283,228,000) of receivables from guarantee payments were determined to be stage 3 lifetime ECL credit-impaired, see note 11(a). These related to customers or other parties that were in financial difficulties and management assessed that the receivables are not expected to be fully recovered. Consequently, allowances for the doubtful debts were recognised as follows:

| | **2019 Lifetime ECL credit-impaired** *RMB'000* |
|---|---|
| As at 31 December 2018 | 14,432 |
| Net re-measurement of loss allowance | 167,185 |
| As at 31 December 2019 | 181,617 |

| | 2018 Lifetime ECL credit-impaired *RMB'000* |
|---|---|
| As at 31 December 2017 | 12,818 |
| Net re-measurement of loss allowance | 1,614 |
| As at 31 December 2018 | 14,432 |

### (b) Down payments for investments, net of impairment allowances

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Down payments for investments | **81,557** | 74,850 |
| Less: allowances | **(56,700)** | — |
| Total | **70,540** | 210,378 |

***Ageing analysis***

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Less than 1 year | — | — |
| More than 1 year | **24,857** | 74,850 |
| Total | **24,857** | 74,850 |

Down payments for investments represented the down payments for the acquisition project that the Group is conducting. At 31 December 2019, the Group's debtors had impairment allowances of RMB56,700,000 of down payments for investments. These related to customers or other parties that were in financial difficulties and management assessed that the receivables are not expected to be fully recovered. Down payments for investments were determined to be stage 3 lifetime ECL credit-impaired.

### (c) Deposit and other receivables, net of impairment allowances

| | **31 December 2019** *RMB'000* | 31 December 2018 *RMB'000* |
|---|---|---|
| Deposit and other receivables | **138,901** | 216,478 |
| Less: allowances for other receivables | **(68,361)** | (6,100) |
| Total | **70,540** | 210,378 |

***Ageing analysis***

| | **31 December 2019** *RMB'000* | 31 December 2018 *RMB'000* |
|---|---|---|
| Less than 1 year | **39,032** | 139,680 |
| More than 1 year | **31,508** | 70,698 |
| Total | **70,540** | 210,378 |

| | **2019 Lifetime ECL credit-impaired** ***RMB'000*** |
|---|---|
| As at 31 December 2018 | (6,100) |
| Net re-measurement of loss allowance | (62,261) |
| As at 31 December 2019 | (68,361) |

| | 2018 Lifetime ECL credit-impaired *RMB'000* |
|---|---|
| As at 31 December 2017 | (6,100) |
| Net re-measurement of loss allowance | — |
| As at 31 December 2018 | (6,100) |

As at 31 December 2019, management adopted a lifetime ECL credit impaired assessment on the Group's debtor's amounting to RMB68,361,000, for which a full impairment allowance had been provided.

As at 31 December 2018, management adopted a lifetime ECL credit impaired assessment on the Group's debtor's amounting to RMB6,100,000, for which a full impairment allowance had been provided.

## 12 FACTORING RECEIVABLE

| | | **31 December 2019** | | |
|---|---|---|---|---|
| | *Note* | **12-month ECL** | **Lifetime ECL credit-impaired** | **Total** |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Factoring receivable | | 56,559 | 26,950 | 83,509 |
| Interest receivable from factoring receivable | | 196 | 4,896 | 5,092 |
| Less: allowances for factoring receivable | (a)/(b) | (1,577) | (27,912) | (29,489) |
| Carrying amount of factoring receivable | | 55,178 | 3,934 | 59,112 |

| | | 31 December 2018 | | |
|---|---|---|---|---|
| | *Note* | 12-month ECL *RMB'000* | Lifetime ECL credit-impaired *RMB'000* | Total *RMB'000* |
| Factoring receivable | | 62,000 | 26,950 | 88,950 |
| Interest receivable from factoring receivable | | 196 | 4,896 | 5,092 |
| Less: allowances for factoring receivable | (a)/(b) | (1,569) | (1,474) | (3,043) |
| Carrying amount of factoring receivable | | 60,627 | 30,372 | 90,999 |

## (a) Ageing analysis

As of the end of the reporting period, the ageing analysis of factoring receivable, based on the maturity date in contracts, is as follows:

| | **31 December 2019** ***RMB'000*** | 31 December 2018 *RMB'000* |
|---|---|---|
| Within 1 month | **105** | 105 |
| Over 1 month but less than 3 months | **—** | — |
| Over 3 months but less than 1 year | **36,560** | 65,116 |
| More than 1 year | **51,936** | 28,821 |
| Total | **88,601** | 94,042 |
| Less: allowances for factoring receivable | **(29,489)** | (3,043) |
| Total | **59,112** | 90,999 |

### (b) Impairment of factoring receivable

Impairment losses in respect of factoring receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against debtors directly.

Consequently, an allowance of impairment losses for factoring receivable during the year was recognised as follows:

| | **2019** | | |
|---|---|---|---|
| | **12-month ECL** | **Lifetime ECL credit-impaired** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 31 December 2018 and 1 January 2019** | **1,569** | **1,474** | **3,043** |
| Net re-measurement of loss allowance | **8** | **26,438** | **26,446** |
| **Balance at 31 December 2019** | **1,577** | **27,912** | **29,489** |

| | 2018 | | |
|---|---|---|---|
| | 12-month ECL | Lifetime ECL credit-impaired | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2018** | 1,717 | 539 | 2,256 |
| Transfer to 12-month ECL | (123) | 123 | — |
| Net re-measurement of loss allowance | (25) | 812 | 787 |
| **Balance at 31 December 2018** | 1,569 | 1,474 | 3,043 |

## 13 FINANCE LEASE RECEIVABLE

| | | **31 December 2019** | | |
|---|---|---|---|---|
| | *Note* | **12-month ECL** | **Lifetime ECL credit-impaired** | **Total** |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Net amount of finance lease receivable | | **46,823** | **144,567** | **191,390** |
| Less: allowances for finance lease receivable | (a)/(b) | **(1,484)** | **(144,567)** | **(146,051)** |
| Carrying amount of finance lease receivable | | **45,339** | **—** | **45,339** |

| | | 31 December 2018 | | |
|---|---|---|---|---|
| | *Note* | 12-month ECL | Lifetime ECL credit-impaired | Total |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Net amount of finance lease receivable | | 47,919 | 144,567 | 192,486 |
| Less: allowances for finance lease receivable | (a)/(b) | (1,389) | (4,191) | (5,580) |
| Carrying amount of finance lease receivable | | 46,530 | 140,376 | 186,906 |

**(a) The table below analyses the Group's finance lease receivable by relevant maturity Grouping at the end of the reporting period:**

| | **At 31 December 2019** | | At 31 December 2018 | |
|---|---|---|---|---|
| | **Present value of the minimum lease payments** *RMB'000* | **Total minimum lease payments** *RMB'000* | Present value of the minimum lease payments *RMB'000* | Total minimum lease payments *RMB'000* |
| Overdue | 145,039 | 145,039 | 28,179 | 28,179 |
| Within 1 year | 46,351 | 50,898 | 109,774 | 116,640 |
| After 1 year but within 5 years | — | — | 54,533 | 58,357 |
| Total | 191,390 | 195,937 | 192,486 | 203,176 |
| Less: allowances for finance lease receivable | (146,051) | (146,051) | (5,580) | (5,580) |
| Net investment in finance lease receivable | 45,339 | 49,886 | 186,906 | 197,596 |

**(b) Impairment allowances charged for finance lease receivable**

| | **2019** | | |
|---|---|---|---|
| | **12-month ECL** *RMB'000* | **Lifetime ECL credit-impaired** *RMB'000* | **Total** *RMB'000* |
| **Balance at 31 December 2018 and 1 January 2019** | **1,389** | **4,191** | **5,580** |
| Net re-measurement of loss allowance | **95** | **140,376** | **140,471** |
| **Balance at 31 December 2019** | **1,484** | **144,567** | **146,051** |

| | 2018 | | |
|---|---|---|---|
| | 12-month ECL | Lifetime ECL credit-impaired | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2018** | 1,008 | 2,745 | 3,753 |
| Net re-measurement of loss allowance | 381 | 1,446 | 1,827 |
| **Balance at 31 December 2018** | 1,389 | 4,191 | 5,580 |

**(c) An analysis of the overdue finance lease receivable is as follows:**

| | **31 December 2019** | | | | **31 December 2018** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Overdue within 3 months** | **Overdue over 3 months but within 1 year** | **Over 1 year** | **Total** | **Overdue within 3 months** | **Overdue over 3 months but within 1 year** | **Over 1 year** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Finance lease receivable | 38,985 | 95,830 | 10,224 | 145,039 | — | 27,713 | 466 | 28,179 |

## 14 OTHER FINANCIAL ASSETS

| | *Note* | **31 December 2019** | 31 December 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Financial assets measured at FVPL | | | |
| — Unlisted equity investment | | 38,375 | 23,951 |
| — Conversion option embedded in convertible bonds | 18 | 1,728 | — |
| — Repurchase option | | 3,650 | — |
| Total | | **43,753** | 23,951 |

On 6 April 2012, Success Guarantee entered into an agreement with Foshan Success Finance Group Co., Ltd. ("Foshan Finance"). On 12 October 2012, Guangdong Success Asset Management Company Limited ("Success Asset") entered into a tripartite agreement with Foshan Finance and a third party, who is a constructor. These agreements are related to acquisition of properties from Foshan Finance by Success Guarantee and Success Asset at a total consideration of RMB54,300,000. The properties are floors of a commercial building located in Foshan, the PRC. According to the agreements, Foshan Finance acts as the representative to lead the whole tender and development process, while the construction of the commercial building is subcontracted to the constructor by Foshan Finance. On 21 October 2013, Success Guarantee entered into a supplementary agreement with Foshan Finance, and Success Asset entered into a supplementary tripartite agreement with Foshan Finance and the constructor. On 23 October 2013, the prepayments of RMB20,893,000 and RMB27,300,000 was refunded to Success Guarantee and Success Asset, respectively. Prepayments of RMB6,107,000 from Success Guarantee was 3.5% of the costs of the land use rights of RMB174,480,000, which were paid by Foshan Finance to the relevant governmental bureau for and on behalf of and attributable to Success Guarantee.

On 25 January 2017, to increase the efficiency of the construction and development of the properties, Success Guarantee entered into an agreement with seven entities, which are related parties to the Group. On 9 February 2017, the eight parties established Foshan Shengshi Junen Enterprise Management Company Limited ("Shengshi Junen Enterprise Management"). Pursuant to the Article of Shengshi Junen Enterprise Management, Success Guarantee holds 3.5% shares of Shengshi Junen Enterprise Management, and contributed a 3.5% interest in the properties as the registered capital of Shengshi Junen Enterprise Management. On 14 November 2017, all shareholders of Shengshi Junen Enterprise Management paid up capital of RMB4,536,000 by cash. Success Guarantee contributed a 3.5% interest and paid up RMB159,000.

On 3 July 2019, Shenzhen Success Financial Leasing Company Limited ("Success Financial Leasing") signed an agreement with Guangdong Yinhe Motorcycle Group Company Limited (the shareholder of Guangdong Mupai Technology Company Limited ("Guangdong Mupai")) that Success Financial Leasing acquired 12.90% equity of Guangdong Mupai through RMB11.85 million capital injection. As the transaction was facilitated by Mr. Zhang Tiewei, the Chairman and executive director of the Group, Mr Zhang Tiewei held shares indirectly in the Guangdong Mupai, it is accounted for capital reserve and deem to be a contribution from shareholder for the difference between the acquisition price and the fair value of Guangdong Mupai's equity.

At 31 December 2019, the carrying amount of equity investment was RMB38,375,000 (2018: RMB23,951,000), 3.5% of the value of Shengshi Junen Enterprise Management and 12.9% of the value Guangdong Mupai.

## 15 GOODWILL

**Cost:**

| | |
|---|---|
| At 31 December 2018 | 5,695 |
| Exchange adjustments | 128 |
| At 31 December 2019 | 5,823 |

**Accumulated impairment losses:**

| | |
|---|---|
| At 1 January 2018, 31 December 2018 and 1 January 2019 | - |
| Impairment loss | (5,823) |
| At 31 December 2019 | (5,823) |

**Carrying amount:**

| | |
|---|---|
| At 31 December 2019 | — |
| At 31 December 2018 | 5,695 |

On 14 February 2018, the Group acquired 100% ordinary shares of T. M. Management Limited, which is licensed to carry out business of Type 9 regulated activities as defined in the Securities and Futures Ordinance. The total consideration of the transaction was HKD6,897,000 which was paid in cash, of which HKD1,290,000 has been prepaid as at 31 December 2017. This has resulted in a goodwill arising on a business combination amounted to HKD6,500,000. Since T. M. Management conduct no business activities until 31 December 2019, the group has charged full impairment for the goodwill of T. M. Management.

## 16 LIABILITIES FROM GUARANTEES

| | *Note* | **31 December 2019** *RMB'000* | 31 December 2018 *RMB'000* |
|---|---|---|---|
| Deferred income | | **476,534** | 121,021 |
| Provision of guarantee losses | (a) | **10,111** | 7,166 |
| Total | | **486,645** | 128,187 |

### (a) Provision of guarantee losses

| | *Note* | **31 December 2019** *RMB'000* | 31 December 2018 *RMB'000* |
|---|---|---|---|
| At 1 January | | 7,166 | 8,733 |
| Charged/(written back) for the year | 5(a) | 2,945 | (1,567) |
| At 31 December | | 10,111 | 7,166 |

## 17 INTEREST-BEARING BORROWINGS

| | **31 December 2019** *RMB'000* | 31 December 2018 *RMB'000* |
|---|---|---|
| Note payables | **38,555** | — |

Note payables arose from the amendment deed regarding to the convertible bonds (Note 18) on 11 January 2019. The fair value of Note payable was HKD46,057,000 on 11 January 2019. Note payable carries 6% coupon interest per annum payable semi-annually in arrears on 1 February and 1 August in each year. The Company shall pay each Purchaser administrative fee equal to 1% of the aggregate principal amount of the outstanding bonds held by each Purchaser on each of the issue date and each anniversary thereof.

The maturity date of Note payable is 31 January 2020, upon which the Company can apply for one-year extension subject to the Purchasers' approval. At maturity, the Company shall repay at an amount equal to the aggregate of the outstanding principal amount, and an amount that would yield an internal rate of return of 10% on the aggregate principal amount of the Notes held by such Noteholder from the issue date until the date on which the entire outstanding amount of such redemption price has been fully paid by the Issuer to such Purchaser.

The effective interest rate of Note payable is 27.3%. On 12 November 2019, the Group redeemed the principal of Note payable of HKD10,000,000 in advance. As at 31 December 2019, certain shares were pledged to Purchaser.

## 18 LIABILITY COMPONENT OF CONVERTIBLE BONDS

(a) On 1 February 2018, the Company issued the convertible bonds (the "Original CBs") with a principal amount of HKD154,000,000 at face value. For details, please refer to the Company's announcement on 25 January 2018. Major terms of the Original CBs are as below:

(i) The Original CBs carry 6% coupon interest per annum payable semi-annually in arrears on 1 February and 1 August in each year. The Company shall pay each Purchaser administrative fee equal to 1% of the aggregate principal amount of the outstanding bonds held by each Purchaser on each of the issue date and each anniversary thereof.

(ii) The issuer may redeem the Original CBs in full, but not in part, at any time the first anniversary of the issue date at an amount equal to the aggregate of; (i) the aggregate principal amount of all the outstanding CBs; (ii) any accrued but unpaid interest (including any default Interest) and outstanding administrative fees on such outstanding CBs; and (iii) an amount that would yield an internal rate of return of 10% on the aggregate principal amount of such outstanding CBs from the issue date until the date on which the entire outstanding amount of such redemption price has been fully paid by the issuer.

(iii) Subject to and upon compliance with those conditions in contract, the conversion right in respect of the Original CBs may be exercised, at the option of the Purchaser thereof, at any time full or in part after 12 months from the issue date up to the close of business on 1 business day prior to the maturity date (both days inclusive) by giving a notice to the issuer of not less than 10 business days. The conversion price will initially be HKD2.20 per share.

(iv) Major financial requirements of the Original CBs are as below:

— the Total Net Assets being not less than RMB800,000,000 (or its equivalent in any other currency or currencies) without taking into account the effect on the Total Net Assets caused by a change of the fair value for the Bonds;

— the Gearing Ratio being not more than forty (40) per cent;

The Original CBs contain two components, the liability and equity components. The initial fair value of the two components was determined based on gross proceeds at issuance. The initial fair value less allocated transaction costs of the liability component was estimated to be approximately HKD116,928,000 as at the issuance date by using the Binomial Tree Model, taking into account the terms and conditions of the Original CBs. In subsequent periods, the liability component is measured at amortised cost using effective interest rate method. The effective interest rate of the liability component of CBs is 17.8% per annum. The residual amount less allocated transaction costs representing the value of the equity component of approximately HKD37,128,000, was presented in equity under the heading 'capital reserve'.

(b) On 11 January 2019, the Company entered into an amendment deed ("Amendment Deed"). Pursuant to the Amendment Deed, certain terms of the CBs were amended, including: (i) repayment of a partial principal amount of the CBs of HKD10,000,000, (ii) issuance of a HKD60,000,000.00 interest-bearing Note at an interest rate of 6%, (iii) a downward revision of Conversion Price from HKD2.20 to HKD1.09 for the outstanding 77,064,200 Conversion Shares of the CBs with a principal amount of HKD84,000,000 (the "New CBs"), and (iv) an early redemption option that the Company could redeem, or a designated third party could purchase, the outstanding New CBs with an internal rate of return of 26% on the aggregate principal amount of such outstanding New CBs, in whole or in part, from the issue date until the date on which the entire outstanding amount of such redemption price has been fully paid by the Company. For details, please refer to the Company's announcement on 27 December 2018.

The amendment resulted in the derecognition of the original CBs as a whole and the recognition of an interest-bearing borrowing (Note 17) at fair value of RMB41,257,000 for the Note payable, new financial liability and equity components of the New CBs and a financial asset at fair value of RMB1,728,000 (Note 14) for the early redemption option. Fair value gain arose from such amendment, of which RMB4,274,000 was recognised in other revenue (Note 4) in the consolidated statement of profit or loss and RMB17,099,000 was recognised in equity.

The New CBs contain two components, the liability and equity components. The initial fair value of the liability component was estimated to be approximately HKD66,844,000 as at 11 January 2019. In subsequent periods, the liability component is measured at amortised cost using effective interest rate method. The effective interest rate of the liability component of the New CBs is 20.6% per annum. The residual amount representing the value of the equity component of approximately HKD14,539,000, was presented in equity under the heading 'capital reserve'.

The movements of components of the CBs and the New CBs during the period are set out below:

| | **Liability component** *RMB'000* | **Equity component** *RMB'000* |
|---|---|---|
| At the date of issue | 93,660 | 29,695 |
| Interest charge | 16,224 | — |
| Net increase in interest payable | (3,001) | — |
| Net increase in administrative fee paid in advance | 112 | — |
| Interest paid | (4,015) | — |
| Administrative fee paid | (1,238) | — |
| Exchange adjustment | 8,898 | — |
| At 31 December 2018 and 1 January 2019 | 110,640 | 29,695 |
| Interest charge | 602 | — |
| Net increase in interest payable | (245) | — |
| Net increase in administrative fee paid in advance | (41) | — |
| Exchange adjustment | 2,068 | — |
| At 11 January 2019 before modification | 113,024 | 29,695 |
| Derecognition of the CBs | (113,024) | (29,695) |
| Recognition of the New CBs upon modification | 59,878 | 12,596 |
| Interest charge | 11,277 | — |
| Net increase in interest payable | (1,873) | — |
| Net increase in administrative fee paid in advance | (11) | — |
| Interest paid | (2,505) | — |
| Administrative fee paid | (752) | — |
| Exchange adjustment | 757 | — |
| At 31 December 2019 | 66,771 | 12,596 |

## 19 ACCRUALS AND OTHER PAYABLES

| | **31 December 2019** ***RMB'000*** | 31 December 2018 *RMB'000* |
|---|---|---|
| Accruals and other payables | 223,450 | 393,937 |

(i) Accruals and other payables are expected to be settled within one year or time dependent but both of them are repayable on demand.

## 20 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

| | 31 December 2019 | | 1 January 2019 *(Note)* | | 31 December 2018 *(Note)* | |
|---|---|---|---|---|---|---|
| | **Present Value of the minimum lease payments** *RMB'000* | **Total minimum lease payments** *RMB'000* | **Present Value of the minimum lease payments** *RMB'000* | **Total minimum lease payments** *RMB'000* | **Present Value of the minimum lease payments** *RMB'000* | **Total minimum lease payments** *RMB'000* |
| Within 1 year | 460 | 487 | 1,016 | 1,051 | 166 | 171 |
| After 1 year but within 2 years | 209 | 219 | 166 | 182 | 156 | 171 |
| After 2 years but within 5 years | — | — | 73 | 97 | 67 | 86 |
| | 209 | 219 | 239 | 279 | 223 | 257 |
| | 669 | 706 | 1,255 | 1,330 | 389 | 428 |
| Less: total future interest expenses | | (37) | | (75) | | (39) |
| Present value of lease liabilities | | 669 | | 1,255 | | 389 |

*Note:* The group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

## 21 SHARE CAPITAL AND RESERVES

### (a) Authorized and issued share capital

| | Note | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | **No. of shares** *'000* | **Share capital** *HKD'000* | **Share capital** *RMB'000* | **No. of shares** *'000* | **Share capital** *HKD'000* | **Share capital** *RMB'000* |
| **Authorised:** | | | | | | | |
| Ordinary shares of HKD0.01 each | | 800,000 | 8,000 | 6,512 | 800,000 | 8,000 | 6,512 |
| **Ordinary shares, issued and fully paid:** | | | | | | | |
| At 1 January | | 524,635 | 5,246 | 4,187 | 530,805 | 5,308 | 4,241 |
| Shares repurchased | | — | — | — | (6,170) | (62) | (54) |
| At 31 December | | 524,635 | 5,246 | 4,187 | 524,635 | 5,246 | 4,187 |

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## SCOPE OF WORK OF KPMG

The financial figures in respect of the announcement of the Group's results for the year ended 31 December 2019 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the auditor.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *Overview*

In 2019, global economy continued to witness sluggish growth. Hindered by trade tensions and feeble investment growth, there was persistent slowdown in major economies, whilst emerging markets faced mounting downward pressure. The global economic growth was constrained by aggressive unilateralism and protectionism trade policy of the U.S. government, ineffectual monetary and fiscal policies in developed economies, as well as lack of global demand. Meanwhile, job markets in major economies remained steady and promising, price levels slightly declined at a steady rate, whilst the international monetary system becomes increasingly diversified. Nevertheless, global economic growth was clouded with uncertainties. Intensifying trade protectionism, escalating geopolitical tensions and structural hindrances in developed economies have put the global economy under unrelenting pressure.

Amidst complexity and unpredictability in domestic and global markets, China's economy was generally stable with increasingly refined development. The gross domestic product ("GDP") in China grew by 6.1% year-on-year to nearly RMB100 trillion while its GDP per capita reached USD10,000 in 2019, with major targets meeting expectations. China also continued to push forward its supply-side structural reform and made remarkable progress in transformation and economic upgrades. Investments in fixed assets and infrastructure were mostly stable; however, tax and fee deductions and local governments' intensified supervision over hidden debts suppressed income growth of local governments, and hence the growth of infrastructure investment was lagging behind market expectations. Since 2019, The People's Bank of China made counter-cyclical adjustments through monetary policies such as lowering the required reserve ratio and the loan prime rate to whip up financial support to the real economy and improve the financing condition. Unfortunately, the financing market in private sector and SMEs remained challenging. Although positive signs were seen in economic development, thorny issues including slowdown in growth of manufacturing activities amidst its stable development, rising price levels, rising imbalances among regional growth and uncertainties in China-U.S. trade deadlock were still non negligible, posing downward pressure to the economies.

During the year, the Group closely monitored the changes in national and overseas economic conditions to capture market opportunities and facilitate its transformation to cater market demand. The Group also continued to focus on actively developing traditional businesses, propelling integrated services for the Greater Bay Area, strengthening cooperation mechanism, and enhancing its competitiveness through mergers and acquisitions. Meanwhile, the Group constantly refined its operational management to provide comprehensive, professional and efficient financial services to customers.

**Industry and Business Review**

***Guarantee Business***

In order to fully enact the "Regulation on the Supervision and Administration of Financing Guarantee Companies" and supervise institutions conducting financing guarantee business and the related industry, nine government departments including China Banking and Insurance Regulatory Commission ("CBIRC") jointly issued the "Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies" in October 2019. According to which, institutions providing financing guarantee services without applicable business licenses, such as real estate guarantee companies and credit enhancement companies, were included into the supervision scheme. The government strictly implements license administration in financing guarantee industry for tighter regulation of the operation of financing guarantee market, towards a sound operation of the industry that will eventually better support the development of inclusive finance.

In 2019, conforming to the dynamic trend in the market, Success Guarantee actively explored financial technology by devoting more resources, which turned into promising results. The number of customers and business scale grew more quickly compared with that of 2018. In the field of financial technology, Success Guarantee doubled its effort on expanding the business through measures including building a stronger technical team, optimising the business operation procedures and continuously upgrading the operating system. It also doubled its effort on broadening and deepening financial technology business through applying science and technology, with a view to providing customers with personalised products and services based on their diversified needs. Furthermore, in capturing the opportunities brought by national policies and the establishment of the Foshan Financing Guarantee Fund, Success Guarantee continued to develop traditional guarantee business and sustain volume, whilst proactively seeking technological solutions to explore new business models and improve its efficiency, thus gaining widespread market recognition and multi-party cooperation opportunities, and further expanding market share and improving core competitiveness.

***Financial Leasing and Factoring Business***

To strictly regulate the operation of financial leasing companies, integrate related operating and regulatory rules, and promote a stable and orderly development of the industry, CBIRC issued the "Interim Rules on Financial Leasing Companies (Draft for Comments)" in early January 2020, which includes four aspects namely improving operating regulations, implementing benchmark restrictions, launching case classification and reinforcing supervision and management. Followed by the policy promulgation, financial leasing companies should refocus on their main businesses and enhance their professional operating capabilities, in order to better achieve the capacity of the financial leasing service in assisting the development of manufacturing industry fostering industrial upgrading, and serving the real economy.

In 2019, Success Financial Leasing gave full play to its integrated development advantages, along with the needs of constructing the Greater Bay Area, to further optimise the product structure, and provide customers with professional and specialise leasing and factoring services to clients, thereby satisfying the demand for financial leasing services in building the Greater Bay Area.

***Financial Consultancy and Housing Financing Business***

In response to market changes, the Group scaled down its financial consultancy business and gradually retreated from the housing financing business, while promptly reallocating resources into developing other new businesses.

***Developing Asset Management Business***

A number of comprehensive policies relating to the new asset management regulations were confirmed to launched in 2019. Leveraging its experience in asset management sector, the Group constantly enhanced its professional and specialised services and grasping the development opportunities arising from the industry reform pushed forward by the implementation of the new regulations. The Group capitalised on the distinct edge in terms of resources from Mainland China and Hong Kong, to propel its development of its asset management business and lift its competitiveness in the market.

### *Developing Integrated Services for the Greater Bay Area*

The State Council issued "Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area" in February 2019, introducing a comprehensive plan for the strategic positioning, development goals, and spatial layout of the Greater Bay Area. Guangdong government issued "Implementation Suggestions on Developing Guangdong-Hong Kong-Macao Greater Bay Area" and "A 3-year Action Plan" in July 2019, entailing the official announcement of "Blueprint" and "Mission letters" for the construction of the Guangdong-Hong Kong-Macao Greater Bay Area. Seizing the opportunities to realise business advancement, the Group devised plans for the provision of integrated financial services in the Greater Bay Area beforehand, made use of the resources from both Mainland China and Hong Kong to actively provide professional and high-quality resource allocation services, and contributed to the construction of the Greater Bay Area.

### *Reinforcing Cooperation Mechanism*

In 2019, the Group actively devised plans in the field of financial technology, fully explored diversified cooperation models, enriched product chains and established solid partnerships with an increased number of financial institutions and fintech companies. Through turning technology into one of its competitive edges, the Group managed to provide customers with comprehensive, efficient integrated financial services. Meanwhile, by utilising technological tools including the internet, big data and cloud computing, the Group successfully made constant improvements to its risk management system, boost efficiency in risk control, which will foster its business development and seek opportunities to pursue diversified cooperation.

### *Strengthening through Investments, Mergers and Acquisitions*

In recent years, remarkable achievements have been made in the "Three Olds Redevelopment" in Guangdong Province. The provincial and local governments have successively introduced multi-pronged measures to optimise relevant policies, accelerated the utilisation of various urban construction lands with low efficiency, and increased the land output rate, thus facilitating a high-quality economic development. In 2019, the Group made full use of the window of opportunity to make an equity investment in Success Science and Technology Innovation Park Project, which is one of the benchmarking projects of the Shunde Village-level Industrial Park, to enjoy the increasing economic value-added and social benefits brought about by the project upgrade of "Three Olds Redevelopment". Coupled with its traditional advantages, the Group managed to further enhance its comprehensive strength.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2019, the Group's revenue was approximately RMB69.0 million (year ended 31 December 2018: approximately RMB56.1 million), representing an increase of approximately 23.1%. Detailed analysis of the Group's revenue is as follows:

#### *Financial guarantee services*

Revenue from the Group's financial guarantee services was mainly generated from the service fees charged for our financial guarantee services. For the year ended 31 December 2019, the Group's net revenue generated from financial guarantee services was approximately RMB79.5 million (year ended 31 December 2018: approximately RMB27.0 million), representing an increase of approximately 194.4%. Revenue from financial guarantee business significantly increased in 2019, mainly attributable to the fact that Success Guarantee actively explored financial technology by devoting more resources, improved service efficiency and developed new business mode by harnessing the power of technology, hence expanding market share and increase the revenue of the Company.

In 2019, the Group received interest income of approximately RMB0.3 million from receivables (year ended 31 December 2018: approximately RMB 0.4 million). Interest income from receivables remains basically unchanged compared with the corresponding period of last year.

#### *Non-financial guarantee services*

Revenue from the Group's non-financial guarantee services was mainly generated from the service fees charged for providing customers with performance guarantees in relation to the performance of payment obligations and litigation guarantees. For the year ended 31 December 2019, the Group's revenue generated from non-financial guarantee services decreased by approximately 69.8% to approximately RMB1.3 million (year ended 31 December 2018: approximately RMB4.3 million). Compared with the same period of last year, the decrease in non-financial guarantee services was due to the fact that Success Guarantee made adjustments to its product structure based on market evolution trend and focused on the new business, resulting in changes in the performance and revenue of performance guarantee business and the litigation guarantee business.

### *Financial consultancy business*

Revenue from the Group's financial consultancy services was mainly generated from the service fees charged for providing customers with financial consultancy services by the Group. For the year ended 31 December 2019, the Group's revenue generated from financial consultancy services was approximately RMB1.3 million (year ended 31 December 2018: approximately RMB5.6 million). Revenue from the Group's financial consultancy services experienced a decrease in 2019 because most of the original business of the Group's financial consultancy services had expired and the new business decreased as compared with the same period of last year due to changes in the market environment, resulting in a decrease in revenue.

### *Financial leasing and factoring business*

Revenue from the Group's financial leasing services was mainly generated from the rental fees charged by the Group in its provision of financial leasing services to customers. For the year ended 31 December 2019, revenue from the Group's financial leasing and factoring business decreased by approximately RMB15.0 million to approximately RMB9.4 million (year ended 31 December 2018: approximately RMB24.4 million).

Meantime, revenue from factoring business was approximately RMB4.1 million in 2019.

The decrease in the revenue from the financial leasing and factoring services of the Group in 2019 as compared to 2018 was mainly due to the fact that most of the original business of financial leasing and factoring services had expired and the new business decreased as compared to the same period of last year due to changes in the market environment, resulting in a decrease in revenue.

### *Interest income from down payments for investment*

The Group's Interest income from down payments for investment was mainly generated from interest of prepayments for potential acquisition of projects under negotiation. For the year ended 31 December 2019, the Group did not receive any interest income from down payments for investment.

## Other Revenue

The Group's other revenue comprised fair value gain on modification of the terms of convertible bonds, interest income from bank deposits, interest income from related parties, government grants and others. For the years ended 31 December 2018 and 2019, the Group's other revenue were approximately RMB5.0 million and RMB17.3 million, respectively, representing an increase of approximately 246.0%. The increase in other revenue was mainly attributable to other gains arising from completing by the Group of the amendments to the terms and conditions of the convertible bonds on 11 January 2019 and the increase in interest income from bank deposits due to the increase in cash and bank deposits of the Group in 2019.

**Impairment and Provision (Charged)/Written Back**

Impairment and provision mainly represents the provision of guarantee losses and the impairment provision for receivables from guarantee payments, factoring receivable and finance lease receivable, trade and other receivables where it is likely that the customers or other parties are in financial difficulties and recovery was considered to be remote. In the event that any impairment and provision was made in the previous years but subsequently recovered, impairment and provision previously made will be written back in the year in which the relevant amount is recovered. The Group's provision for impairment losses in FY2019 amounted to RMB471.9 million, representing an increase of approximately RMB469.6 million from approximately RMB2.3 million in FY2018. Provision for impairment losses of approximately RMB471.9 million in FY 2019 was analyzed as follows:

*Provision charged/(written back) for guarantees issued*

The Group's provision for guarantee liability based on existing guarantee balance during the year was approximately RMB2.9 million (2018: RMB1.6 million was written back).

*Receivables from guarantee payments*

Receivables from guarantee payments mainly represent the default loan amount repaid by the Group on behalf of our customers. Upon default by a customer in respect of repayment of a bank loan, according to the relevant guarantee agreement, the outstanding balance shall be firstly paid by the Group on behalf of our customers. The Group will then subsequently request repayment from our customers or take possession of the counter-guarantee assets provided by such customers to recover the outstanding balance. Receivables from guarantee payments were interest bearing and the Group holds certain collaterals over certain customers. The net book value of receivables from guarantee payments decreased from approximately RMB232.7 million as at 31 December 2018 to approximately RMB63.6 million as at 31 December 2019. The Group's provision for impairment losses for receivables from guarantee payments was approximately RMB167.2 million in 2019 (2018: approximately RMB1.6 million).

*Factoring receivable*

The Group's provision for impairment losses for factoring receivable based on factoring balance receivable at the end of 2019 was approximately RMB26.4 million (2018: approximately RMB0.8 million).

*Finance lease receivable*

The Group's provision for impairment losses for finance lease receivable based on balance of finance lease receivable at the end of 2019 was approximately RMB140.5 million (2018: approximately RMB1.8 million).

*Trade and other receivable*

The Group's provision for impairment losses for trade and other receivable was approximately RMB129.1 million in 2019, mainly include provision for impairment for trade receivable of approximately 62.0 million and provision for impairment for other receivable of approximately RMB67.1 million.

*Impairment of goodwill*

During the year, as the business performance of subsidiaries of the Group did not meet the requirement and no substantive progress has been made, the provision of impairment for goodwill of approximately RMB5.8 million formed at the merger date was made in full.

**Operating Expenses**

For the year ended 31 December 2019, the operating expenses of the Group was approximately RMB55.0 million (for the year ended 31 December 2018: approximately RMB53.1 million). The Group upheld the cost-efficient principle, the operating expenses was analyzed as follows:

The salaries of the Group was approximately RMB22.2 million for the year ended 31 December 2019, representing a decrease of 7.9% as compared to that of approximately RMB24.1 million in the same period of the last year.

For the year ended 31 December 2019, other operating expenses of the Group was approximately RMB32.8 million (for the year ended 31 December 2018: approximately RMB 29.0 million). Among which, rentals and exchange gains and losses was approximately RMB1.9 million and RMB0.3 million respectively, representing a decrease of 54.3% and 92.9% respectively; intermediary consulting expense and entertainment expense was approximately RMB16.5 million and RMB2.7 million respectively, representing an increase of 129.8% and 71.3% respectively. In 2019, the increase of intermediary consulting expense as compared to that of the same period of the last year was mainly due to the significant increase of data service expense related to the data storage with the business growth of Success Guarantee.

**Share of Losses of Associates**

The share of losses of associate amounted to a loss of approximately RMB27.1 for the year ended 31 December 2019, representing a decrease of approximately RMB28.7 million from a profit of approximately RMB1.6 million for the year ended 31 December 2018. The increase in share of losses of associates was mainly from the Group's associate - Success Credit.

### (Loss)/Profit Before Taxation

The Group's (loss)/profit before taxation decreased by approximately RMB486.6 million, or approximately 2,097.4%, from approximately RMB23.2 million for the year ended 31 December 2018 to a loss of approximately RMB463.4 million for the year ended 31 December 2019. The loss was mainly attributable to (i) the Group's provision for impairment losses in 2019 increased significantly as compared to the same period of last year, among which the Group's provision for impairment losses in 2019 amounted to RMB471.9 million, representing an increase of approximately RMB469.6 million from approximately RMB2.3 million in 2018, and (ii) the Group's investment in associates recorded a net loss in 2019.

### Income Tax

For the year ended 31 December 2019, the Group's income tax expense amounted to approximately RMB-32.1 million, representing a decrease of approximately 279.3% from approximately RMB17.9 million of income tax expense in the corresponding period of 2018. The decrease in income tax is mainly attributable to the significant deferred income tax assets arising from the provision of impairment losses made by certain subsidiaries of the Group in 2019, making the deferred income tax expense has significant impact on the overall income tax.

## LIQUIDITY AND CAPITAL RESOURCES

### Treasury Management and Investment Policy

In order to more effectively utilise the Group's financial resources for obtaining a better return for the shareholders, it has been the Group's general approach that our management will seek for some alternative investment opportunities which could provide a better return but at minimum risk exposure.

### Pledged Bank Deposits and Cash and Bank Deposits

As at 31 December 2019, the current pledged bank deposits amounted to approximately RMB95.3 million (31 December 2018: approximately RMB86.2 million), representing an increase of approximately RMB9.1 million as compared to the end of last year. Cash and bank deposits amounted to approximately RMB1,067.3 million (31 December 2018: approximately RMB719.1 million), representing an increase of approximately RMB348.2 million, as compared to the end of last year. The increase in cash and bank deposits was mainly due to the new business entered into between Success Guarantee and its customers, and the new customers placed pledged deposits for collaboration in the Group for new projects.

### Interest Rate Risk and Foreign Exchange Risk

As at 31 December 2019, the Group's interest rate primarily related to interest-bearing bank deposits and pledged bank deposits.

The Group's businesses for the year ended 31 December 2019 were principally conducted in RMB, while most of the Group's monetary assets and liabilities were denominated in HKD and RMB. As the RMB is not a freely convertible currency, any fluctuation in the exchange rate of HKD against RMB may have impact on the Group's result. Although foreign currency exposure does not pose a significant risk on the Group and currently, the Group does not have hedging measures against such exchange risks, the Group will continue to take proactive measures and monitor closely the risk arising from such currency movement.

### Gearing Ratio

The Group's gearing ratio (total liabilities divided by total equity) increased from approximately 98.1% as at 31 December 2018 to approximately 293.3% as at 31 December 2019, which was mainly due to the increase in total liabilities and the decrease in total equity. The increase in total liabilities was mainly attributable to the increase in liabilities from guarantee (deferred income) and pledged deposits payable to cooperative companies. The decrease in total equity was mainly caused by the increase in impairment charges on trade and other receivables.

## HUMAN RESOURCES AND REMUNERATION POLICIES

The Group recruits personnel from the open market and enters into employment contracts with them. The Group offers competitive remuneration packages to employees, including salaries and bonuses to qualified employees. The Group also provides training to the staff on a regular basis to enhance their knowledge of the financial products in the market and the applicable laws and regulations in relation to the industry in which the Group operates.

The Group maintained stable relationship with its employees. As at 31 December 2019, the Group had 48 full-time employees. Compensation of the employees primarily includes salaries, discretionary bonuses, contributions to social insurance and retirement benefit scheme. The Group incurred staff costs (including Directors' remuneration) of approximately RMB 22.2 million for the year ended 31 December 2019.

The Company has adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme as an incentive to the Directors and eligible employees.

## SOCIAL ENTERPRISE

While serving the local economic development and supporting micro, small and medium sized enterprises, the Group was also engaged in charitable activities to fulfil social responsibilities, thereby establishing a good social image. Every year, Success Charity Foundation（集成愛心基金）, which was voluntarily initiated by shareholders and employees of the Group, gives help and support to employees in need. It provides timely support and assistance to families of employees who suffer from serious illnesses or accidental injuries, and goes through difficult times with the employees and their families. In respect of poverty alleviation efforts, the Group sent representatives to visit Butuo County, Liangshan Prefecture, Sichuan Province to assist in poverty alleviation work, donated funds supporting industry development in villages under the pair-up support scheme, and supported the underprivileged students to help Liangshan Yi Autonomous Prefecture of Sichuan Province out of poverty. In addition, Mr. Zhang Tiewei, Chairman and Executive Director of the Group, has been teaching as an off-campus tutor of the master's degree of finance of Guangdong University of Finance and Economics to nurture brilliant students in joint efforts with higher institutions, assist students in developing the habit and thinking which integrate both theories and practices in learning, encourage students to tap into professional knowledge, train up their leadership skills and foster innovation and high moral standards. Furthermore, Mr. Zhang Tiewei also served as a supervising member of the Narcotics Association of Chancheng District in Foshan, contributed to drug prohibition efforts of Foshan by participating in anti-drug promotional events that enhanced the level of public knowledge on drugs.

### Prospects and Outlook

#### *Macro Outlook*

Looking forward to 2020, major economies will continue to face downward pressure, while monetary easing policies become ineffectual to stimulate economic recovery. Affected by the slowdown of major economies, other economies will find it challenging to achieve strong pick-up. Factors including emergence and spread of negative interest rates, persistent trade tensions, turbulence in international financial markets, uncertain geopolitical risks and political conflicts in certain countries will negatively impact global economic development in 2020.

In 2020, China will build a moderately prosperous society in all respects and conclude the "Thirteenth Five-Year Plan", while three tough battles will enter the final stage. Building on its existing foundation and the impetus brought by reform and opening-up, China will strive to adhere to its new development strategy and push forward its supply-side structural reform. The government will also implement proactive fiscal policy and prudent monetary, employment, industry and regional policies, as well as doubling its efforts in "Six Stabilities", which include promoting steady growth, encouraging reform, adjusting structure, improving livelihood, preventing risks and maintaining stability. Such initiatives are to ensure that China's economy will grow at a reasonable level, in hopes of building a moderately prosperous society in all respects and bringing a successful closing to "Thirteenth Five-Year Plan".

Dragged by the coronavirus disease outbreak at the beginning of 2020, domestic consumption and investment will be dampened in short term, as unpredictable impact will be felt across certain industries. The Chinese government promptly launched a series of fiscal and tax measures to lend policy and financial support to overcome the epidemic and realise economic recovery. The long-term positive trend of China's economy will sustain. In 2020, the downward pressure on the economy will remain but gradually alleviate, thanks to the positive impacts brought by cyclical factors and the counter-cyclical adjustment policy.

In 2020, facing uncertainties in the domestic and international economic and financial industries, the Group will continue to forge steady development of traditional businesses, grow its asset management business, devise plan for the build-up of the Greater Bay Area and bolster the Group by means of investments, mergers and acquisitions, in order to enhance competitiveness and achieve high-quality development.

***Steadily Developing Traditional Businesses, while Actively Innovating Products***

The Group will seize opportunities to steadily develop traditional businesses, and actively respond to government's policy in supporting micro, small and medium sized enterprises, through utilising operational channels such as guarantee, financial leasing and factoring, improving resource allocation and actively crafting new products, thereby enriching the Group's capability to offer integrated financial services to micro, small and medium sized enterprises.

For guarantee business, Success Guarantee will continue to explore and invest more in financial technology, closely follow the latest market trend, actively develop new products and build a diversified client base, while applying technology to optimise systems, refine risk management system and increase risk control efficiency. Meanwhile, riding on the favourable national policy and the establishment of Foshan Financing Guarantee Fund, Success Guarantee will continue to develop its traditional guarantee business. With micro, small and medium sized enterprises as target clients, the Group will strive to explore clients' demand and launch a wider variety of new products, thus offering more comprehensive financial services to them.

In terms of financial leasing and factoring business, the Group will continue to play to its strengths in resource allocation and provide customers with professional and specialised financial services on the construction demand of the Greater Bay Area.

***Developing Asset Management Business***

The year of 2020 is critical for China to accelerate opening-up of the financial market and implement new regulations on asset management, therefore an expedited reform is expected in the sector. In response, the Group will seize the development opportunities from industry restructuring under the implementation of new regulations, and adopt financial technology for the continuous improvement in product innovation and differentiation, thus meeting the requirements under fierce market competition in the new era.

***Propelling Integrated Services for the Greater Bay Area***

The Group will continue to grasp market opportunities and benefit from the policy change for the Greater Bay Area. It will also conduct strategic planning for providing integrated financial services in the Great Bay Area, whilst expanding comprehensive and diverse financial services to support enterprises in the area, as well as contributing in the construction of the Greater Bay Area,

***Strengthening through Investments, Mergers and Acquisitions***

In 2020, the Group will take market opportunities and adhere to its long-term development strategy to explore new investment opportunities by strategically setting up funds and through share purchases or acquisitions. The Group sets its sights on bolstering the integration of traditional industry construction and financial services, to explore new businesses and income in booming industries, thus elevating the Group's overall strengths.

## OTHER INFORMATION

### Purchase, Sale or Redemption of our Company's Listed Securities

***Exercise of share options***

Prior to the listing of shares in the share capital of our Company ("**Shares**") on the Stock Exchange, our Company granted options to subscribe for an aggregate of 10,000,000 Shares (the "**Pre-IPO Share Options**") pursuant to a share option scheme adopted on 18 October 2013. None of the Pre-IPO Share Options granted have been exercised during the year ended 31 December 2019. As at 31 December 2019, the Pre-IPO Share Options to subscribe for 6,493,000 Shares remained unexercised and the Pre-IPO Share Options to subscribe for 815,000 Shares were cancelled as well as 731,000 Shares were lapsed. Save for the Pre-IPO Share Options, our Company has not granted any options to subscribe for Shares.

Save as disclosed above, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of our Company's listed securities.

### Corporate Governance

Save as disclosed below, our Company has adopted and complied with the code provisions (the "**Code Provisions**") as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules for the year ended 31 December 2019. In respect of Code Provision A.6.7 of the CG Code, an executive director appointed a proxy to attend the annual general meeting of the Company held on 23 May 2019. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

### Model Code of Securities Transactions by Directors

The Company has adopted the standard set out in Appendix 10 (Model Code for Securities Transactions by Directors of Listed Issuers) (the "**Model Code**") to the Listing Rules, in relation to the dealings in securities of the Company by the Directors.

The Group has made specific enquiry to all Directors and each Director has confirmed that he/she has complied with the standard set out in the Model Code for the year ended 31 December 2019.

## DIVIDENDS

The Board resolved not to declare any dividend for the year ended 31 December 2019.

### Audit Committee

The Company established an audit committee (the "**Audit Committee**") on 18 October 2013 with terms of reference in compliance with the Listing Rules and the Corporate Governance Code. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of external auditor(s), review the financial statements and material advice in respect of financial reporting and oversee the internal control and risk management systems of the Company. As at 31 December 2019, the Audit Committee comprises Mr. Tsang Hung Kei, Mr. Au Tien Chee Arthur and Mr. Xu Yan. Mr. Tsang Hung Kei has been appointed as the chairman of the Audit Committee.

### Review of Annual Results

The Audit Committee has reviewed the consolidated financial statements of the Company for the year ended 31 December 2019. The Audit Committee is of the view that these financial statements have been prepared in accordance with the applicable accounting standards, the Listing Rules and statutory provisions, and sufficient disclosures have already been made.

### Annual General Meeting

The annual general meeting of the Company (the "**AGM**") for the year ended 31 December 2019 is scheduled to be held on 21 May 2020. A notice of AGM will be issued and disseminated to the shareholders of the Company in due course.

**Closure of Register of Members**

The Company's register of members will be closed from 15 May 2020 to 21 May 2020 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 14 May 2020.

**Publication of the annual results announcement and annual report**

This announcement has been published on the website of the Company (http://www.chinasuccessfinance.com) and the designated website of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
**China Success Finance Group Holdings Limited**
**Zhang Tiewei**
*Chairman and Executive Director*

Hong Kong, 30 March 2020

*As at the date of this announcement, the Board comprises (i) five executive directors, namely, Mr. Zhang Tiewei, Mr. Li Bin, Ms. Dai Jing, Mr. Xu Kaiying and Mr. Pang Haoquan, (ii) one non-executive director, namely, Mr. He Darong, and (iii) four independent non-executive directors, namely, Mr. Tsang Hung Kei, Mr. Au Tien Chee Arthur, Mr. Xu Yan and Mr. Zhou Xiaojiang.*