

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-34958

DUNXIN FINANCIAL HOLDINGS LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

23rd Floor, LianFa International Building
No 128 Xu Dong Street, Wuchang District
Wuhan City, Hubei Province 430063
People's Republic of China
(Address of Principal Executive Offices)

Mr. Qizhi Wei
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Tel: +86-27-88517899
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No 128 Xu Dong Road, Wuchang District
Wuhan City, Hubei Province 430063
People's Republic of China

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Exchange on which registered</u>
Ordinary shares, par value \$0.00005 per share	DXF	New York Stock Exchange*
American depositary shares, each representing 48 ordinary shares		New York Stock Exchange

* Not for trading but only in connection with the listing on New York Stock Exchange of the American depositary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2019: **1,001,131,401 Ordinary Shares, par value \$0.00005 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, ~~or~~ a non-accelerated filer, or an emerging growth company. See definition of "accelerated filer and large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT

Unless otherwise indicated, references in this annual report to:

- “ADRs” refer to the American depositary receipts that evidence our ADSs;
- “ADSs” refer to our American depositary shares. Prior to December 17, 2014, each ADS represented the right to receive four (4) ordinary shares, par value \$0.00005 per share (the “Shares”), from December 18, 2014, the right to receive sixteen (16) Shares and from December 28, 2017, the right to receive forty-eight (48) Shares;
- “CBRC” refers to the China Banking Regulatory Commission;
- “China” or the “PRC” refers to the People’s Republic of China, excluding, for the purpose of this document only, Taiwan and the special administrative regions of Hong Kong and Macau;
- “Company”, “we,” and “us” refer to Dunxin Financial Holdings Limited, a Cayman Islands company, and its consolidated subsidiaries, including the 80% VIE operating company, Hubei Chutian Microfinance Co., Ltd., a PRC company following the closing of the CIB Transaction (defined below). When used herein to describe events prior to the CIB Transaction, the terms “Company”, “Xiniya”, “we” and “us” refers to Dunxin Financial Holdings, Limited (formerly known as China Xiniya Fashion Limited) and its consolidated subsidiaries before such time.
- “CSRC” refers to the China Securities Regulatory Commission;
- “Chutian” refers to Hubei Chutian Microfinance Co., Ltd., a PRC company, and an indirect 80% variable interest entity of Dunxin Financial Holdings Limited;
- “Chutian Holding” refers to Wuhan Chutian Holding Limited, a PRC company;
- “Exchange Act” refers to the Securities Exchange Act of 1934, as amended;
- “Honest Plus” refers to Honest Plus Investments Limited, a British Virgin Islands company;
- “HK\$” refers to the legal currency of Hong Kong;
- “Hong Kong” refers to the Hong Kong Special Administrative Region of the PRC;
- “IFRS” refers to International Financial Reporting Standards;
- “microfinance” refers to regulated private lending market for improving financial services to individuals, small and medium-sized enterprises (“SMEs”), expanding financing channels, making efforts to ease the difficulties in financing faced by SMEs and to encourage the innovation of financial products and services.

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- “MOFCOM” refers to the Ministry of Commerce;
- “PBOC” refers to the People’s Bank of China;
- “Perfect Lead” refers to Perfect Lead International Limited, a British Virgin Islands company;
- “RMB” and “Renminbi” refer to the legal currency of the PRC;
- “SAFE” refers to the State Administration of Foreign Exchange;
- “SEC” refers to the Securities and Exchange Commission;
- “Securities Act” refers to the Securities Act of 1933, as amended;
- “Shares” or “ordinary shares” refer to our ordinary shares, par value \$0.00005 per share;
- “True Silver” refers to True Silver Limited, a British Virgin Islands company
- “U.S. dollars” and “\$” refer to the legal currency of the United States; and
- “VIE” refers to variable interest entity.

This annual report includes our audited consolidated statements of profit and other comprehensive income data for the years ended December 31, 2017, 2018 and 2019, and consolidated statements of financial position data as of December 31, 2018 and 2019.

We completed the initial public offering of 8,000,000 ADSs, each representing the right to receive four (4) ordinary shares, on November 29, 2010. On November 23, 2010, we listed our ADSs on the New York Stock Exchange under the symbol “XNY” and on December 28, 2017, we transitioned to the NYSE American and began trading under our new symbol “DXF” on March 5, 2018. Prior to December 17, 2014, each ADS represented the right to receive four (4) ordinary shares, par value \$0.00005 per share (the “Shares”), from December 18, 2014, the right to receive sixteen (16) Shares and from December 28, 2017, the right to receive forty-eight (48) Shares.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to our business, operating results and financial condition as well as our current expectations, assumptions, estimates and projections about our industry. All statements other than statements of historical fact in this annual report are forward-looking statements. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under “Risk Factors,” which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as “aim”, “anticipate”, “believe”, “continue”, “estimate”, “expect”, “intend”, “is/are likely to”, “may”, “plan”, “potential”, “will” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- Any changes in the laws of the PRC or local province that may affect our operation;
- The impact of COVID-19 on our operations;
- Inflation and fluctuations in foreign currency exchange rates;
- Our ability to develop and market our microfinance lending business in the future;
- Our exposure to risk associated to the geographic concentration of loans in Hubei Province.
- Our on-going ability to obtain all mandatory and voluntary government and other industry certifications, approvals, and/or licenses to conduct our business;
- Our ability to maintain effective internal control over financial reporting;
- Our ability to maintain or increase our market share in the competitive markets in which we do business;
- Our dependence on the growth in demand for our products;
- Our ability to diversify our product offerings and capture new market opportunities;
- The costs and losses we may incur as a result of current ongoing and future litigation and claims;
- The costs we may incur in the future from complying with current and future governmental regulations and the impact of any changes in the regulations on our operations; and
- The loss of key members of our senior management.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we reference in this annual report and/or file as exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report are made at a rate of RMB6.9618 to \$1.00, the exchange rate in effect as of December 31, 2019 as set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all.

EXPLANATORY NOTE

Unless otherwise indicated, the terms “Company”, “we” and “us” refer to Dunxin Financial Holdings Limited, a Cayman Islands company, and its consolidated subsidiaries, including the 80% VIE operating company, Hubei Chutian Microfinance Co., Ltd., a PRC company following the closing of the CIB Transaction (defined below). When used herein to describe events prior to the CIB Transaction, the terms “Company”, “Xiniya”, “we” and “us” refers to Dunxin Financial Holdings, Limited (formerly known as China Xiniya Fashion Limited) and its consolidated subsidiaries before such time.

Presentation of Our Financial and Operating Data

On December 28, 2017, Honest Plus acquired 91,997,543 Shares and Perfect Lead acquired 22,999,386 Shares for an aggregate purchase price of RMB86,426,660 (or approximately \$0.11 per share) pursuant to a Share Purchase Agreement, as amended on October 27, 2016, and on December 10, 2017 (the “Share Purchase Agreement”), by and between Qiming Investment Limited, a British Virgin Islands company (“Qiming Investment”), Qiming Xu, the chairman and chief executive officer of the Xiniya (“Mr. Qiming Xu”), Honest Plus, and Perfect Lead. Wei Qizhi, our chairman and chief executive officer, is the sole director of Honest Plus and Perfect Lead.

As a condition to the Share Purchase Agreement, on December 10, 2017, the Xiniya entered into (1) a Share Transfer Agreement with Qiming Investment pursuant to which the Xiniya agreed to sell Xiniya Holdings Limited, the Xiniya’s wholly-owned subsidiary in Hong Kong, to Mr. Qiming Xu in exchange for a purchase price of RMB228,000,000 (approximately \$34,588,428) (“Divestiture”) subject to the terms set forth therein, and (2) a Securities Purchase Agreement with True Silver Limited (“True Silver”), a British Virgin Islands company, and Honest Plus pursuant to which the Xiniya agreed to acquire all of the issued and outstanding shares of True Silver owned by Honest Plus for a purchase price of RMB228,000,000 (\$34,588,428) and the issuance of 772,283,308 newly issued ordinary shares of the Xiniya (“Acquisition”) at RMB1.00 (\$0.15) per share, which through a VIE structure, operates and consolidates eighty percent (80%) of the financial results of Hubei Chutian Microfinance Co., Ltd., a Chinese company that engages in the lending of small loans to customers in China (“Chutian”). On December 28, 2017, the Divestiture and the Acquisition closed concurrently with the closing of the Share Purchase Agreement (collectively, the “CIB Transaction”). At the closing of the CIB Transaction, the Company discontinued its apparel business and became a microfinance lender in Hubei Province.

As a result of the CIB Transaction, Honest Plus and Perfect Lead, the former shareholders of True Silver, became the controlling shareholders of the Company. The CIB Transaction was accounted for as a reverse acquisition, wherein True Silver is considered the acquirer for accounting and financial reporting purposes.

Accordingly and except as otherwise provided, beginning with this annual report on Form 20-F, the historical financial statement of True Silver are treated as the historical financial statements of the Company.

Restatement of 2017 and 2016 Financial Information

We have restated our consolidated financial statements as of and for the years ended December 31, 2016 and 2017 in order to correct certain accounting errors. For discussion of the accounting errors identified and the restatement adjustments, see Note 30 of Notes to Consolidated Financial Statements. For a description of the material weaknesses in our internal control over financial reporting identified by management and management’s plan to remediate those material weaknesses, see Item 15 — Controls and Procedures. Therefore, as a result of these restatements, the financial information included in this Annual Report as of and for the years ended December 31, 2016, and 2017 differs from that reported in our annual reports on Form 20-F for year ended December 31, 2017.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statements of profit data for the years ended December 31, 2017, 2018 and 2019, and the selected consolidated statements of financial position data as of December 31, 2018 and 2019, have been derived from our audited consolidated financial statements included elsewhere in this annual report.

The selected consolidated statements of profit data for the years ended December 31, 2015 and 2016 and the selected consolidated statements of financial position data as of December 31, 2015, 2016 and 2017 have been derived from our audited consolidated financial statements that are not included in this annual report. See “Explanatory Note and Presentation of Our Financial and Operating Data” for further details on the presentation of the financial statements and the history of the Company.

With respect to the selected consolidated financial data for the earliest year of the five-year period (2014), we omitted such information because we are not able to provide the historic financial data without unreasonable effort and expense.

The selected consolidated financial information for those periods and as of those dates are qualified by reference to those financial statements and the related notes, and should be read in conjunction with them and with “Item 5. Operating and Financial Review and Prospects.”

Our consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

Our historical results do not necessarily indicate our results expected for any future periods.

In accordance with IFRS

The tables below set forth selected consolidated financial data under IFRS for the Company for the years ended December 31, 2015, 2016, 2017, 2018 and 2019. The information has been derived from our annual audited consolidated financial statements.

Selected Statement of Profit and Other Comprehensive Income data	For the Year Ended December 31					
	2015 RMB	2016 RMB	2017 ⁽¹⁾ RMB	2018 RMB	2019 RMB	2019 \$
	(amounts in thousands, except for per share data)					
Interest income on loans	99,907	104,896	119,639	141,857	118,396	17,006
Interest expenses on loans	(16,075)	(22,151)	(33,791)	(26,451)	(19,846)	(2,851)
Business related taxes and surcharges	(5,685)	(1,152)	(674)	(590)	(435)	(62)
Total interest expense	(21,760)	(23,303)	(34,465)	(27,041)	(20,281)	(2,913)
Net interest income	78,147	81,593	85,174	114,816	98,115	14,093
Allowance for loan losses	(9,396)	(6,360)	(3,580)	(66,904)	(24,694)	(3,547)
Net interest income after provision for loan losses	68,751	75,233	81,594	47,912	73,421	10,546
Non-interest and other income	476	1,772	815	438	173	25
Operating costs and expenses						
Sales and marketing	(4,236)	(4,899)	(3,138)	(1,794)	(1,698)	(244)
General and administrative	(10,295)	(14,937)	(34,895)	(20,368)	(13,280)	(1,908)
Total operating costs and expenses	(14,531)	(19,836)	(38,033)	(22,162)	(14,978)	(2,152)
Profit before income taxes	54,696	57,169	44,376	26,188	58,616	8,419
Income tax expense	(17,841)	(15,221)	(15,550)	(18,033)	-	-
Net profit	<u>36,855</u>	<u>41,948</u>	<u>28,826</u>	<u>8,155</u>	<u>58,616</u>	<u>8,419</u>

(1) Information has been restated in order to correct certain accounting errors. See Note 30 of Notes to Consolidated Financial Statements.

Selected Statement of Financial Position Data	As of December 31					
	2015	2016	2017 ⁽¹⁾	2018	2019	2019
	RMB	RMB	RMB	RMB	RMB	\$
	(amounts in thousands)					
Cash, cash equivalents and restricted cash	65,741	96,761	21,717	3,188	132	19
Total current assets	537,035	802,018	853,218	590,937	615,611	88,427
Total non-current assets	1,305	779	15,266	50,833	48,137	6,914
Total assets	538,340	802,797	868,484	641,770	663,748	95,341
Total current liabilities	176,833	223,112	275,600	274,704	237,587	34,127
Net assets	361,507	579,685	592,884	367,066	426,161	61,214
Total shareholders' equity	361,507	579,685	592,884	367,066	426,161	61,214

(1) Information has been restated in order to correct certain accounting errors. See Note 30 of Notes to Consolidated Financial Statements.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

There are many risks and uncertainties that may affect our operations, performance, development and results. Many of these risks are beyond our control. The following is a description of the important risk factors that may affect our business. If any of these risks were to actually occur, our business, financial condition or results of operations could be materially adversely affected. Additional risks and uncertainties not currently known to us or that we currently consider to be immaterial may also materially adversely affect our business, financial condition or results of operations.

Risk Factors Relating to Our Business

Our limited operating history makes it difficult to evaluate our business and prospects.

We commenced operations in early 2013 and have a limited operating history. Our interest income on loans was RMB119.6 million, RMB141.9 million and RMB118.4 million (\$17.0 million) in 2017, 2018 and 2019, respectively. Our growth rate since 2016 may not be indicative of our future performance. We may not be able to achieve similar results or grow at the same rate as we did in the past. It is also difficult to evaluate our prospects, as we may not have sufficient experience in addressing the risks to which companies operating in new and rapidly evolving markets such as the microfinance industry may be exposed. We will continue to encounter risks and difficulties that companies at a similar stage of development frequently experience, including the potential failure to:

- obtain sufficient working capital and increase our registered and paid-up capital to support expansion of our loan portfolio;
- comply with any changes in the laws and regulations of the PRC or local province that may affect our lending operations;
- expand our borrowers base;
- maintain adequate control of default risks and expenses allowing us to realize anticipated revenue growth;
- implement our customer development, risk management and acquisition strategies and adapt and modify them as needed;
- integrate any future acquisitions; and
- anticipate and adapt to changing conditions in the Chinese lending industry resulting from changes in government regulations, mergers and acquisitions involving our competitors, and other significant competitive and market dynamics.

The Company's headquarters, borrowers and operations are located in Wuhan, China, the epicenter for the COVID-19 pandemic. As a result of the COVID-19 outbreak which was reported on December 31, 2019 in Wuhan, China, the Chinese government imposed a lockdown on the entire Hubei province, travel restrictions and quarantine, the Company's borrowers and operations have been significantly adversely disrupted. All of our customers are located in Wuhan, China, as a result of the COVID-19 outbreak, government lockdown, travel restrictions, reduced economic activity and quarantines imposed by the Chinese government, our customers' business operations, financial conditions and cash flows were materially adversely affected, which, in turn, materially adversely affected our collection of interest and principal on our loans to customers.

If we are unable to address any or all of the foregoing risks, our business and results of operations may be materially and adversely affected.

We have restated prior consolidated financial statements, which may lead to additional risks and uncertainties, including loss of investor confidence and negative impacts on our share price.

We have restated our consolidated financial statements as of and for the years ended December 31, 2016 and 2017 in order to correct certain accounting errors. For discussion of the accounting errors identified and the restatement adjustments, see Note 30 of Notes to Consolidated Financial Statements. For a description of the material weaknesses in our internal control over financial reporting identified by management and management's plan to remediate those material weaknesses, see Item 15 — Controls and Procedures.

As a result of the restatement of our consolidated financial statements, restatement may lead to a loss of investor confidence and have negative impacts on the trading price of our shares.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud, and investor confidence and the market price of our ADSs may be adversely impacted.

We are subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm may audit and report on the effectiveness of a public company's internal control over financial reporting except where the public company is a non-accelerated filer. We are currently a non-accelerated filer.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2019. See "Item 15. Control and Procedures." Such management report was not subject to attestation by our independent registered public accounting firm, as we are a non-accelerated filer. We may fail to maintain effective internal control over financial reporting and our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level in the future. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

We have previously identified material weaknesses in our internal control over financial reporting that, if not remediated, could result in additional material misstatements in our financial statements.

As described in Item 15 — Controls and Procedures, management has identified and evaluated the control deficiencies that gave rise to the accounting errors, and has concluded that those deficiencies, collectively, represent material weaknesses in our internal control over financial reporting as of December 31, 2018. We did not identify those material weaknesses as of December 31, 2019. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. We cannot assure you that those material weaknesses identified in 2018 will not be recurring in future.

If additional material weaknesses in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results, which could materially and adversely affect our business, results of operations and financial condition, restrict our ability to access the capital markets, require us to expend significant resources to correct the material weakness, subject us to fines, penalties or judgments, harm our reputation or otherwise cause a decline in investor confidence.

Our independent auditors have expressed substantial doubt about our ability to continue as a going concern.

In their audit report issued in connection with our financial statements as of and for the years ended December 31, 2019 and December 31, 2020, our independent registered public accounting firm included a going concern explanatory paragraph which stated there was substantial doubt about our ability to continue as a going concern. The Company had negative cash flows for the years ended December 31, 2019, 2018 and 2017, the net cash decreased during the year were RMB3.5 million, RMB17.9 million and RMB75.1 million for the years ended December 31, 2019, 2018 and 2017, respectively. In addition to the uncertain adverse impact of COVID-19 outbreak on the operations of the Company, there is uncertainty related to the outcome of the lawsuits filed against the Company. We have prepared our financial statements on a going concern basis that contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. Our financial statements do not include any adjustments that would be necessary should we be unable to continue as a going concern and, therefore, be required to liquidate our assets and discharge our liabilities in other than the normal course of business and at amounts different from those reflected in our financial statements. If we are unable to continue as a going concern, our stockholders may lose all or a substantial portion or all of their investment.

Current ongoing litigation and future litigation, administrative proceedings or legal proceedings resulting from our lending business and liquidity issues could have a material adverse effect on our lending business, financial conditions and operating results.

We have been, and continue to be, involved in legal proceedings, administrative proceedings, claims and other litigation that arise in the ordinary course of business. We may choose to litigate against individuals and companies for unpaid loans that are incidental to our lending business. In addition, our lenders and service providers may choose to litigate against us for loans, unpaid fees and other payment obligations that we accrue during the course of our lending business. Since 2019, we have been subject to multiple actions, claims and orders as a result of overdue payments and loan payables to our lenders and service providers. As of December 31, 2019, the aggregate amount of claims was RMB98.1 million (\$14.1 million). During the course of ongoing legal proceedings, deposits in our bank accounts and other physical properties may be frozen or seized during pre-litigation by court order. Such orders would have a material adverse effect on our business, financial conditions and therefore further affect our liquidity, which may lead to additional legal proceedings against us. Our failure to pay judgments could result in seizure of property, freezing of bank deposits and issuances of restrictive court orders which would have a material adverse effect on our business and our operations. In addition, judgments ordering the payment of our obligations or accrual of interest for unpaid payments during current or future litigations would further adversely affect our financial conditions and operating results.

Our Chairman and CEO is currently named in other litigations and legal proceedings, which could affect his involvement in our lending business, and also our business and operations

Our Chairman and CEO, Mr. Ricky Qizhi Wei, has been, and may continue to be, involved in litigation and legal proceedings involving his other companies and Chutian. Mr. Wei and Hubei Daily Media Group, a 20% shareholder of our variable interest entity Chutian, are also involved in multiple litigations and proceedings. In 2019, during the course of such proceedings, various bank accounts and properties owned by Mr. Wei has been frozen or seized during pre-litigation by court order. As a result of his involvement in other litigations and legal proceedings, Mr. Wei's ability to focus his attention towards our business could be severely impacted. In addition, ongoing and future legal proceedings could also harm our reputation within the lending market, which could adversely affect our business and operations.

Potential dispute over ownership of Chutian may adversely affect our business

In April 2018, Chutian and Hubei Daily Media Group signed a share transfer agreement which would allow Hubei Daily Media Group to exit from its ownership of Chutian. The agreement was for Hubei Daily to sell their interest to Hubei New Nature Investment Co. Ltd, which is a company that is 80% owned by Chairman Wei. However, as the share transfer did not obtain the approval from the relevant authorities and the consideration was not paid in full, the transaction was not completed and inconclusive. As such, Hubei Daily Media Group is still a shareholder of Chutian but Hubei Daily Media Group may continue to seek to liquidate its position in Chutian, which could adversely affect our business and operations.

We have limited cash and we may need additional capital which, if obtained, could result in dilution or significant debt service obligations. We may not be able to obtain additional capital on commercially reasonable terms, which could adversely affect our liquidity and financial position.

As of December 31, 2019, we had cash balances totaled RMB132,000, compared to RMB3,188,000 as of December 1, 2018.

We have historically met our cash needs through a combination of cash flows from operating activities, loans payable from third parties raised through various securities exchanges, loans from shareholders and loans from related parties. The cash requirements are generally for operating activities and repayments of loans from third parties, related parties and shareholders. Ever since, securities exchanges have ceased offering any form of financing to us through their platforms and our loan receivables were credit-impaired, the Company ran into severe liquidity issue. In the beginning of 2019, the Company began to default in certain loans payable, even though certain loans payable were negotiated for revised repayment terms. With loans receivables continued to be further credit-impaired, all obligations of loans payable were defaulted. The liquidity issue of the Company has further severely affected its ability to pay its taxes, service providers, employees and others. Due to non-payment of its obligations when due, multiple significant legal proceedings were initiated by its shareholders, service providers and others against the Company (see Note 28 of the Consolidated Financial Statements – Legal proceedings for detailed disclosure). As a result, we require additional cash resources due to changed business conditions or other future developments. If our current resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

In addition, our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including conditions of the market, our future results of operations, financial condition and cash flows, and PRC governmental regulation of foreign investment in microfinance service companies in China.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure to raise additional funds on favorable terms could have a material adverse effect on our liquidity and financial condition.

We rely heavily on loans to our customers in Wuhan City. Failure to maintain or increase our lending to our customers may adversely affect our results of operations.

We generate substantially all of our interest income from loans to customers in Wuhan City, Hubei Province. If we are unsuccessful in maintaining or increasing our lending to our customers in Wuhan City, Hubei Province, our business, results of operations and prospects may be materially adversely affected. Further, all of our customers are located in Wuhan, China, as a result of the COVID-19 outbreak, government lockdown, travel restrictions and quarantines imposed by the Chinese government, our customers' business operations, financial conditions and cash flows were materially adversely affected, which, in turn, materially adversely affected our collection of interest and principal on our loans to customers.

In conducting our business, we face many risks that may interfere with our business objectives. Some of these risks could materially and adversely affect our business, financial condition and results of operations. In particular, we are subject to various risks resulting from changing economic, political, industry, business and financial conditions. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business operations.

Credit loss allowances may not be sufficient to absorb future losses or prevent a material adverse effect on our business, financial condition, or results of operations.

We determine credit loss allowances in accordance with IFRS 9 as follows:

- Stage 1: Expected credit losses are recognized at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events for the life of loan from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired.
- Stage 2: If a financial asset experiences a significant increase in credit risk since initial recognition, an expected credit loss provision is recognized for default events that may occur over the lifetime of the asset. Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk.
- Stage 3: Financial assets that are credit-impaired (or in default) represent those that are past due more than the historical average collection period for past due loans, but not to exceed the original contractual loan terms. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.
- Loss provisions against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realization of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

However, our credit loss allowance may not be sufficient to absorb future loan losses or prevent a material adverse effect on the business, financial condition and results of operations. Further, borrowers are located in Wuhan, China, due to the government lockdown, travel restrictions and quarantines imposed by the Chinese government in Wuhan, China, the business operations, financial conditions and cash flows of our borrowers were materially adversely affected, the impact of COVID-19 may have exacerbated the conditions of our credit-impaired loans and hence increase the insufficiency of our credit loss allowance.

While they do not directly impact our IFRS financial statements, we are also subject to regulatory accounting requirements. Pursuant to *Measures for Administration of Pilot Scheme on Microfinance Companies in Hubei Province* jointly issued by the Financial Affairs Office of the Hubei Province People's Government Hubei Province Administration for Industry and Commerce, Hubei Bureaus of the CBRC, Hubei Branch of the PBOC and the Public Security of Hubei Province on May 13, 2009, (湖北省小额贷款公司试点暂行管理办法(鄂金办发[2009]18号)), we should make sufficient credit loss allowances. As of December 31, 2017, 2018 and 2019, credit loss allowance of RMB331.0 million (after application of IFRS 9), RMB397.3 million and RMB423.8 million (\$60.9 million) were provided, respectively, which represented 35.8% (after application of IFRS 9), 40.7% and 40.8% of our outstanding loans, respectively. As of December 31, 2017, 2018 and 2019, delinquent loans that were subject to 100% loan loss allowance, were RMB47.5 million (after application of IFRS 9), RMB46.3 million and RMB47.4 million (\$6.8 million), respectively. As of December 31, 2017, 2018 and 2019, loans that written off were nil, RMB1.2 million and nil, respectively.

While we believe that our management uses the best information available to make credit loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or change in accounting guidance, which could negatively affect our results of operations and financial conditions.

We rely heavily in obtaining our funding from creditors through various securities exchanges in China. Failure to maintain our relationship with these securities exchanges or creditors may materially and adversely affected our liquidity and our results of operations.

According to Article 2 and 4 of Provisional Administrative Working Guidance for Utilization of Capital Market by Microfinance Companies in Wuhan (《武汉市小额贷款公司利用资本市场融资管理工作指引(暂行)》), promulgated on October 13, 2015, debt financing instruments referred to issuance of debt financing instruments including private placing bonds, by microfinance companies at legally established open exchange markets, including but not limited to Beijing Securities Exchange and Wuhan Securities Exchange. Total financing (excludes financing provided from shareholders) of the microfinance company acquired from bonds, funds from banking financial institutions and buy-back, shall not exceed 150% of its net capital. Total financing provided by legal person shareholders shall not exceed 50% of its net capital.

We obtain substantially all of our funding from creditors through various securities exchanges in China. If we are unsuccessful in maintaining our relationship with these securities exchanges or creditors through these securities exchanges or we are unable to obtain sufficient funding at reasonable interest rates, our business and results of operations may be materially and adversely affected.

Further, we defaulted on repayment of our loans payable to our creditors since 2019 and, as a result, these securities exchanges have since ceased offering any form of financing to us through their platforms. Our ability in obtaining funding from creditors through these securities exchanges is no longer viable, our business and results of operations are materially and adversely affected.

There are no nationwide laws or regulations that govern our industry.

As of December 2019, there is no administrative regulatory authority for the microfinance industry at the national level. According to the *Guiding Opinions on the Pilot Operation of Microfinance Companies*, jointly issued by the CBRC and the PBOC on May 4, 2008, (Yin Jian Fa No. [2008] 23) (关于小额贷款公司试点的指导意见银监发[2008]23号), any provincial government that is able to assign a department, financial office or other similar authority to take charge of the supervision and administration of microfinance companies and is willing to assume the responsibility of risk management of microfinance companies may formulate pilot rules and measures in relation to the incorporation of such companies within the province, autonomous region or municipalities directly under the PRC government.

Therefore, the microfinance industry in the PRC is primarily regulated by the financial offices and other similar authorities of the provincial governments of the relevant provinces. On February 6, 2013, we were issued an Official Reply (E Jin Ban Fa No. [2013]14) by the Financial Office of People's Government of Hubei, which approved us under the pilot program as a microfinance lender, as proposed by the Wuchang People's Government. As such, we are not required to obtain any other operation approvals or qualification for conducting our business after receiving the approval of establishment. However, any changes at the national or provincial level relating to the regulation of the microfinance industry may adversely affect our business and results of operations.

We do not strictly adhere to one of the principles under Measures for Administration of Pilot Scheme on Microfinance Companies in Hubei Province, and may be deemed not in compliance with the provincial local regulatory policies.

One of the provisions of the *Measures for Administration of Pilot Scheme on Microfinance Companies in Hubei Province* (《湖北省小额贷款公司试点暂行管理办法》(鄂金办发[2009]18号)) provides that “when granting loans, microfinance companies shall adhere to the principle of “small sum and decentralization”. Microfinance companies are encouraged to provide credit services for farmers and mini-size enterprises and make more efforts in increasing their number of clients and enlarging the coverage of services. 70% of the outstanding loan balance of the microfinance company shall be applied to borrowers of a single account whose balance of the loan is no more than RMB0.5 million, while the rest may be applied to other borrowers, provided that loans to any of such borrowers shall not exceed 5% of the net capital”. Currently, we do not strictly adhere to this principle of “small sum and decentralization” since some of our loans balance to borrowers of a single account is more than RMB0.5 million. As a result, the provincial local regulatory authorities may have the discretion to determine that we are not in compliance with the provincial local regulatory policies. Although we have not received any notices, warnings or inquiries from provincial local regulatory authorities, there is no assurance that we will not be subject to fines, penalties, rectification by the provincial local regulatory authorities, or have our business suspended or license revoked if we do not rectify its deficiencies after receiving notice from such authorities. Any of these occurrences would adversely affect our business and results of operations.

Our current operations in China are territorially limited to the Hubei Province.

In accordance with the PRC state and provincial laws and regulations relating to microfinance companies, we are not allowed to make loans to businesses and individuals located outside of Hubei Province. Our business and future growth opportunities depend on the growth and stability of the economy in Hubei Province. A downturn in the local economy or the implementation of local policies unfavorable to SMEs will cause a decrease in the demand for our loan and will negatively affect borrowers’ ability to repay their loans on a timely basis, both of which will have a negative impact on our profitability and business.

The Company’s headquarters, borrowers and operations are located in Wuhan, China, the epicenter for the COVID-19 pandemic. Wuhan City is located within Hubei Province. As a result of the COVID-19 outbreak which was first reported on December 31, 2019 in Wuhan, China, the Chinese government imposed a lockdown on the entire Hubei province, travel restrictions and quarantine, the Company’s borrowers and operations have been significantly disrupted. The lockdown has a significant negative impact on our cashflow, financial conditions and business operations.

Changes in the interest rates and spread could have a negative impact on our revenues and results of operations.

Our revenues and financial condition are dependent on net interest income, which is the difference between interest earned from loans we provide and interest paid to the borrowings we obtain from various individuals and companies through securities exchanges. The narrowing interest rate spread could adversely affect our earnings and financial conditions. If we are not able to control our funding costs or adjust our lending interest rate in a timely manner, our interest margin will decline.

The business is subject to greater credit risks than larger lenders, which could adversely affect our results of operations.

There are inherent risks associated with lending activities, including credit risk, which is the risk that borrowers may not repay the outstanding loans in our direct loan business. As a microfinance company, we extend credit to small and medium-sized enterprises, farmers and individuals. These borrowers generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and may have fewer financial resources to weather a downturn in the economy. Such borrowers may expose us to greater credit risks than lenders lending to larger, better-capitalized state-owned businesses with longer operating histories. Conditions such as inflation, economic downturn, local policy change, adjustment of industrial structure and other factors beyond our control may increase our credit risk more than such events would affect larger lenders.

In addition, approximately 96% to 99% of our revenue comes from Wuhan City, with the remaining 1% to 4% coming from the rest of the Hubei Province. Therefore, our ability to diversify our economic risks is limited by the local markets and economies. Also, decreases in local real estate value could adversely affect the value of the real property used as collateral in our direct loan business. Such adverse changes in the local economy may have a negative impact on the ability of borrowers to repay their loans and our results of operations and financial condition may be adversely affected.

We lack product and business diversification. Accordingly, our future revenues and earnings are more susceptible to fluctuations than a more diversified company.

Our primary business activities include offering direct loans to our customers. If we are unable to maintain and grow the operating revenues from our business, our future revenues and earnings are not likely to grow and could decline. Our lack of product and business diversification could inhibit the opportunities for growth of our business, revenues and profits.

Competition in the microfinance industry is growing and could cause us to lose market share and revenues in the future.

We believe that the microfinance industry is an emerging market in China. On January 25, 2018 and 2019 and October 25, 2019, the PBOC published statistics, dated December 31, 2017 and 2018 and September 30, 2019, that a total of 283, 278 and 275 microfinance lending companies were registered in Hubei Province and with the combined total registered and paid-up capital of RMB30.6 billion (\$4.5 billion), RMB30.7 billion (\$4.5 billion) and RMB30.6 billion (\$4.5 billion) among these microfinance lending companies, respectively. The average registered and paid-up capital of these microfinance lending companies was RMB108.1 million (\$15.7 million), RMB110.4 million (\$16.1 million) and RMB111.3 million (\$16.2 million), respectively, whereas our registered and paid-up capital was RMB450 million (\$65.6 million). The average outstanding loan portfolio for these microfinance lending companies was RMB109.8 million (\$16.0 million), RMB111.2 million (\$16.2 million) and RMB107.7 million (\$15.5 million), whereas our outstanding loan portfolio was RMB615.2 million (\$88.4 million) as of December 31, 2019.

We may face growing competition in the microfinance industry and we believe that the microfinance market is becoming more competitive as this industry matures and begins to consolidate. We currently compete with traditional financial institutions, other microfinance companies, and some cash-rich state-owned companies or individuals that lend to SMEs. Some of our competitors have larger and more established borrower bases and substantially greater financial, marketing and other resources than us. As a result, we could lose market share and our revenues could decline, thereby affecting our earnings and potential for growth.

Our business depends on the continuing efforts of our management. If we lose their services, our business may be severely disrupted.

Our business operations depend on the continuing efforts of our management, particularly the executive officers named in this document. If one or more of our management were unable or unwilling to continue their employment with us, we might not be able to replace them in a timely manner, or at all. We may incur additional expenses to recruit and retain qualified replacements. Our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected. In addition, our management may join a competitor or form a competing company. We may not be able to successfully enforce any contractual rights we have with our management team, in particular in China, where all of these individuals reside and where our business is operated through Chutian through a series of subsidiaries and the VIE Agreements. As a result, our business may be negatively affected due to the loss of one or more members of our management.

We require highly qualified personnel and if we are unable to hire or retain qualified personnel, we may not be able to grow effectively.

Our future success also depends upon our ability to attract and retain highly qualified personnel. Expansion of our business and our management will require additional managers and employees with industry experience, and our success will be highly dependent on our ability to attract and retain skilled management personnel and other employees. We may not be able to attract or retain highly qualified personnel. Competition for skilled personnel is significant in China. This competition may make it more difficult and expensive to attract, hire and retain qualified managers and employees.

Our controlling shareholder will have substantial influence over us and its interests may not be aligned with the interests of our other shareholders.

As of December 31, 2019, we have 1,000,862,148 issued and outstanding ordinary shares. Honest Plus and Perfect Lead, which are controlled by Mr. Wei, our Chairman and Chief Executive Officer, beneficially hold a significant percentage of our voting equity. Honest Plus beneficially owns approximately 86.4% of our outstanding ordinary shares, and Perfect Lead beneficially owns approximately 2.3% of our outstanding ordinary shares. Mr. Wei is (i) the sole director of Honest Plus and Perfect Lead, (ii) the sole shareholder of Perfect Lead, and (iii) an indirect controlling shareholder of Honest Plus. As such, Mr. Wei, through Honest Plus, will have substantial influence over our business, including decisions regarding mergers, consolidations, the sale of all or substantially all of our assets, election of directors, declaration of dividends and other significant corporate actions. As the controlling shareholder, he may take actions that are not in the best interests of our other shareholders. These actions may be taken in many cases even if they are opposed by our other shareholders. In addition, this concentration of ownership may discourage, delay or prevent a change in control which could deprive you of an opportunity to receive a premium for your ADSs as part of a sale of our company.

In addition, as a result of this concentration of control, we are deemed a “controlled company” for purposes of NYSE MKT rules and as such we are not subject to certain NYSE American Company Guide corporate governance rules including the requirement that a majority of the board of directors be independent, the requirement applicable to the nomination process of directors and the requirements applicable to the determination or recommendation of executive compensation by a committee comprised of independent directors or by a majority of the independent directors. We follow the requirements of the Companies Law of Cayman Islands with respect to these issues.

We may have difficulty in establishing adequate management and financial controls in China.

China has only recently begun to adopt the management and financial reporting concepts and practices that investors in the United States are familiar with. We may have difficulty in hiring and retaining employees in China who have the experience necessary to implement the kind of management and financial controls that are required of a United States public company. If we cannot establish such controls, or if we are unable to collect the financial data required for the preparation of our financial statements, or if we are unable to keep our books and accounts in accordance with IFRS for business, we may not be able to continue to file required reports with the SEC, which would likely have a material adverse affect on the performance of our ordinary shares and ADS.

We do not foresee paying cash dividends in the foreseeable future and, as a result, our investors' sole source of gain will depend on capital appreciation, if any.

We do not plan to declare or pay any cash dividends on our shares of ordinary shares in the foreseeable future and currently intend to retain any future earnings for funding growth. As a result, investors should not rely on an investment in our securities if they require the investment to produce dividend income. Capital appreciation, if any, of our shares may be investors' sole source of gain for the foreseeable future.

Our bank accounts are not insured or protected against loss.

We maintain our cash primarily with Agricultural Bank of China and China Merchants Bank, which both are top 6 commercial banks in China according to the ranking by China Banking Association. Under *Regulations on Deposit Insurance* (Order No. 660 of the State Council of the People's Republic of China) that were effective on May 1, 2015:

- Commercial banks established in PRC are required to purchase deposit insurance;
- The deposit insurance has reimbursement limits, with the maximum reimbursement limit set at RMB 500,000; and
- Where the total amount of the principal and interest of the deposits in all the insured deposit accounts opened by the same depositor with the same Insured Institution is within the maximum reimbursement limit, the depositor shall be reimbursed in full amount; and, any portion in excess of the maximum reimbursement limit shall be paid from the liquidation assets of the Insured Institution pursuant to the law.

However, our cash accounts are not insured or otherwise protected. Should any bank or trust company holding our cash deposits become insolvent, or if we are otherwise unable to withdraw funds, we could lose the cash on deposit with that particular bank or trust company.

If we grant employee stock options or other share-based compensation in the future, our net profit could be materially adversely affected.

Share-based compensation is important to attract and retain key personnel. Under our 2010 Equity Incentive Plan, we have a significant number of ordinary shares authorized for future issuance. We may adopt other equity incentive plans in the future. Grants of share-based awards under such plans may lead to incurrence of share-based compensation expenses. We will account for compensation costs for all share-based awards using the fair value method and recognize the expenses in our consolidated statement of operations in accordance with the accounting guidance of share-based payment under IFRS, which may materially adversely affect our net profit. Moreover, the additional expenses associated with share-based compensation may reduce the attractiveness of our current and future equity incentive plans.

Risks Related to Our Corporate Structure

The PRC government may determine that the VIE Agreements are not in compliance with applicable PRC laws, rules and regulations.

To comply with applicable PRC laws, rules and regulations, we conduct our operations in the PRC through the VIE Agreements, a series of contractual arrangements entered into among True Silver, Chutian and certain shareholders of Chutian, which consist of the Exclusive Consigned Management Service Agreement, Exclusive Purchase Option Agreement, Shareholders' Voting Proxy Agreement, and Share Pledge Agreement. As a result of these VIE Agreements, we manage and operate our microfinance lending business through Chutian pursuant to the rights it holds under our VIE Agreements. A majority of the economic benefit and almost all of the risks arising from Chutian's operations are ultimately enjoyed and undertaken by the Company under these agreements. Details of the VIE Agreements are set out in "*History and Development of the Company*".

There are risks involved with the operation of our business in reliance on the VIE Agreements, including the risk that the VIE Agreements may be determined by PRC regulators or courts to be unenforceable. Although we believe we are in compliance with current PRC regulations in the execution and implementation of the VIE Agreements, we cannot assure you the PRC government would agree that the VIE Agreements fully comply with existing PRC policies or with policies that may be adopted in the future. PRC laws and regulations governing the validity of these VIE Agreements are uncertain. If the VIE Agreements were for any reason determined to be in breach of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such breach, including:

- imposing economic penalties;
- discounting or restricting the operations of Chutian;
- imposing conditions or requirements in respect of the VIE Agreements with which the Company or Chutian may not be able to comply;
- requiring the Company to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could adversely affect our business; and
- revoking the business licenses and/or the licenses or certificates of Chutian or Chutian Holding, and/or voiding the VIE Agreements.

Any of these actions would adversely affect our ability to manage, operate and gain the financial benefits of Chutian, which would have a material adverse impact on our business, financial condition and results of operations.

Our ability to manage and operate Chutian under the VIE Agreements may not be as effective as direct ownership.

We conduct our microfinance lending business in the PRC and generate virtually all of our revenues for our business through the VIE Agreements. Our plans for future growth are based substantially on growing the operations of Chutian. However, the VIE Agreements may not be as effective in providing us with control over Chutian as direct ownership. Under the current VIE Agreements, if Chutian fails to perform its obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies under PRC law, which we cannot be sure would be effective. Therefore, if we are unable to effectively control Chutian, it may have an adverse effect on our ability to achieve our business objectives and grow our revenues.

As the VIE Agreements are governed by PRC law, we would be required to rely on PRC law to enforce our rights and remedies under them; PRC law may not provide us with the same rights and remedies as are available in contractual disputes governed by the law of other jurisdictions.

The VIE Agreements are governed by PRC law and provide for the resolution of disputes through arbitral proceedings. If Chutian or its shareholders fail to perform the obligations under the VIE Agreements, we would be required to resort to legal remedies available under PRC law, including seeking specific performance or injunctive relief, or claiming damages. We cannot be sure that such remedies would provide us with effective means of causing Chutian to meet its obligations, or recovering any losses or damages as a result of non-performance. Further, the legal environment in the PRC is not as developed as in some other jurisdictions. Uncertainties in the application of various laws, rules, regulations or policies in the PRC legal system could limit our liability to enforce the VIE Agreements and protect our interests.

The payment arrangement under the VIE Agreements may be challenged by the PRC tax authorities.

We generate our revenues through the payments we receive pursuant to the VIE Agreements. We could face adverse tax consequences if the PRC tax authorities determine that the VIE Agreements were not entered into based on arm's length negotiations. For example, PRC tax authorities may adjust our income and expenses for PRC tax purposes which could result in our being subject to higher tax liability, or cause other adverse financial consequences. According to the PRC Tax Administration and Collection Law, (《中华人民共和国税收征收管理法》), and Implementation Regulations for the Law of the PRC Tax Administration and Collection Law (《中华人民共和国税收征收管理法实施细则(2016修订)》), in the case of a transfer pricing related adjustment, the statute of limitation is three years normally and 10 years in special instances.

We rely on the approval certificates and business license held by Chutian for our microfinance lending business and any deterioration of the relationship between Chutian and us could materially and adversely affect our business operations.

We operate our microfinance lending business in the PRC on the basis of the approval certificates, business license and other requisite licenses held by Chutian. There is no assurance that Chutian will be able to renew its licenses or certificates when their terms expire with substantially similar terms as the ones it currently holds.

Further, our relationship with Chutian is governed by the VIE Agreements which is intended to provide us with effective control over the business operations of Chutian. However, the VIE Agreements may not be effective in providing control over the application for and maintenance of the licenses required for our business operations. Chutian could violate the VIE Agreements, go bankrupt, suffer from difficulties in its business or otherwise become unable to perform its obligations under the VIE Agreements and, as a result, our operations, reputations and business could be severely harmed.

If Chutian Holding exercises the purchase option it holds over Chutian's share capital pursuant to the Exclusive Purchase Option Agreement, the payment of the purchase price could materially and adversely affect our financial position.

Under the Exclusive Purchase Option Agreement, Chutian Holding has the option to purchase up to 80% of the equity interest in Chutian at a price based on the circumstances of the exercise of the option as determined by the relevant parties, provided that the acquisition will not violate any PRC laws or regulations in effect. As Chutian is already our contractually controlled affiliate, Chutian Holding's exercising of the option would not bring immediate benefits to our company, and payment of the purchase price could adversely affect our financial position.

Risks Relating to Doing Business in China

Our business may be materially adversely impacted by a global financial crisis and economic downturn.

We operate our business in the PRC. Any future global financial crisis and economic downturn may materially adversely impact our business, financial condition, results of operations and prospects in a number of ways, including:

- we may face severe challenges, loss of customers and other operation risks during the global financial crisis and economic downturn;
- under difficult economic conditions, borrowers may seek to reduce the loan size or discontinue borrowings; and
- financing and other sources of liquidity may not be available on reasonable terms or at all.

These risks may be exacerbated in the event of a prolonged economic downturn or financial crisis.

A severe and prolonged global economic recession and the slowdown in the Chinese economy may adversely affect our business, results of operations and financial condition.

The growth of the Chinese economy has slowed down since 2012 compared to the previous decade and the trend may continue. According to the National Bureau of Statistics of China, China's gross domestic product (GDP) growth was 6.1% in 2019. There is considerable uncertainty over the long-term effects of the monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. In addition, there have also been concerns on the relationship between China and the U.S. following rounds of tariffs imposed by the U.S and retaliatory tariffs imposed by China. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any prolonged slowdown in the global or Chinese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs. Our customers may reduce or delay their borrowings, while we may have difficulty expanding our borrowers fast enough, or at all, to offset the impact of decreased loans. In addition, to the extent borrowers' experiences financial difficulties due to the economic slowdown, we could have difficulty collecting payment from the borrower.

An adverse changes in political policies of the PRC government could negatively impact China's overall economic growth, which could materially adversely affect our business.

We are a holding company and all of our operations are entirely conducted in the PRC. China's economy differs from the economies of most other countries in many respects, including the amount of government involvement in the economy, the general level of economic development, growth rates and government control of foreign exchange and the allocation of resources. The PRC government exercises significant control over China's economic growth by allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any actions and policies adopted by the PRC government could negatively impact the Chinese economy, which could materially adversely affect our business.

China moves to liberalize interest rates and deposit rates may create more competition.

China has been slowly liberalizing its interest rate and deposit rate policies to a market driven policy to try to move away from a policy based on artificially imposed ceiling or floor to a market system policy based market demands for financial services. This marketization of interest rates and deposit rates may result in increased competition from banks and competitors and the narrowing of the interest rate spread for loan products which may materially adversely affect our business and results of operations.

Substantial uncertainties and restrictions with respect to the political and economic policies of the PRC government and PRC laws and regulations could have a significant impact upon the business we may be able to conduct in the PRC and accordingly on the results of our operations and financial condition.

Our business operations may be adversely affected by the current and future political environment in the PRC. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations. Under the current government leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activities and greater economic decentralization. However, the government of the PRC may not continue to pursue these policies, or may significantly alter these policies from time to time without notice.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our arrangements with borrowers in the event of the imposition of statutory liens, death, bankruptcy or criminal proceedings. Only after 1979 did the Chinese government begin to promulgate a comprehensive system of laws that regulate economic affairs in general, deal with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, as well as encourage foreign investment in China. Although the influence of the law has been increasing, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. Also, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. In addition, there have been constant changes and amendments of laws and regulations over the past 30 years in order to keep up with the rapidly changing society and economy in China. Because government agencies and courts provide interpretations of laws and regulations and decide contractual disputes and issues, their inexperience in adjudicating new business and new policies or regulations in certain less developed areas causes uncertainty and may affect our business. Consequently, we cannot clearly foresee the future direction of Chinese legislative activities with respect to either businesses with foreign investment or the effectiveness on enforcement of laws and regulations in China. The uncertainties, including new laws and regulations and changes of existing laws, as well as judicial interpretation by inexperienced officials in the agencies and courts in certain areas, may cause possible problems to foreign investors.

The Second Session of the Thirteen National People's Congress of the People's Republic of China voted to adopt the *Foreign Investment Law of the People's Republic of China ("the Foreign Investment Law")* on March 15, 2019 which shall come into effective as of January 1, 2020. The current three major foreign investment laws (the Sino-Foreign Equity Joint Venture Law, Sino-Foreign Cooperative Joint Venture Law and Wholly Foreign Owned Enterprise Law) shall be replaced by the Foreign Investment Law on January 1, 2020.

The Foreign Investment Law "Law" expressly stipulated that "the State protects foreign investors' investment, earnings and other legitimate rights and interests within the territory of China pursuant to the present Law"; "foreign investors may, according to the present Law, freely remit into or out of China, in Renminbi or any other foreign currency, their contributions, profits, capital gains, income from asset proposal, intellectual property royalties, lawfully acquired compensation, indemnity or liquidation income and so on within the territory of China"; "Foreign investors shall not invest in any field with investment prohibited by the negative list for foreign investment access. Foreign investors shall meet the investment conditions stipulated under the negative list for any field with investment restricted by the negative list for foreign investment access"; "In formulating normative documents concerning foreign investment, the people's governments at all levels and their departments concerned shall comply with laws and regulations, and if there are no laws or administrative regulations to serve as the basis, they shall not impair foreign-funded enterprises' legitimate rights and interests or increase their obligations, set any market access and exit conditions, or intervene the normal production and operation activities of any foreign-funded enterprise."

It is unclear how the Foreign Investment Law will be implemented in practice by the PRC government authorities. Comparing with the Draft Foreign Investment Law of the People's Republic of China published in 2015, the Foreign Investment Law does not include the following expression of 'control or acquire equities of an enterprise within the territory of China through contractual arrangements, including but not limited to contracts and trust agreements. Whether the offshore companies controlled by the PRC investors through VIE structure be deemed as foreign investment remains to be seen.

Our microfinance business is subject to extensive regulation and supervision by state, provincial and local government authorities, which may interfere with the way we conduct our business and may negatively impact our financial results.

We are subject to extensive and complex state, provincial and local laws, rules and regulations with regard to our loan operations, capital structure, and allowance for loan losses, among other things. These laws, rules and regulations are issued by different central government ministries and departments, provincial and local governments while enforced by different local authorities.

In addition, it is not clear whether microfinance companies are subject to certain banking regulations that the state-owned and commercial banks are subject to, including the regulation with regard to loan loss reserves. Therefore the interpretation and implementation of such laws, rules and regulations may not be clear and occasionally we have to depend on oral inquiries with local government authorities. As a result of the complexity, uncertainties and constant changes in these laws, rules and regulations, including changes in interpretation and implementation of such, our business activities and growth may be adversely affected if we do not respond to the changes in a timely manner or are found to be in violation of the applicable laws, regulations and policies as a result of a different position from ours taken by the competent authority in the interpretation of such applicable laws, regulations and policies. If we were found not to be in compliance with these laws and regulations, we may be subject to sanctions by regulatory authorities, monetary penalties and/or reputation damage, which could have a material adverse effect on our business operation and profitability.

Fluctuations in the foreign currency exchange rate between U.S. Dollars and Renminbi could adversely affect our financial condition.

The value of the RMB against the U.S. dollar and other currencies may fluctuate. Exchange rates are affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of foreign currencies. Following the removal of the U.S. dollar peg, the RMB appreciated more than 20% against the U.S. dollar over three years. From July 2008 until June 2010, however, the RMB traded stably within a narrow range against the U.S. dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the RMB against foreign currencies. On June 20, 2010, the PBOC announced that the PRC government would reform the RMB exchange rate regime and increase the flexibility of the exchange rate. On August 11, 2015, the PBOC led central parity quoting banks to further improve the formation mechanism of the RMB against the US dollar, indicating that the central parity quoting price shall be decided with reference to the closing price on the previous trading day. On December 11, 2015, the China Foreign Exchange Trade System launched the RMB exchange-rate index, which strengthened the reference to a currency basket to better maintain the stability of the RMB exchange rate against the currencies in the basket. As a result, the CNY/USD central parity formation mechanism of “closing rate + exchange-rate movements of a basket of currencies” was developed. In June 2016, the Foreign Exchange Self-Disciplinary Mechanism was established, allowing financial institutions to play a more important role in maintaining orderly operations in the foreign-exchange market and in an environment for fair competition. In February 2017, the Foreign Exchange Self-Disciplinary Mechanism adjusted the reference period for the central parity against the currency basket from 24 hours ahead of submitting the quotes to 15 hours between the closing on the previous trading day and the submission of the quotes, which avoided repeated references to the daily movements of the USD exchange rate in the central parity of the following day. In general, the RMB exchange-rate central parity formation mechanism has been improving, which has effectively improved the rule-based, transparent, and market-oriented nature of RMB exchange-rate policies and has played an active role in stabilizing exchange-rate expectations. The flexibility of the RMB exchange rate against the US dollar was further strengthened, exhibiting larger two-way fluctuations. We cannot predict how this new policy and mechanism will impact the RMB exchange rate.

Our revenues and costs are mostly denominated in the RMB, and a significant portion of our financial assets are also denominated in the RMB. Any significant fluctuations in the exchange rate between the RMB and the U.S. dollar may materially adversely affect our cash flows, revenues, earnings and financial position, and the amount of and any dividends we may pay on our ordinary shares in U.S. dollars. In addition, any fluctuations in the exchange rate between the RMB and the U.S. dollar could result in foreign currency translation losses for financial reporting purposes.

You may face difficulties in protecting your interests and exercising your rights as a shareholder since we conduct all of our operations in China, and all of our officers and our Chairman reside outside the United States.

We are incorporated in the Cayman Islands and we conduct all of our operations in China through Chutian, our consolidated VIE in China. In addition, all of our officers and our chairman reside outside the United States and substantially all of the assets of those persons are located outside of the United States. As a result, it may be difficult for you to conduct due diligence on the business or attend shareholders meetings if such meetings are held in China. As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, or major shareholders than would shareholders of a corporation doing business entirely or predominantly within the United States.

Future inflation in China may inhibit economic activity and adversely affect our operations.

The Chinese economy has experienced periods of rapid expansion in recent years which can lead to high rates of inflation or deflation. This has caused the PRC government to, from time to time, enact various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause the PRC government to once again impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China. Any action on the part of the PRC government that seeks to control credit and/or prices may materially adversely affect our business operations.

PRC regulation of loans to, and direct investments in, PRC entities by offshore holding companies may delay or prevent us from using proceeds from future financing activities to make loans or additional capital contributions to our PRC operating subsidiaries.

As an offshore holding company with PRC subsidiaries, we may transfer funds to our PRC subsidiaries or finance our operating entity by means of shareholder loans or capital contributions. Any loans to our PRC subsidiaries, which are foreign-invested enterprises, shall be limited to within the margin between the total investment and registered capital approved by the examination and approval authorities. Within the scope of the aforementioned margin foreign-invested enterprises may voluntarily contract foreign debts. Where the margin is exceeded, the original examination and approval authorities shall re-conduct appraisal and determination of total investment. Such loan shall be registered with SAFE, or its local counterparts. Furthermore, any capital increase contributions we make to our PRC subsidiaries, which are foreign-invested enterprises, shall be subject to record-filing via the Comprehensive Management System of MOFCOM. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital increase contributions to our PRC subsidiaries may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

In addition, SAFE promulgated a Notice on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investments on November 19, 2012, or Circular 59 (《国家外汇管理局关于进一步改进和调整直接投资外汇管理政策的通知》(汇发[2012]59号)), as amended on May 4, 2015, which requires the authenticity of settlement of net proceeds from offshore offerings to be closely examined and the net proceeds to be settled in the manner described in the offering documents. Furthermore, SAFE promulgated a Notice on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises, or Circular 19 (《国家外汇管理局关于改革外商投资企业外汇资本金结汇管理方式的通知》(汇发[2015]19号))(partially invalid on December 30, 2019), promulgated on March 30, 2015 and taken effect from June 1, 2015, pursuant to which the foreign-invested enterprises shall be allowed to settle their foreign exchange capitals on a discretionary basis, the RMB funds obtained by foreign-invested enterprises from the discretionary settlement of their foreign exchange capitals shall be managed under the accounts for foreign exchange settlement pending payment, and a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business and it shall not, unless otherwise prescribed by laws and regulations use the foregoing funds for investment in securities etc. Besides, SAFE further promulgated a Notice on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement, or Circular 16 (《国家外汇管理局关于改革和规范资本项目结汇管理政策的通知》(汇发[2016]16号)), on June 9, 2016, according to which a domestic institution shall use foreign exchange earnings under capital account within its business scope and in a truthful manner for proprietary purposes and a bank shall not process foreign exchange settlement or payment formalities for a domestic institution that applies for the payment and settlement of all of its foreign exchange earnings under capital account in one lump-sum or the payment of all RMB funds in its Account for Foreign Exchange Settlement Pending Payment, if the domestic institution is unable to provide relevant materials in proof of transaction authenticity.

Circular 59, Circular 19 and Circular 16 may significantly limit our ability to effectively use the proceeds from future financing activities as the Wholly Foreign Owned Enterprise (“WFOE”) may not convert the funds received from us in foreign currencies into RMB or may not use the RMB funds obtained from foreign exchange settlement for certain purposes, which may materially adversely affect our liquidity and our ability to fund and expand our business in the PRC.

The disclosures in our reports and other filings with the SEC and our other public pronouncements are not subject to the scrutiny of any regulatory bodies in the PRC.

We are regulated by the SEC and our reports and other filings with the SEC are subject to SEC review in accordance with the rules and regulations promulgated by the SEC under the Securities Act and the Exchange Act. Our SEC filings and other disclosure and public pronouncements are not subject to the review or scrutiny of any PRC regulatory authority. For example, the disclosure in our SEC reports and other filings are not subject to the review by CSRC, a PRC regulator that is tasked with oversight of the capital markets in China. Accordingly, you should review our SEC reports, filings and our other public pronouncements with the understanding that no local regulator has done any review of our company, our SEC reports, other filings or any of our other public pronouncements.

The approval of the CSRC may be required in connection with our initial public offering that was completed in November 2010; the failure to obtain this approval, if required, could have a material adverse effect on our business, operating results and reputation as well as the trading price of our ADSs.

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, or MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the State Administration of Foreign Exchange, or SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006, and were amended on June 26, 2009 (*《关于外国投资者并购境内企业的规定(2009修订)》*). The M&A Rules, among other things, include provisions that purport to require an offshore special purpose vehicle formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of an application and supporting documents with the CSRC.

We completed our initial public offering in November 2010. The application of the M&A Rules with respect to our initial public offering remains unclear. Based on the advice of our PRC legal advisor at the time, Beijing H&J Law Firm, we believe that no CSRC approval was required in the context of our initial public offering at that time for Fujian Xiniya Garments and Weaving Co., Ltd., our then indirect wholly foreign-owned enterprise, a company that was incorporated in the PRC prior to the implementation of the M&A Rules. However, the CSRC may disagree with this assessment. If CSRC approval was required or is retroactively required under new PRC rules or regulations but not obtained, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. In that case, the relevant regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects. Meanwhile, any uncertainties or negative publicity regarding this CSRC approval requirement could have an adverse effect on the trading price of our ADSs.

The M&A Rules set forth complex procedures for acquisitions conducted by foreign investors, which could make it more difficult to pursue growth through acquisitions.

The M&A Rules established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In the future, we may grow our business in part by acquiring complementary businesses. Complying with the requirements of this regulation to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM, may delay or inhibit our ability to complete such transactions. Any delay or inability to obtain applicable approvals to complete acquisitions could affect our ability to expand our business or maintain our market share. In addition, in the future, if any of our acquisitions were subject to the M&A Rules and were found not to be in compliance with the requirements of the M&A Rules, relevant PRC regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects.

PRC regulations relating to offshore investment activities by PRC residents and PRC citizens may increase the administrative burden we face and may subject our PRC resident beneficial owners or employees who are stock option holders to personal liabilities, limit our subsidiary's abilities to increase its registered capital or distribute profits to us, limit our ability to inject capital into our PRC subsidiary, or may otherwise expose us to liability under PRC law.

SAFE has promulgated regulations that require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. These regulations may apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future. In accordance with the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37 (《国家外汇管理局关于境内居民通过特殊目的公司境外投融资及返程投资外汇管理有关问题的通知》(汇发[2014]37号))(partially invalid on December 30, 2019), any PRC resident who is a direct or indirect shareholder of an offshore company is required to update his or her registration with the relevant SAFE branches, with respect to that offshore company, any material change involving an increase or decrease of capital, transfer or swap of shares, merger, division or other material event. SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015, which took effect on June 1, 2015. This notice has amended SAFE Circular 37 requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

There is uncertainty concerning under what circumstances residents of other countries and regions can be classified as a PRC resident. The PRC government authorities may interpret our beneficial owners' status differently or their status may change in the future. Moreover, we may not be fully informed of the identities of the beneficial owners of our company and we cannot assure you that all of our PRC resident beneficial owners will comply with SAFE regulations. The failure of our beneficial owners who are PRC residents to make any required registrations may subject us to fines and legal sanctions, and prevent us from being able to make distributions or pay dividends, as a result of which our business operations and our ability to distribute profits to you could be materially adversely affected.

On February 15, 2012, SAFE promulgated the Circular on Issues related to Foreign Exchange Administration of Domestic Individuals Participating in Share Incentive Plans of Overseas Listed Companies, or Circular 7 (《国家外汇管理局关于境内个人参与境外上市公司股权激励计划外汇管理有关问题的通知》(汇发[2012]7号)). Circular 7 streamlines the foreign exchange control process applicable to share incentive plans implemented by offshore listed companies and extends the foreign exchange registration requirement to a wider range of share incentive plan types and certain foreign nationals residing in China. We and our PRC or foreign employees who may be granted various stock options will be subject to Circular 7 because our company is an overseas publicly listed company. If we or our PRC or foreign employees fail to comply with such regulation, we or our employees may be subject to fines and legal sanctions.

Restrictions on foreign exchange under PRC laws may limit our ability to convert cash derived from our operating activities into foreign currencies and may materially and adversely affect the value of your investment.

Substantially all of our revenues and operating expenses are denominated in Renminbi. Under the relevant foreign exchange regulations in the PRC, conversion of the Renminbi is permitted, without the need for SAFE approval, for “current account” transactions, which includes dividends, trade, and service-related foreign exchange transactions, subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China who have the licenses to carry out foreign exchange business. Conversion of the Renminbi for “capital account” transactions, which includes foreign direct investment, loans and investment in negotiable instruments, is still subject to significant limitations and requires approvals from and registration with SAFE and other PRC regulatory authorities. Under our current structure, our source of funds primarily consists of dividend payments from our subsidiary in the PRC. We cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits out of China. If future changes in relevant regulations were to place restrictions on the ability of our subsidiary to remit dividend payments to us, our liquidity and ability to satisfy our third-party payment obligations and our ability to distribute dividends in respect of the ADSs could be materially adversely affected.

We may rely on dividends and other distributions on equity paid by our wholly-owned subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries or Chutian to make payments to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we may rely on dividends from our wholly-owned subsidiaries and service, license and other fees paid to our wholly-owned subsidiary in China by Chutian for our cash requirements, including any debt we may incur. Current PRC regulations permit our PRC subsidiary to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, our PRC subsidiary and Chutian is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital, and each of our subsidiaries is required to further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of its board of directors. These reserves are not distributable as cash dividends. Furthermore, if our PRC subsidiary and Chutian incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements we currently have in place in a manner that would materially and adversely affect our PRC subsidiary’s ability to pay dividends and other distributions to us. Any limitation on the ability of our subsidiaries to distribute dividends to us or on the ability of Chutian to make payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

We may be treated as a resident enterprise for PRC tax purposes under the EIT Law, which may subject us to PRC income tax for our global income and withholding for any dividends we pay to our non-PRC shareholders and ADS holders.

Under the Enterprise Income Tax Law (“EIT Law”), enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises,” and will generally be subject to the uniform 25% enterprise income tax rate for their global income. Although the term “de facto management bodies” is defined as “management bodies which has substantial and overall management and control power on the operation, human resources, accounting and assets of the enterprise,” the circumstances under which an enterprise’s “de facto management body” would be considered to be located in China are currently unclear. A circular issued by the State Administration of Taxation (*国家税务总局关于境外注册中资控股企业依据实际管理机构标准认定为居民企业有关问题的通知*) on April 22, 2009, partially invalid on December 29, 2017, which provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management bodies” located within China if the following requirements are satisfied: (1) the senior management and core management departments in charge of its daily operations function mainly in the PRC; (2) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (3) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (4) at least half of the enterprise’s directors or senior management with voting rights reside in the PRC. In addition, the State Administration of Taxation recently promulgated the Interim Provisions on Administration of Income Tax of Chinese-Controlled Resident Enterprise Registered Overseas (*境外注册中资控股居民企业所得税管理办法(试行)*), effective from September 1, 2011, as subsequently amended on June 1, 2015 and June 15, 2018, which clarified certain matters concerning the determination of resident status, administrative matters following this determination, and competent tax authorities. These interim provisions also specify that when an enterprise which is both Chinese-controlled and incorporated outside of mainland China receives PRC-sourced incomes such as dividends and interests, no PRC withholding tax is applicable if such enterprise has obtained a certificate evidencing its status as a PRC resident enterprise which is registered overseas and controlled by Chinese.

Most members of our management team are based in China and are expected to remain in China. Although our offshore holding companies are not controlled by any PRC company or company group, we cannot assure you that we will not be deemed to be a PRC resident enterprise under the EIT Law and its implementation rules. If we are deemed to be a PRC resident enterprise, we will be subject to PRC enterprise income tax at the rate of 25% on our global income. In that case, however, dividend income we receive from our PRC subsidiaries may be exempt from PRC enterprise income tax because the EIT Law and its implementation rules generally provide that dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise is exempt from enterprise income tax. Accordingly, if we are deemed to be a PRC resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

In addition, the EIT Law and its implementation rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we are deemed to be a PRC resident enterprise, dividends distributed to our non-PRC entity investors by us, or the gain our non-PRC entity investors may realize from the transfer of our common shares or ADSs, may be treated as PRC-sourced income and therefore be subject to a 10% PRC withholding tax pursuant to the EIT Law and, as a result, the value of your investment may be materially and adversely affected.

We may have exposure to greater than anticipated tax liabilities.

Under PRC laws and regulations, arrangements and transactions among business entities may be subject to audit or challenge by the PRC tax authorities. The tax laws applicable to our business activities are subject to interpretation. We could face material and adverse tax consequences if the PRC tax authorities determine that some of our business activities are not based on arm's-length prices and adjust our taxable income accordingly. In addition, the PRC tax authorities may impose late payment fees and other penalties to us for under-paid taxes. Our consolidated net profit in the future may be materially and adversely affected if we are subject to greater than anticipated tax liabilities.

The PRC legal system has inherent uncertainties regarding the interpretation and enforcement of PRC laws and regulations which could limit the legal protections available to investors.

Substantially all of our operations are conducted in the PRC. The PRC legal system is a civil law system based on written statutes, and prior court decisions can only be cited as reference and have almost no precedential value. Since 1979, the PRC government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action investors may take against us in the PRC. In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Any changes to such laws and regulations may materially increase our costs and regulatory exposure in complying with them.

If we become directly subject to the recent scrutiny, criticism and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve any related issues, which could materially adversely impact our business operations, our reputation, and the trading price of its ADSs.

Certain U.S. public companies that have substantially all of their operations in China have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has been centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of certain U.S.-listed Chinese companies has sharply decreased in value. Certain companies are now subject to shareholder lawsuits and SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what effect this scrutiny, criticism and negative publicity will have on our business and the trading price of our ADSs. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our company. This situation will be costly and time consuming and distract our management from growing the company. Such allegations may materially adversely impact our business operations, our reputation, and the trading price of our ADSs.

Risks Relating to our Ordinary Shares and ADSs

The trading prices of our ADSs are likely to be volatile, which could result in substantial losses to investors.

The market price for our ADSs has fluctuated significantly since our ADSs became listed on the New York Stock Exchange, or the NYSE, on November 23, 2010, and listed on NYSE American as of December 28, 2017. The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors such as:

- change in business as a result of the Divestiture and Acquisition;
- variations in our revenues, earnings and cash flow;
- announcements of new investments, acquisitions, strategic partnerships, or joint ventures;
- announcements of new services and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- ongoing litigation, potential litigation or regulatory investigations.

In addition, the stock market in general, and the market prices for companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade. We cannot assure you that these factors will not occur in the future.

We may need additional capital, and the sale of additional ADSs or other equity securities could result in additional dilution to our shareholders.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary principally depending on the timing of new investments and/or acquisitions, and the amount of cash flow from our operations. If our existing cash resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of microfinance lending company;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation on the microfinancing lending industry in China;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all, especially in the event of a severe and prolonged global economic recession. If we fail to raise additional funds, we may need to reduce our growth to a level that can be supported by our cash flow. Without additional capital, we may not be able to acquire necessary technologies, products or businesses, hire, train and retain employees, market our programs, services and products, or respond to competitive pressures or unanticipated capital requirements.

If securities or industry analysts publish negative reports about our business, the price and trading volume of our ADSs securities could decline.

The trading market for our ADSs is influenced by the research reports and ratings that securities or industry analysts or ratings agencies publish about us, our business and the microfinancing lending market in China in general. We do not have any control over these analysts or agencies. If one or more of the analysts or agencies who cover us downgrades us or our securities, the price of our ADSs may decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the price of our ADSs or trading volume to decline.

Our ADSs would be subject to delisting from the NYSE American if we are unable to achieve and maintain compliance with the NYSE American’s continued listing standards.

Under the NYSE American Company Guide (the “Company Guide”), we are required to maintain a minimum continued listing standards on the NYSE American. If we are unable to maintain compliance with such Company Guide for continued listing, our ADSs would be subject to suspension and delisting.

If we are unable to comply with the NYSE American’s continued listing standards, there may be a significant decline in the trading price, trading volume and liquidity of our ADSs. In addition, the suspension and delisting of our ADSs would lead to decreases in analyst coverage and market-making activity relating to our ADSs, as well as reduced information about trading prices and volume. As a result, it could become significantly more difficult for our ADSs holders to sell their ADSs at prices comparable to those in effect prior to delisting or at all.

Substantial future sales or perceived sales of our ADSs or ordinary shares in the public market could cause the price of our ADSs to decline.

Sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2019, we had 1,001,131,400 ordinary shares outstanding, including 108,711,840 ordinary shares represented by 2,264,830 ADSs. All ADSs are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining ordinary shares outstanding will be available for sale and, in the case of the ordinary shares that certain option holders will receive when they exercise their share options, until the later of (i) the first anniversary of the grant date, and (ii) the expiration of any relevant lock-up periods, subject to volume and other restrictions that may be applicable under Rule 144 and Rule 701 under the Securities Act. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

Our articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ADSs and ordinary shares.

Our currently effective articles of association is our amended and restated memorandum and articles of association which limit the ability of third parties to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Companies Law of the Cayman Islands (2013 Revision) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities laws as compared to the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

There is uncertainty as to whether the courts of the Cayman Islands would:

- recognize or enforce judgments of courts of the United States obtained against us based on certain civil liability provisions of U.S. securities laws; and
- entertain original actions brought against us predicated upon certain civil liability provisions of U.S. securities laws.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands company and all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the United States federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to vote your ordinary shares.

As a holder of our ADSs, you will only be able to exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depository. Upon receipt of your voting instructions, the depository will vote the underlying ordinary shares in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying shares unless you withdraw the shares. Under our currently effective articles of association, the minimum notice period required for convening a general meeting is seven days. When a general meeting is convened, you may not receive sufficient advance notice to withdraw the shares underlying your ADSs to allow you to vote with respect to any specific matter. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

The depository for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not vote at shareholders' meetings, the depository will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have instructed the depository that we do not wish a discretionary proxy to be given;
- we have informed the depository that there is substantial opposition as to a matter to be voted on at the meeting; or
- a matter to be voted on at the meeting would have a material adverse impact on shareholders.

The effect of this discretionary proxy is that if you do not vote at shareholders' meetings, you cannot prevent our ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

You may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depository may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs represented by American depositary receipts, or ADRs, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings and you may not receive distributions with respect to the underlying ordinary shares if it is impractical to make them available to you.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act or exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

In addition, the depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property and you will not receive such distribution.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our holding company, Dunxin Financial Holdings Limited (formerly known as China Xiniya Fashion Limited), was incorporated in the Cayman Islands as an exempted limited liability company on June 24, 2010. On December 28, 2017, we completed the Divestiture and Acquisition. In connection with the Acquisition, we purchased all of the issued and outstanding ordinary shares of True Silver for a cash payment of RMB228,000,000 (\$34,588,428) and the issuance of 772,283,308 of our ordinary shares at RMB1.00 (\$0.15) per share, and True Silver became our wholly owned subsidiary. True Silver utilizes a VIE structure to operate and consolidate 80% of the financial results of Chutian.

As a result of the CIB Transaction, Honest Plus and Perfect Lead, the former shareholders of True Silver, became the controlling shareholders of the Company. The CIB Transaction was accounted for as a reverse acquisition, wherein True Silver is considered the acquirer for accounting and financial reporting purposes. Accordingly, we changed our business from an apparel business to a microfinance lending business in Hubei Province, China. We currently operate our microfinance lending business through Chutian.

The following is a brief description of each of the Company's subsidiaries:

- Chutian HK. Chutian Financial Holdings (Hong Kong) Limited ("Chutian HK") is a limited company incorporated on August 12, 2016, under the Companies Ordinance of Hong Kong. The total amount of paid-up share capital of Chutian HK is HKD10,000 with 100 ordinary shares. Chutian HK is wholly owned by True Silver.
- Chutian Holding. Wuhan Chutian Investment Holding Limited ("Chutian Holding") is a wholly foreign owned enterprise established by Chutian HK on November 4, 2016. Chutian Holding has been issued a Business License (unified social credit code: 91420100MA4KPA0H54) by Wuhan Administration for Industry and Commerce on November 4, 2016, and a Recordation Receipt for Establishment of Foreign-Invested Enterprises (recordation No.: Wu Shang Zi Bei 201600006) issued by the Wuhan Commercial Bureau on October 19, 2016.
- Chutian. Hubei Chutian Microfinance Co., Ltd. is a joint stock company incorporated under laws of PRC on February 20, 2013. Chutian currently holds a business license issued by the Administrative Approval Bureau of Wuchang District, Wuhan Municipality on April 25, 2017, which allows it to operate a microfinance business and provides individual and business loans to persons residing in and businesses operating in Hubei Province, China. Through a series of contractual agreements (VIE Agreements), Chutian Holding is deemed to control 80% of Chutian and have rights to consolidate 80% of Chutian's financial results.

An entity, Hubei Kai Wu Small and Micro Economic Research Institute Co. Ltd, was set up in May 2018 with a registered share capital of RMB5 million, where Chutian should subscribe RMB1.365 million of the registered share capital and held 27.3% of the equity interest of this company. However, all shareholders, including Chutian, did not subscribe to the share capital and this company remain dormant as of December 31, 2019.

The following is a brief description of the VIE Agreements entered into on August 10, 2017, between Chutian Holding and Chutian, through which we control 80% of Chutian:

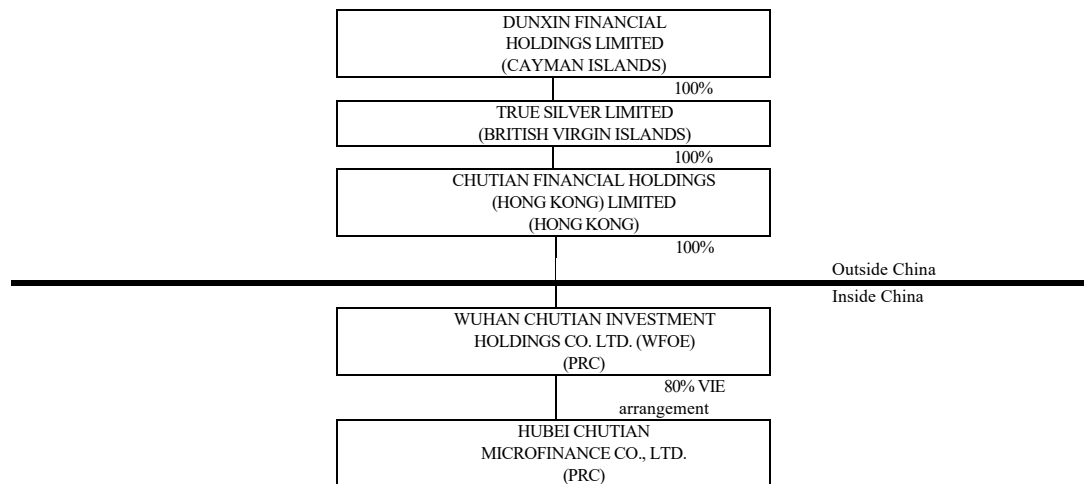
- Exclusive Consigned Management Service Agreement. Pursuant to the Exclusive Consigned Management Service Agreement between Chutian and Chutian Holding, Chutian Holding was appointed as the exclusive services provider to Chutian (including its subsidiaries, branches and any other invested entities) for the following services: comprehensive business support, including but not limited to, daily business management consulting, financial consulting, professionals and technical training during the term of this Agreement in accordance with the terms and conditions of this Agreement. For services rendered to Chutian by Chutian Holding under this Agreement, Chutian Holding is entitled to collect a service fee equal to 80% of the net operating income of Chutian (the "Service Fees"). The Service Fees are due and payable on a quarterly basis; provided, however, in principle, the payment of the Service Fees should not cause any difficulty to the operation of either party to this Agreement. The exclusive Consigned Management Service Agreement has a term of five (5) years. Chutian is not entitled to unilaterally terminate this Agreement. Chutian Holding has the right to terminate this Agreement by giving a thirty (30) day prior notice to Chutian. This Agreement could be extended based on the originally agreed terms upon expiration if Chutian Holding gives written confirmation before expiration of the agreement. The period of extension will be decided by Chutian Holding, which Chutian is required to unconditionally accept.
- Exclusive Purchase Option Agreement. Under the Exclusive Purchase Option Agreement, Hubei New Nature Investment Co., Ltd, Qizhi Wei, Sizhi Yang, Yuyou Hu, Wanxin Deng, Jing Liang, Hailin Wang, and Wenting (Tina) Xiao (collectively "Shareholders holding 80% Equity Interests of Chutian") irrevocably granted to Chutian Holding, or any third party designated by WFOE, an exclusive purchase option right, at any time to purchase all or part of such shareholders' current and future equity interests in Chutian, to the extent permitted by PRC laws and regulations. Apart from Chutian Holding or any third party designated by Chutian Holding, no other person has the right to purchase such equity interests in Chutian. Shareholders holding 80% Equity Interests of Chutian are required to transfer their respective equity interests in Chutian to Chutian Holding in accordance with their percentage ownership of such equity interests provided Chutian Holding selects to purchase such shareholders' equity interests. Chutian irrevocably granted to Chutian Holding or any third party designated by Chutian Holding an exclusive purchase option right, at any time to purchase all or a substantial part of Chutian's assets, to the extent permitted by PRC laws and regulations.
- Shareholders' Voting Proxy Agreement. Under the Voting Proxy Agreement, the Shareholders holding 80% Equity Interests of Chutian irrevocably granted and entrusted Chutian Holding or their designee to be their exclusive proxy to exercise their voting rights that they would have at a shareholders' meeting or by written consent for the maximum period permitted pursuant to the PRC laws and in accordance with and within the limitations of the PRC laws and the then effective articles of association of Chutian, including but not limited to, the following rights:
 - (a) to attend and participate in the shareholders' meetings of Chutian as the voting proxy of the Shareholders holding 80% Equity Interests of Chutian;
 - (b) to vote on the matters proposed at the shareholders' meetings, including, but not limited to, voting on the appointment and election of the directors and supervisors of Chutian;
 - (c) to suggest convening the shareholders' meetings of Chutian; and
 - (d) all other voting rights entitled to the shareholders of Chutian as stipulated in the articles of association of Chutian, as amended from time to time.

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- **Share Pledge Agreement.** Under the Share Pledge Agreement, the Shareholders holding 80% Equity Interests of Chutian pledged all of their equity interests in Chutian to Chutian Holding to guarantee the performance of Chutian's obligations under the Exclusive Consigned Management Agreement, Shareholders Voting Proxy Agreement and Exclusive Purchase Option Agreement (the "Main Agreements"). The equity pledge under the agreement constitutes a continuous guarantee and remains effective before fulfillment of the obligations under the Main Agreements or full repayment of the guaranteed liability.

Our ADSs were listed on the New York Stock Exchange on November 23, 2010 and transitioned to the NYSE American on December 28, 2017. Our current ratio of our ADS to ordinary shares is 1:48. We were traded under the symbol "XNY" from November 23, 2010 to March 4, 2018, and on March 5, 2018, we began trading under the symbol "DXF."

The following diagram illustrates our current corporate structure:



Our principal executive offices are currently located at 23rd Floor, LianFa International Building, 128 Xu Dong Road, Wuchang District, Wuhan City, Hubei Province, the People's Republic of China. The Company's current telephone number at this address is +86-27-88517899. The Company's registered office in the Cayman Islands is located at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our current website is www.hbctf.com. The information contained on our website does not constitute a part of this document. Our agent for service of process in the United States is Corporation Service Company, located at 1180 Avenue of the Americas, Suite 210, New York, NY 10036.

B. Business Overview

Overview

We are a lending company primarily engaged in the business of providing loan facilities to micro, small and medium sized enterprises and sole proprietors in Hubei province of the People's Republic of China. We operate our microfinance lending business through our 80% VIE operating company, Chutian. All of our operations are conducted in the PRC through Chutian. We operate our microfinance lending business in the PRC on the basis of the approval certificates, business license and other requisite licenses held by Chutian. We conduct our microfinance lending business in the PRC and generate virtually all of our revenues for our business through the VIE Agreements.

We typically provide family-run businesses, farmers and individual borrowers with working capital and bridge financing support, primarily through means of short-term loans based upon their needs and qualifications. Based on our business environment and funding demands, we focus on maintaining short term loan facilities that are small in size and plan to diversify our customer base into multiple industries.

Industry and Market

Under China's current financial systems, most commercial loans are made by China's state-owned banks and commercial banks. However, due to concerns over payment risks, the banks in China tend to only lend to large private companies and state-owned companies. The small and medium-sized enterprises ("SMEs") and individuals have historically been an underserved segment of the Chinese banking market while SME's represent a significant part of China's economy.

The number of SMEs in China is significant. They account for over 48% of China's total enterprises, with micro-businesses making up over 50%. According to data compiled by the Development and Research Center of the State Council, SMEs account for nearly 60% of the GDP, 80% of the overall employment and more than half of the economic output of China as of 2012. As a result, SME financing demands are on the rise. In some degree, the microfinance lending companies fill the gaps in China's financial system by serving farmers, individuals and the SMEs.

In most cases, the application process for microfinance companies is easier than traditional bank loans, and the borrowers typically receive loan approval and funds faster. However, the loan fees and interest charged by microfinance companies tend to be higher than traditional banks.

In a statement made by the China State Council in December 2015 (*Positively Promote the New Consumption Leading Role to Accelerate a New Supply and New Motive Force*), "China needs to promote financial products and service innovation, to support the development of consumption loan, encourage the qualified market entities to establish consumption financial companies, expand the pilot consumption financial companies to the whole country."

In June 2017, the Ministry of Finance and the State Administration of Taxation jointly issued *The Notice of Tax Policies Regarding Microfinance Companies* to reduce the taxation burden of microfinance companies. This was seen as a positive move to promote the microfinance companies in China by helping to reduce operating costs.

According to iResearch, between 2014 and 2019, China's unsecured consumer finance market is forecasted to grow at a compound annual growth rate, or CAGR, of 26.6% from RMB3.5 trillion to RMB11.4 trillion in terms of outstanding loan balance. As we continue to expand our business, we believe that we will be well positioned to capture the opportunities presented by this growing market.

Our Business

We use our website <http://www.hbctf.com>, our membership in certain industry associations to promote and to provide information about our company and our products. After learning about our company and our products, borrowers approached us to apply for their loans. We provide loans to individuals and companies through our credit teams.

Most of our borrowers are individuals and companies. Our typical size loans for individuals are around RMB4.0 million (\$0.6 million), and are around RMB7.0 million (\$1.1 million) for companies. Upon loan origination, our loans are either guaranteed or secured and have payment terms that are typically become due within twelve (12) months, subject to annual renewal of terms. However, in recent years, most loans are delinquent and are not being paid on this schedule. The following is a general description of our loan products:

- **Consumer Loans.** We offer guarantee-backed personal loans, with terms ranging from three (3) months to six (6) months and with amounts ranging from RMB10,000 (\$1,440) to RMB100,000 (\$14,402), to working individuals. To qualify for this loan, the borrower must be domiciled in Wuhan and hold a Wuhan household registration. In addition, the borrower must have a reasonable loan purpose and a repayment plan. Borrowers are permitted to pay back the loan with their future salaries. We do not require any collateral for this loan, however, the borrower and a third-party guarantor are jointly and severally liable for the repayment of the loan.
- **Commercial Loans.** We offer secured loans, with terms ranging from three (3) months to twelve (12) months and with amounts ranging from RMB100,000 (\$14,402) to RMB500,000 (\$72,014), to private business owners or individual business owners operating within Wuhan. This loan is mainly offered to businesses that are encountering temporary cash flow difficulties. In order to qualify, the borrower's business must be in good standing with the fixed operation office and registered office in Wuhan. In addition, the borrower must have a reasonable loan purpose and a repayment plan. This loan is either secured by assets as collateral or guaranteed by a third-party.
- **Collateral-Backed Loans.** We offer collateral-backed loans, with terms ranging from three(3) months to twelve (12) months and amounts ranging from RMB500,000 (\$72,015) to RMB3,000,000 (\$432,090) to individuals, private business owners, private enterprises, and other business entities in Hubei Province. The borrower is required to have a reasonable loan purpose and a repayment plan, and if the borrower is a business, the business must be in good standing with stable cash flow. The borrower must own real property or an automobile, and the loan is secured by assets as collateral.
- **Enterprise Loans.** We offer collateral-backed loans, with terms ranging from three (3) months to twelve (12) months and lines of credit ranging from RMB3,000,000 (\$436,000) to RMB7,000,000 (\$1.0 million), to small and medium-sized enterprise borrowers operating businesses in Hubei Province. The main purpose of this loan is to satisfy the borrower's temporary cash flow needs. Borrowers are required to have a reasonable loan purpose, a repayment plan, and the business must be in good standing with stable cash flow. The loan is secured by assets as collateral with complete collateral ownership certification documents.

Market Opportunity and Growth Strategy

Our long-term objective is to become a leading lending institution that caters to serving the financial needs of consumers and small and medium-sized companies with funding flexibility and limited credit exposure. We intend to implement a three-pronged growth strategy to expand our Company:

- **Organic Growth:** We intend to increase our lending capacity by using the cash generated from operations and by increasing our registered and paid-up capital for Chutian. Currently, we fund credit mainly through our investors. We plan to optimize our institutional funding sources by working with more diversified institutions, such as commercial banks, insurance companies, consumer finance companies, trust companies, and asset management companies. In order to streamline our business operations, we intend to secure more fixed and longer-term commitment from our institutional funding partners.

We are focusing our business in the fields of commercial loans and enterprise loans. We intend to conduct more business in consumer loans by streamlining our risk management, upgrading the informational technology system, and increasing our manpower.

Currently, our customers are mainly based in the city of Wuhan, but we will seek to expand our customer base to cover the entire Hubei Province. According to the Hubei Provincial Statistics Bureau, the total population of Hubei Province is around 58.85 million, and 10.76 million of them live in Wuhan. We believe that we shall be able to expand into other major cities of Hubei with our leading brand, established sales team, and increased working capital by actively promoting our company and our products via our website and attending activities organized by certain industrial associations.

- **Mergers and Acquisitions:** We believe that the microfinance industry is an emerging market in China. On January 25, 2018 and 2019 and October 25, 2019, the PBOC published statistics, dated December 31, 2017 and 2018 and September 30, 2019, that a total of 283, 278 and 275 microfinance lending companies were registered in Hubei Province and with the combined total registered and paid-up capital of RMB30.6 billion (\$4.5 billion), RMB30.7 billion (\$4.5 billion) and RMB30.6 billion (\$4.5 billion) among these microfinance lending companies, respectively. The average registered and paid-up capital of these microfinance lending companies was RMB108.1 million (\$15.7 million), RMB110.4 million (\$16.1 million) and RMB111.3 million (\$16.2 million), respectively, whereas our registered and paid-up capital was RMB450 million (\$65.6 million). The average outstanding loan portfolio for these microfinance lending companies was RMB109.8 million (\$16.0 million), RMB111.2 million (\$16.2 million) and RMB107.7 million (\$15.5 million), whereas our outstanding loan portfolio was RMB615.2 million (\$88.4 million) as of December 31, 2019. Based on the data, we believe we are in a stronger position than our competitors and there are opportunities to consolidate the market when the time is right. We believe that if we were able to consolidate it would enable us to achieve economies of scale, reduce our operation costs, and enter specific regional markets.
- **New Business Lines:** We have identified new growth opportunities in the supply chain financing business, especially in equipment leasing and factoring. We have assembled a team to conduct market research and feasibility studies in the fields of leasing and factoring. Our initial study suggests that there are substantial potential opportunities in the light truck leasing business in the area surrounding Wuhan. Historically, Wuhan has been the transportation center of China. Wuhan has also become the logistic center of China because it is located in the heartland of China. As the city of Wuhan dramatically improves its infrastructure, we believe there will be a growth in opportunity in the regional and national trucking business. We may acquire some existing light truck lease business after we finish our market study and obtain approval from our board. The new business may become one of our major businesses in the future.

New Business Line

We developed our Supply Chain Finance Cloud Platform “HiTon” which is a technology-driven platform enabled by the big data analytics, cloud computing, AI, and mobile internet technologies. The platform is also built with a sophisticated risk management system, which includes automated customer selection, fraud detection, and credit scoring and assessment.

In May 2019, the release of the new mobile app and the launch of our Supply Chain Finance Cloud Platform demonstrated that we have evolved from our traditional lending business into the O2O (Online to Offline) supply chain financial business that served as a new engine to drive future growth. Going forward, we will make continuous efforts to develop a variety of supply chain financial products, helping meet the increasing demand from both individuals and SMEs by offering more customized services, and expanding our network presence in the regional market.

HiTon business line

We released our first mobile application “HiTon” in May 2019. “HiTon”, through our self-developed supply chain finance cloud platform, enables sellers to access credit for the sale of goods to buyer through logistics companies. We have spent more than one and a half years on exploring the business opportunity in this market and six months on the research and development of our cloud-based platform. “HiTon” is designed to help sellers receive payment on the same day as the date of delivery by offering short-term credit support that greatly improves capital efficiency by shortening the accounts receivable period, which traditionally lasts for 7-15 days. By cooperating with us, the logistics company will be positioned to change from a pure-play logistics company into a comprehensive service provider by offering logistic, financial, and settlement services. However, the launch was not successful due to significant liquidity issue faced by us, we are unable to continue to fund this business line. This business line was suspended in May 2019.

Employees

As of December 31, 2019, we have 16 full-time employees. Chutian has entered into written employment contracts with all of the employees in accordance with PRC Labor Law and Contract Law. None of our employees is covered by collective bargaining contracts. We enter into standard labor, confidentiality and non-compete agreements with our employees. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

As required by PRC regulations, we participate in various government statutory social security plans, including a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan and a housing provident fund. We are required under PRC law to contribute to social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time.

We had 38, 34 and 16 employees as of December 31, 2017, 2018 and 2019, respectively. The following table sets forth by function the number of our employees as of December 31, 2019:

Function	As of December 31, 2019
Operations	3
Loan Department	5
Risk Management	2
Finance and Administration	6
Total	16

Intellectual Property

As of December 2019, we do not own or have any significant intellectual property rights other than registered domain names (www.hbctf.com and www.dunxin.us). The domain name, www.hbctf.com, was registered on July 19, 2013, and will expire on July 19, 2020. The domain name, www.dunxin.us, was registered on February 1, 2018, and will expire on February 1, 2021. The Company intends to renew upon expiration. The Company is not materially dependent on any intellectual property.

Competition

Chutian primarily competes with other microfinance companies in the Hubei Province. On January 25, 2018 and 2019 and October 25, 2019, the PBOC published statistics, dated December 31, 2017 and 2018 and September 30, 2019, that a total of 283, 278 and 275 microfinance lending companies were registered in Hubei Province and with the combined total registered and paid-up capital of RMB30.6 billion (\$4.5 billion), RMB30.7 billion (\$4.5 billion) and RMB30.6 billion (\$4.5 billion) among these microfinance lending companies, respectively. The average registered and paid-up capital of these microfinance lending companies was RMB108.1 million (\$15.7 million), RMB110.4 million (\$16.1 million) and RMB111.3 million (\$16.2 million), respectively, whereas our registered and paid-up capital was RMB450 million (\$65.6 million). The average outstanding loan portfolio for these microfinance lending companies was RMB109.8 million (\$16.0 million), RMB111.2 million (\$16.2 million) and RMB107.7 million (\$15.5 million), whereas our outstanding loan portfolio was RMB615.2 million (\$88.4 million) as of December 31, 2019.

GOVERNMENT REGULATIONS

Regulatory Authorities of the Microfinance Industry in China

Currently in China there is no nationwide administrative regulatory authority for the microfinance industry at the state level. According to the *Guiding Opinions on the Pilot Operation of Microfinance Companies* (关于小额贷款公司试点的指导意见), jointly issued by the CBRC and the PBOC, on May 4, 2008, any provincial government that is able to assign a department, financial office or other similar authorities to take charge of the supervision and administration of microfinance companies and which is willing to assume the responsibility of risk management of microfinance companies may formulate pilot rules and measures in relation to the incorporation of microfinance companies within the province, autonomous region or municipality directly under the PRC government.

Local Regulatory Authority in Hubei Province, China

All provinces, autonomous regions, and municipalities directly under the PRC government must appoint their own regulatory authority for the microfinance industry. Currently, the microfinance industry in the PRC is primarily regulated by the financial offices or similar authority of the provincial government of the relevant provinces, autonomous regions and municipalities directly under the PRC government.

In Hubei Province, the Microfinance Work Joint Session and its office are the regulatory authorities for microfinance companies in Hubei Province. Pursuant to the *Measures for Administration of Pilot Scheme on Microfinance Companies in Hubei Province* (《湖北省小额贷款公司试点暂行政管理办法》) issued on May 13, 2009, the Microfinance Work Joint Session is responsible for the organization, coordination, administration, supervision, regulation, and the promotion of the pilot work of microfinance companies. The Microfinance Work Joint Session consists of the Financial Office of the Hubei Province People's Government, Hubei Province Administration for Industry and Commerce, Hubei Bureaus of the CBRC, Hubei Branch of the PBOC and the Public Security of Hubei Province.

Regulatory Policies of the Microfinance Companies in China

A. National Policy

Currently, there are no nationwide laws or regulations covering the microfinance industry in China. However, the *Guiding Opinions on the Pilot Operation of Microfinance Companies* (《中国银行业监督管理委员会、中国人民银行关于小额贷款公司试点的指导意见》(银监发[2008]23号)) provides the following guidance on pilot operations for microfinance companies:

- to establish a microfinance company, an applicant applies to the competent authority of the provincial government, and upon approval, must comply with registration formalities to obtain all necessary business licenses, approvals and certificates;
- if a microfinance company is a limited liability company, its registered and paid-up capital must be at least RMB5 million (\$0.7 million); and if it is a joint stock company, its registered and paid-up capital must be at least RMB10 million (\$1.5 million). No single natural person, legal entity, other social organization or their respective affiliated parties can hold in excess of 10% of the total registered capital of the company;
- the funds of a microfinance company mainly come from the capital contribution and funds donated by shareholders as well as funds raised from, at most, two banking financial institutions. A microfinance company must accept public supervision and shall not engage in any form of illegal fundraising;
- according to relevant laws and regulations, the funds obtained by a microfinance company from banking financial institutions may not exceed 50% of its net capital;
- Pursuant to Article 11 of the *Work Guideline on the Pilot of Microfinance Companies in Hubei Province* (《湖北省小额贷款公司试点工作指引》(鄂小贷联办发[2012]1号)) issued by the General Office of Hubei People's Government on April 19, 2012, a microfinance company can expand their finance percentage to the 100% of the net capital subject to the City(Provincial) Small-Sum Loan Joint Meeting's recommendation and submission to the Province Small-Sum Loan Joint Meeting and with the approval of the said Province Small-Sum Loan Joint Meeting. The legal person shareholders of the small-sum loan companies that are approved to expand their finance percentage by the Province Small-Sum Loan Joint Meeting, can provide finance to the amount of no more than 50% of the net capital to the small-sum loan companies.
- the balance of loan of a single borrower may not exceed 5% of the net capital of a microfinance company;
- a microfinance company must conduct its operations according to market-oriented principles and lift the ceiling on the loan interest rate, which may not exceed that set by judicial department, and set the floor at 0.9 times the PBC Benchmark Rate. The specific floating range must be determined by the microfinance company based on market-oriented principles;
- no founder (being natural person, legal entities and other social organization) of the microfinance companies and no natural person (who is nominated as a director, supervisor or senior management of microfinance companies) shall have a criminal or bad credit record;
- a microfinance company shall, according to relevant provisions, set up prudent and normative asset classification and provision systems, accurately classify the assets, make full provision for allowance for doubtful accounts, and guarantee that its adequacy ratio of provision for asset losses always remains above 100% in order to fully cover all risks;

- the PBOC will trace and monitor the interest rates and capital flows of microfinance companies, and will include them in the credit system. The microfinance company shall regularly provide that credit system with information about the borrower, loan amount, guarantee and repayment, and other business information; and
- the microfinance company shall establish a sound corporate governance structure and credit management system and strengthen internal control.

Chutian did not meet the guide regarding the ownership limitation of 10%, since there were shareholders who respectively held 30% and 15% of the registered and paid-up capital of Chutian at the establishment of Chutian in February 2013. Currently there are shareholders who hold respectively 20% and 19.8% of the registered and paid-up capital of Chutian after the increase of Chutian's registered and paid-up capital from RMB300 million (\$43.6 million) to RMB450 million (\$65.4 million) in December 2016. However, both the establishment and the increase of registered and paid-up capital of Chutian obtained the approval required by the provincial authority, in accordance with the provincial local regulatory policies, namely Work Guideline on the Pilot of Microfinance Companies in Hubei Province (*《湖北省小额贷款公司试点工作指引》*(鄂小贷联办发[2012]1号) issued on April 19, 2012 (see below Local Regulatory Policies in Hubei).

On October 26, 2017, the Administration of Taxation of the Ministry of Finance of the People's Republic of China issued the *Circular regarding the Tax Policy of Financing of Small and Micro Enterprises* (*《关于支持小微企业融资有关税收政策的通知》*(财税(2017)77号). This circular seeks to support agriculture-related and small-scaled businesses by giving certain tax incentives to financial institutions that lend to them. From December 1, 2017 to December 31, 2019, any interest income earned by financial institutions from farmers, small businesses, micro-enterprises, and privately or individually-owned businesses, shall be exempt from value-added tax. In order to qualify for this exemption, financial institutions must separately calculate and report interest earned from the aforementioned borrowers. Any interest income that is not calculated or reported separately shall not be eligible for the value-added tax exemption. In addition, from January 1, 2018 to December 31, 2020, financial institutions shall be exempt from paying stamp duty on loan agreements entered into with small businesses and micro-enterprises.

On November 21, 2017, the Office of Leading Group on Special Rectification of Risks in the Internet finance and Online Lending promulgated "the Notice to Immediately Suspend the Approval of Establishment of Online Microfinance Company" (*互联网金融风险专项整治工作领导小组办公室文件-整治办函[2017]138号*) (the Suspend Notice), according to which, regulatory authorities should not approve any of the establishment of new online microfinance company, nor approve any license of cross-provinces (districts, cities) microfinance business to the existing microfinance companies, effective from the date of the Suspend Notice.

Currently, Chutian is not involved in any business of online lending and internet finance and is not involved in any cross-provinces microfinance business.

B. Local Regulatory Policies in Hubei

At present, pilot operations of microfinance companies are supervised and managed by authorized authorities at the provincial level. Provincial governments with a designated supervising authority for microfinance companies have promulgated various administration measures to establish that the provincial government authorities (such as provincial-level finance bureaus) are responsible for the supervision and management of microfinance companies. These provincial governments also issued various regulatory policies and measures for the purpose of supervising microfinance companies in their respective supervising regions.

Given that our microfinance business is confined to the region of Hubei Province, the following is a brief summary of the relevant laws and regulations applicable in the Hubei Province covering the microfinance industries:

- *Implement Opinions on the Pilot Operation of Microfinance Companies in Hubei Province* (《湖北省人民政府办公厅关于小额贷款公司试点工作的实施意见》(鄂政办发[2008]61号)) issued by the General Office of the Hubei Province People's Government on September 10, 2008.
- *Measures for Administration of Pilot Scheme on Microfinance Companies in Hubei Province* (《湖北省小额贷款公司试点暂行管理办法》(鄂金办发[2009]18号)) jointly issued by the Financial Office of the Hubei Province People's Government, Hubei Province Administration for Industry and Commerce, Hubei Bureaus of the CBRC, Hubei Branch of the PBOC and the Public Security of Hubei Province on May 13, 2009.
- *Interim Management Measures on Capital and Equity of Microfinance Companies in Hubei Province* (《湖北省小额贷款公司资本及股权管理暂行办法》(鄂金办发[2010]11号文印发)) jointly issued by the Financial Office of the Hubei Province People's Government, Hubei Province Administration for Industry and Commerce, Hubei Bureaus of the CBRC, Hubei Branch of the PBOC and the Public Security of Hubei Province on May 17, 2010.
- *Several Opinions on Promoting the Healthy Development of Microfinance Companies in Hubei Province* (《湖北省人民政府办公厅关于促进小额贷款公司健康发展的若干意见》(鄂金办发[2010]121号文印发)) issued by the General Office of the Hubei Province People's Government on December 23, 2010.
- *Work Guideline on the Pilot of Microfinance Companies in Hubei Province* (《湖北省小额贷款公司试点工作指引》(鄂小贷联办发[2012]1号)) issued by the Microfinance Work Joint Session Office on April 19, 2012.
- *Provisional Administrative Working Guidance for Utilization of Capital Market by Microfinance Companies in Wuhan* (《武汉市小额贷款公司利用资本市场融资管理工作指引(暂行)》, promulgated on Oct 13, 2015.

Key contents of the above regulatory policies are listed as follows:

- A microfinance company shall be a limited liability company or joint stock company which is established with investments from natural persons, legal-person enterprises or other social organizations, does not absorb the public deposits and operates a microfinance business.
- The major sources of funds of a microfinance company shall be the capital paid by shareholders, donated capital and the capital borrowed from a maximum of two banking financial institutions.
- The Financial Office of the People's Government of Hubei Province establishes the Microfinance Work Joint Session, jointly with other authorities concerned, including Hubei Province Administration for Industry and Commerce, Hubei Bureaus of the CBRC, Hubei Branch of the PBOC and the Public Security of Hubei Province. The Microfinance Work Joint Session is in charge of the organization, coordination, regulation and promotion of the pilot work of microfinance companies. The Microfinance Work Joint Session Office is located in the Financial Office of the Hubei Province People's Government.
- The source of the registered and paid-up capital of a microfinance company shall be authentic and legal, and the capital shall comprise of all paid-in money capital and be fully paid in by investors or initiators in a lump sum. If it is a limited liability company, the registered and paid-up capital shall not be less than RMB30 million (\$4.4 million); and if it is a joint stock company, the registered and paid-up capital shall not be less than RMB50 million (\$7.3 million). The shares held by a single natural person, legal entity, other social organization or affiliated party thereof shall not exceed 10% of the total registered capital of the company. The main promoter is, however, allowed to hold up to 50% of the shares of the company and no less than 20% of the shares of the company. And upon approval of the People's Government of Hubei Province, a wholly owned microfinance company by a sole legal entity can be established. It is also provided that with the approval from the relevant government authorities, the shareholding ceiling of the promoter along with other connected shareholders can be lifted.

- The number of shareholders of a microfinance company shall meet the statutory quorum. If it is a limited liability company, the shareholders shall be no more than 50. If it is a joint stock company, the shareholders shall be not less than two but not more than 200, of whom more than half shall have domiciles within the territory of China.
- The directors of a microfinance company shall hold a college diploma or above and have working experience in the area of finance or economy for at least three years. The chairman of the board and the manager of a microfinance company shall hold a college diploma or above and have at least a two-year working experience in a commercial bank or at least a five-year working experience in a business environment.
- To set up a microfinance company, the preparatory establishment shall be firstly applied. The applicants shall submit the application materials of preparatory establishment to competent departments of the districts and counties where a proposed microfinance company is located. The competent department shall submit promptly the whole preparatory application materials together with preliminary examination opinion, credit evaluation, and proof of shareholders to the municipal competent department. The establishment of a microfinance company shall ultimately be approved by the Microfinance Work Joint Session.
- The alteration of name, domicile, registered capital, senior management personnel and the main promoter of a microfinance company shall be approved by the Microfinance Work Joint Session.
- The balance of the capital borrowed from banking financial institutions shall not exceed 50% of the net capital within the scope. The interest rate and term of the borrowed capital shall be determined by the company with the banking financial institutions upon consultation, and the interest rate shall be determined by taking the Shanghai Inter-bank Offered Rate as the base rate.
- The microfinance company shall establish and perfect the corporate governance structure according to the requirements of the *Company Law*, clarify the right responsibility relationship among the shareholders, directors, supervisors and managers, formulate solid and effective rules of procedure, decision-making procedure and internal audit system and improve the effectiveness of corporate governance. The microfinance companies shall establish and perfect the loan management system, clarify the business procedure and operation norm for the pre-loan investigation, review during the loan term and post-loan examination, and truly strengthen the loan management. The microfinance companies shall reinforce the internal control, establish and perfect the enterprise financial accounting system according to relevant provisions of the State, make truthful recordings and comprehensively reflect its business activities and financial activities.
- The microfinance companies shall establish the information disclosure system, disclose the financial statements audited by the intermediary agent and the annual business operation status, financing status, major matters and other information, to the shareholders of the company, competent department, banking financial organizations providing financing to the same, relevant donation organization, and to the public where deemed necessary.
- The microfinance companies shall have the autonomy to select prospective borrowers based on the principle of serving the development of farmers, agriculture and rural economy. When granting loans, they shall adhere to the principle of “small sum and decentralization”. Microfinance companies are encouraged to provide credit services for farmers and mini-size enterprises and make more efforts in increasing their number of clients and enlarging the coverage of services. 70% of the outstanding loan balance of the microfinance company shall be applied to borrowers of a single account whose balance of the loan is no more than RMB0.5 million (\$0.1 million), while the rest may be applied to other borrowers, provided that loans to any of such borrowers shall not exceed 5% of the net capital. No loans shall be granted to the shareholders of the microfinance company.

- The microfinance companies shall operate on the market-oriented principle. The loan interest ceiling shall be fluctuating but shall not exceed the ceiling prescribed by the judicatory authority, and the bottom line shall be 0.9 times the loan base interest rate published by the PBC. The specific floating range shall be determined independently according to the market principles. The contract clauses, such as the term of loan and loan repayment provisions, shall be determined by the lender and borrower upon negotiation pursuant to law under the principles of fairness and voluntariness.
- Debt financing instruments referred to issuance of debt financing instruments including private placing bonds, by microfinance companies at legally established open exchange markets, including but not limited to Beijing Securities Exchange and Wuhan Securities Exchange. Total asset transfer financing (excludes financing provided from shareholders) of the microfinance company acquired from bonds, funds from banking financial institutions and buy-back, shall not exceed 150% of its net capital. Total financing provided by legal person shareholders shall not exceed 50% of its net capital.

In accordance with *Legislation Law of the People's Republic of China*, laws in China consist of the *Constitution*, law, administrative regulation, local regulation, autonomous regulation, separate regulation and rule. They are formulated by different legislative bodies and administrative bodies, and are of different ranks of legal effect.

The legal effect of the *Constitution* is the highest; the effect of laws is higher than that of administrative regulations, local regulations, and rules; the effect of administrative regulations is higher than that of local regulations, and rules; the effect of local regulations is higher than that of the rules of the local governments at or below the corresponding level; rules formulated by the people's government of a province or autonomous region shall have superior legal authority than rules formulated by the people's government of a city with districts or an autonomous prefecture located within the administrative regions of the province or autonomous region; the effect of the rules of different departments is equal between the departments, and the effect of the department rules and of the rules of local governments is equal between the departments and local governments; their application shall be confined to their respective limits of authority; with regard to laws, administrative regulations, local regulations, autonomous regulations, separate regulations or rules, if they are formulated by one and same organ and if there is inconsistency between special provisions and general provisions, the special provisions shall prevail; if there is inconsistency between the new provisions and the old provisions, the new provisions shall prevail.

Currently, there are no specific laws or administrative regulations relating to microfinance companies in China. The main regulations relating to microfinance companies are rules formulated by the CBRC and the PBC, and rules formulated by local government or departments of local governments.

The regulatory policies are rules or regional normative documents, and are neither laws nor administrative regulations. The microfinance company should comply with the above requirements in the regulatory policies when operating its business. The Microfinance Work Joint Session and the Microfinance Work Joint Session Office, which are responsible for the supervision and administration of microfinance companies, has the authority to interpret, determine and waive the compliance of any of the above requirements.

Failure to comply with the above requirements without a waiver or exemption may subject the microfinance company to (i) warning, (ii) punishment on its senior executive, (iii) restriction on business operation, (iv) suspension of its pilot operation permit, and (v) ultimately the abolishment of its pilot operating permit, which will have a material adverse effect on our business.

Labor Contract Law

The PRC Labor Contract Law was promulgated on June 29, 2007, as amended on December 28, 2012, became effective on July 1, 2013. According to the Labor Contract Law of PRC labor contracts shall be entered into if labor relationships are to be established between an entity and its employees. The entity cannot require the employees to work in excess of the time limit as permitted under the relevant labor laws and regulations and shall pay to the employees' wages which are no lower than local standards on minimum wages. The entity shall establish and perfect its system for labor safety and sanitation, strictly abide by rules and standards on labor safety and sanitation, educate employees in labor safety and sanitation in the PRC.

Social Insurance Regulations

According to the PRC Social Insurance Law and the Rules on Implementing the PRC Social Insurance Law (《中华人民共和国社会保险法》及其实施条例), both effective as of July 1, 2011, and the PRC Social Insurance Law was amended on December 29, 2018, the state shall establish a social insurance system including basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and both employers and individuals shall pay social insurance premiums. Migrant workers shall participate in social insurance schemes, and foreigners employed within the territory of the PRC shall participate in social insurance as well. Violations of the PRC Social Insurance Law may result in the imposition of fines, and criminal liability may be incurred in serious cases.

According to Interim Regulations concerning the Levy of Social Insurance (《社会保险费征缴暂行条例》) effective as of January 22, 1999, as amended on March 24, 2019, employers in the PRC shall conduct the registration of social insurance with the competent authorities, and make contributions to the basic pension insurance, basic medical insurance and unemployment insurance for their employees.

According to the Regulations on Occupational Injury Insurance (《工伤保险条例》), effective as of January 1, 2004, as subsequently amended on December 20, 2010, employers in the PRC shall pay the occupational injury insurance fees for their employees.

Foreign Exchange Registration of Offshore Investment by PRC Residents

On July 4, 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment (《国家外汇管理局关于进一步简化和改进直接投资外汇管理政策的通知》) in February 2015 (partially invalid on December 30, 2019), which took effect on June 1, 2015. This notice has amended SAFE Circular 37 requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. Several articles of this notice were abolished by SAFE on December 30, 2019, but these amended articles are not related to the foreign exchange registration of offshore investment by residents.

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (*《中华人民共和国外汇管理条例》*), or the Foreign Exchange Administration Rules, promulgated on January 29, 1996, as subsequently amended on January 14, 1997 and August 1, 2008. Under these rules, RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan unless prior approval of SAFE is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents, such as board resolutions and tax certificates, or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency, subject to an approval by SAFE of a cap amount, to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and exchange in securities and derivative products abroad are subject to registration with SAFE and approval or file with the relevant governmental authorities if necessary.

On November 19, 2012, SAFE promulgated the *Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment* (*《国家外汇管理局关于进一步改进和调整直接投资外汇管理政策的通知》*(汇发[2012]59号)), as amended on May 4, 2015, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated the *Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents* (*关于《国家外汇管理局关于印发〈外国投资者境内直接投资外汇管理规定〉及配套文件的通知》*(汇发[2013]21号)) in May 2013 (partially Invalid on December 30, 2019), which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

On February 13, 2015, SAFE promulgated the *Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment*, or SAFE Notice 13 *国家外汇管理局关于进一步简化和改进直接投资外汇管理政策的通知*-汇发[2015]13号)(partially Invalid on December 30, 2019). After SAFE Notice 13 became effective on June 1, 2015, instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals will be required to apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, will directly examine the applications and conduct the registration.

Dividend Distribution

The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other PRC sourced passive income of non-resident enterprises. The Implementation Rules reduced the rate from 20% to 10%. The central government of the PRC and the government of Hong Kong signed the Arrangement between the *Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* on August 21, 2006, or the Arrangement. According to the Arrangement, no more than 5% withholding tax shall apply to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the equity interests of the PRC company and is deemed as the “beneficial owner” under the Arrangement. Notice on the Implementation of the Fourth Protocol of Arrangement between Chinese Mainland and Hong Kong SAR on Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (Announcement [2016] No.12 of the State Administration of Taxation), Announcement of the State Administration of Taxation on the Implementation of the Third Protocol of Arrangement between Chinese Mainland and Hong Kong SAR on Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income, Announcement [2011] No.1 , Notice on the Implementation of the Second Protocol of Arrangement between Chinese Mainland and Hong Kong SAR on Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (Guo Shui Han [2008] No. 685) and Circular of the State Administration of Taxation on Interpreting and Implementing Some Clauses in the Arrangement between Mainland China and Hong Kong SAR concerning Avoiding Double Taxation and Preventing Tax Evasion on Income(Guo Shui Han [2007] No. 403) have amended the Arrangement accordingly.

On February 3, 2018, the SAT promulgated *Announcement of the State Administration of Taxation on Issues Relating to “Beneficial Owner” in Tax Treaties*, State Administration of Taxation Announcement [2018] No. 9, Circular 9, which clarifies that a beneficial owner shall be a person who has ownership and control over the income and the rights and property from which the income is derived. To prove “beneficial owner” status, the applicant shall submit the materials pursuant to the provisions of Article 7 of the Announcement of the State Administration of Taxation on Promulgation of the “Administrative Measures on Entitlement of Non-residents to Treatment under Tax Treaties” (State Administration of Taxation Announcement [2015] No. 60). Therein, where an applicant is a “beneficial owner” pursuant to the provisions of Article 3 of this Announcement, the applicant shall also provide, in addition to the tax resident identity of the applicant, the tax resident identity documents of the person who satisfies the criteria for “beneficial owner” and the person who satisfies the criteria, issued by the tax authorities in charge at the country (region) where he/she resides; where the applicant is a “beneficial owner” pursuant to the provisions of item (4) of Article 4 of this Announcement, the applicant shall also provide, in addition to the tax resident identity document of the applicant, the tax resident identity documents of the person who holds 100% of the applicant’s shares directly or indirectly and the multi-tier holders, issued by the tax authorities in charge at the country (region) for which the said person and the multi-tier holders are residents; the tax resident identity document shall prove that the person is a tax resident in the year in which the income is obtained or the preceding year.

Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors

On August 8, 2006, six PRC regulatory agencies, including MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and SAFE, jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, which became effective on September 8, 2006 and were amended on June 26, 2009. The M&A Rules, among other things, include provisions that purport to require an offshore special purpose vehicle formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of an application and supporting documents with the CSRC.

C. Organizational Structure

For a description of our organizational structure, see “Item 4. Information on the Company—A. History and Development of the Company.”

D. Property, Plant and Equipment

Our principal executive office is located at 23rd Floor, LianFa International Building, No 128 Xu Dong Road, Wuchang District, Wuhan City, Hubei Province, People's Republic of China 430063, where we moved to this new office which have approximately 1,492 square meters of office space in December 2018.

We do not have any land use rights.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Item 3. Key Information—D. Risk Factors" and elsewhere in this annual report.

CIB Transaction

On December 28, 2017, Honest Plus acquired 91,997,543 Shares and Perfect Lead acquired 22,999,386 Shares for an aggregate purchase price of RMB86,426,660 (or approximately \$0.11 per share) pursuant to a Share Purchase Agreement, as amended on October 27, 2016, and on December 10, 2017 (the "Share Purchase Agreement"), by and between Qiming Investment Limited, a British Virgin Islands company ("Qiming Investment"), Qiming Xu, the chairman and chief executive officer of the Xiniya ("Mr. Qiming Xu"), Honest Plus, and Perfect Lead. Wei Qizhi, our chairman and chief executive officer, is the sole director of Honest Plus and Perfect Lead.

As a condition to the Share Purchase Agreement, on December 10, 2017, the Xiniya entered into (1) a Share Transfer Agreement with Qiming Investment pursuant to which the Xiniya agreed to sell Xiniya Holdings Limited, the Xiniya's wholly-owned subsidiary in Hong Kong, to Mr. Qiming Xu in exchange for a purchase price of RMB228,000,000 (\$34,588,428) ("Divestiture") subject to the terms set forth therein, and (2) a Securities Purchase Agreement with True Silver Limited ("True Silver"), a British Virgin Islands company, and Honest Plus pursuant to which the Xiniya agreed to acquire all of the issued and outstanding shares of True Silver owned by Honest Plus for a purchase price of \$34,588,428 and the issuance of 772,283,308 newly issued ordinary shares of the Xiniya ("Acquisition") at RMB1.00 (\$0.15) per share, which through a VIE structure, operates and consolidates eighty percent (80%) of the financial results of Hubei Chutian Microfinance Co., Ltd., a Chinese company that engages in the lending of small loans to customers in China ("Chutian"). On December 28, 2017, the Divestiture and the Acquisition closed concurrently with the closing of the Share Purchase Agreement (collectively, the "CIB Transaction"). At the closing of the CIB Transaction, the Company discontinued its apparel business and became a microfinance lending business in Hubei Province.

As a result of the CIB Transaction, Honest Plus and Perfect Lead, the former shareholders of True Silver, became the controlling shareholders of the Company. The CIB Transaction was accounted for as a reverse acquisition, wherein True Silver is considered the acquirer for accounting and financial reporting purposes.

Accordingly and except as otherwise provided, the historical financial statements of True Silver were treated as the historical financial statements of the Company. Unless the context otherwise indicates, references to "we", "our", "us" and the "Company" refer to the post-CIB Transaction combined company and its subsidiaries on a consolidated basis.

A. Operating Results

Overview

We are a lending company primarily engaging in the business of providing loan facilities to small and medium sized enterprises and sole proprietors in Hubei province of the PRC. We typically provide family-run businesses, farmers and individual borrowers with working capital and bridge financing support, primarily through means of short-term loans based upon their needs and qualifications. In line with our business environment and funding demands, as well as the risk minimization requirements and increased adaptability to the changes in economy and industry, our mandate is to maintain loan facilities that are small in size and short term and to diversify our customer base into multiple industries.

All of our operations are conducted in the PRC through Chutian. We operate our microfinance lending business in the PRC on the basis of the approval certificates, business license and other requisite licenses held by Chutian. We conduct our microfinance lending business in the PRC and generate virtually all of our revenues for our business through the VIE Agreements.

Key factors that affect operating results

Our operations and assets are located in China. Accordingly, our results of operations, financial condition and prospects are affected by China's economic and regulation conditions in the following factors: (a) an economic downturn in China or any regional market in China; (b) economic policies and initiatives undertaken by the Chinese government; (c) changes to prevailing market interest rates; and (d) a higher rate of bankruptcy. Unfavorable changes could affect demand for services that we provide and could materially and adversely affect the results of operations. Although we have generally benefited from China's economic growth, we are also affected by the complexity, uncertainties and changes in the Chinese economic conditions and regulations governing the non-banking financial industry.

Our results of operations are also affected by the provision for loan losses which are a noncash item and represent an assessment of the risk of future loan losses. The amount of provisions or allowances has been recorded based on management's assessment. We may increase or decrease the allowance for loan based on any such change of economic conditions and the change of management's assessment. Any change in the allowance for loan losses would have an effect on our financial condition and results of operation.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with IFRS. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on our management's judgment. When reviewing our financial statements, you should take into account:

- our critical accounting policies discussed below;
- the related judgment made by our management and other uncertainties affecting the application of these policies;
- the sensitivity of our reported results to changes in prevailing facts and circumstances and our related estimates and assumptions; and
- the risks and uncertainties described under "Risk Factors."

Interest income and expense

Interest income and expense for all financial instruments are recognized in "Net interest income" as "Interest income" and "Interest expense" in the Consolidated Statement of Profit and Other Comprehensive Income using the effective interest method. Interest income for financial assets held at amortized cost is recognized in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discount estimated future cash payments or receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

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

The interest income / interest expense is calculated by applying the effective interest rate to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or at amortised cost of financial liabilities. Interest income for financial assets that are amortized cost that have become credit-impaired subsequent to initial recognition (Stage 3) is recognized using the credit adjusted effective interest rate. This rate is calculated in the same manner as the effective interest rate except that expected credit losses are included in the expected cash flows. Interest income is therefore recognized on the amortized cost of the financial asset including expected credit losses. Should the credit risk on a stage 3 financial asset improve such that the financial asset is no longer considered credit-impaired, interest income recognition reverts to a computation based on the rehabilitated gross carrying value of the financial asset.

Impairment measurement and recognition

IFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.
- Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Financial instruments in Stages 2 or 3 have their expected credit loss measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring expected credit loss in accordance with IFRS 9 is that it should consider forward looking information.

Significant increase in credit risk

We monitor financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk we will measure the loss allowance based on lifetime rather than 12-month expected credit loss. Our accounting policy is not to use the practical expedient that financial assets with “low” credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, we monitor all financial assets that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, we compare the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, we consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on our historical experience and expert credit assessment including forward-looking information.

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime probability of default by comparing:

- the remaining lifetime probability of default at the reporting date; with
- the remaining lifetime probability of default for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The probability of defaults used are forward looking and we use the same methodologies and data used to measure the loss allowance for expected credit loss.

The qualitative factors that indicate significant increase in credit risk are reflected in probability of default models on a timely basis.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the probability of default will be more significant for a financial instrument with a lower initial probability of default than compared to a financial instrument with a higher probability of default.

As a back-stop when an asset becomes 30 days past due, we consider that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime expected credit loss.

Credit-impaired financial assets

A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower;
- a breach of contract such as a default or past due event; or
- the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower’s financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) include unlikelihood to pay indicators.

Definition of default

Critical to the determination of expected credit loss is the definition of default. The definition of default is used in measuring the amount of expected credit loss and in the determination of whether the loss allowance is based on 12-month or lifetime expected credit loss, as default is a component of the probability of default which affects both the measurement of expected credit losses and the identification of a significant increase in credit risk.

We consider the following as constituting an event of default:

- the borrower is past due more than nine months on any material credit obligation to us; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

When assessing if the borrower is unlikely to pay its credit obligation, we take into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. We use a variety of sources of information to assess default which are either developed internally or obtained from external sources.

We recognize loss allowance for expected credit loss on loan receivables.

Expected credit losses are required to be measured through a loss allowance at an amount equal to:

- 12-month expected credit loss, i.e. lifetime expected credit loss that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime expected credit loss, i.e. lifetime expected credit loss that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime expected credit loss is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit loss.

Expected credit losses are computed as unbiased, a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to us under the contract and the cash flows that we expect to receive by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward-looking, discounted at the asset's effective interest rate.

For Stage 1 and 2 loans, the estimate of expected cash shortfalls over the life time of the loans is determined by multiplying the probability of default ("PD") with the loss given default ("LGD").

For credit-impaired financial instruments (Stage 3 loans), the estimate of cash shortfalls may require the use of expert credit judgment. Cash shortfalls are discounted using the effective interest rate on the financial instrument as calculated at initial recognition.

Our initial contractual loan terms are within 12 months. For simplification purpose, for Stage 1 and Stage 2 loans, we recognized the expected credit losses for the lifetime of the loans.

Stage 1: Expected credit losses are recognized at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events for the life of loan from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired.

Stage 2: If a financial asset experiences a significant increase in credit risk since initial recognition, an expected credit loss provision is recognized for default events that may occur over the lifetime of the asset. Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk.

Stage 3: Financial assets that are credit-impaired (or in default) represent those that are past due more than the historical average collection period for past due loans, but not to exceed the original contractual loan terms. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.

Loss provisions against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realization of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Income taxes

We recognize deferred tax assets and liabilities for the expected future tax consequences of event that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. International Accounting Standard 12 Income Taxes ("IAS12") requires a one-step approach that provides a company to satisfy the probability criterion when assessing whether a deferred tax account should be recorded or not. Under this criterion, we record a deferred tax account only to the extent we can show it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

Current IAS 12 does not have specific guidance on uncertain tax positions. We measure tax assets and liabilities at the amount expected to be paid, based on enacted or substantively enacted tax legislation. Interest and penalties related to uncertain tax position are recognized and recorded as necessary in the provision for income taxes. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computation errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, where the underpayment of taxes is more than RMB100,000. In the case of transfer pricing issues, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion. The PRC tax returns for our PRC subsidiaries are open to examination by tax authorities for the tax years beginning in 2018. There were no uncertain tax positions as of December 31, 2019, 2018 and 2017 and we do not believe that our unrecognized tax benefits will change over the next twelve months.

RESULTS OF OPERATIONS

The following tables present our summary statements of operations for each of the years ended December 31, 2017, 2018 and 2019. Our historical results presented below are not necessarily indicative of the results for any future periods.

	For the Year Ended December 31,			
	2017 ⁽¹⁾ RMB	2018 RMB	2019 RMB	2019 \$
	(amount in thousands)			
Interest income on loans	119,639	141,857	118,396	17,006
Interest expenses on loans	(33,791)	(26,451)	(19,846)	(2,851)
Business related taxes and surcharges	(674)	(590)	(435)	(62)
Total interest expense	(34,465)	(27,041)	(20,281)	(2,913)
Net interest income	85,174	114,816	98,115	14,093
Credit impairment losses	(3,580)	(66,904)	(24,694)	(3,547)
Net interest income after provision for loan losses	81,594	47,912	73,421	10,546
Other interest and other income	815	438	173	25
Operating costs and expenses				
Sales and marketing	(3,138)	(1,794)	(1,698)	(244)
General and administrative	(34,895)	(20,368)	(13,280)	(1,908)
Total operating costs and expenses	(38,033)	(22,162)	(14,978)	(2,152)
Profit before income taxes	44,376	26,188	58,616	8,419
Income tax expense	(15,550)	(18,033)	-	-
Net profit	28,826	8,155	58,616	8,419
Profit attributable to:				
Equity holders of the Company	23,061	6,524	46,893	6,735
Non-controlling interest	5,765	1,631	11,723	1,684
Net profit	28,826	8,155	58,616	8,419

(1) Information has been restated in order to correct certain accounting errors. See Note 30 of Notes to the Consolidated Financial Statements

Profit attributable to owners of the Company and Non-controlling interests

Profit attributable to owners of the company represents 80% controlling interest of Chutian by us through the VIE arrangement. We are deemed to control 80% of Chutian and have rights to consolidate only 80% of Chutian's audited financial results, the remaining 20% non-controlling interests relates to 20% controlling interest of Hubei Daily Media Group.

Comparison of results of operations for the years ended December 31, 2019 and 2018

Interest income on loans

Interest income on loans primarily consists of the accrued interest of Stage 3 credit-impaired loans. Accrued interest is the present value of the estimated future cash flows of credit-impaired loans expected to be recovered, discounted at the loan's original effective interest rate. Interest income on loans decreased by RMB23.5 million (\$3.4 million) or 16.6% from RMB141.9 million in 2018 to RMB118.4 million (\$17.2 million) in 2019. The decrease was primarily attributable to the novation of loans receivable to a related party, Hubei New Nature Investment Co., Ltd ("Hubei New Nature"), a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, to offset payable to Hubei New Nature, which reduced loans receivable by RMB37.1 million and, consequently, reduced interest income on loans.

Interest expenses on loans

Interest expenses on loans decreased by RMB6.6 million (\$1.0 million) or 25.0%. The decrease was primarily attributed to the decrease in average borrowings from RMB213.4 million in 2018 to RMB186.7 million (\$26.8 million) in 2019, which resulted in a decrease in RMB3.0 million (\$0.4 million) in interest expenses on loans. Also, the decrease was attributed to the decrease in effective interest rate on borrowings from 11.8% in 2018 to 10.6% in 2019, which resulted in a decrease in RMB3.6 million (\$0.5 million) in interest expenses on loans.

Business related taxes and surcharges

Business related taxes and surcharges decreased by RMB0.2 million (\$22,300) or 26.3% from RMB0.6 million in 2018 to RMB0.4 million (\$62,000) in 2019. The decrease was mainly attributable to the decrease in cash receipt on interest income.

Credit impairment losses

We maintain the allowance for loan losses, as presented in our financial statements, at a level we consider to be reasonable by management to absorb probable losses inherent in the loan portfolio as of each balance sheet date. Our management evaluates the adequacy of the allowance for loan losses on a regular basis or more often as necessary. The allowance is based on our past loan loss history, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Allowance for loan losses decreased by RMB42.2 million (\$6.1 million) or 63.1% from RMB66.9 million in 2018 to RMB24.7 million (\$3.5 million) in 2019. The economic and business environment for small and medium enterprises remained very challenging. Most of our loan customers were experiencing financial difficulty, additional allowance for loan losses of RMB24.7 million (\$3.5 million) were provided in 2019. We assessed credit loss allowance on these credit-impaired loans based on an assessment of the recoverable cash flows under a range of scenarios, including the realization of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Other interest and other income

Other interest and other income decreased by RMB0.2 million (\$38,000) or 60.5% from RMB0.4 million in 2018 to RMB0.2 million (\$25,000) in 2019. The decrease was primarily attributable to decrease in interest income on bank deposits.

Sales and marketing expenses

Sales and marketing expenses decreased by RMB0.1 million (\$13,800) or 5.4% from RMB1.8 million in 2018 to RMB1.7 million (\$0.2 million) in 2019. The decrease was primarily attributable to the cost control initiative which reduced sales and marketing expenses.

General and administrative expenses

General and administrative expenses decreased by RMB7.1 million (\$1.0 million) or 34.8% from RMB20.4 million in 2018 to RMB13.3 million (\$1.9 million) in 2019. The increase was primarily attributable to the reduction of headcounts.

Income tax expenses

Our income tax expenses decreased by RMB18.0 million (\$2.6 million) or 100.0% from RMB18.0 million in 2018 to nil in 2019. The decrease was primarily attributed to accrued interest of Stage 3 credit-impaired loans are not taxable income for tax purposes.

Net profit

As a result of the foregoing, our net profit increased by RMB50.5 million (\$7.3 million) or 618.8% from RMB8.2 million in 2018 to RMB58.6 million (\$8.5 million) in 2019.

Comparison of results of operations for the years ended December 31, 2018 and 2017

Interest income on loans

Our interest income on loans increased by RMB22.2 million or 18.6% from RMB119.6 million in 2017 to RMB141.9 million in 2018. The increase was primarily attributable to increase in effective interest rate from 20.4% in 2017 to 24.3% in 2018, which resulted in a RMB22.9 million increase in interest income on loans. The increase was partially offset by a decrease in average outstanding loan during the year from RMB585.7 million in 2017 to RMB582.7 million in 2018, which resulted in a RMB0.6 million decrease in interest income on loans.

Interest expenses on loans

Interest expenses on loans decreased by RMB7.3 million or 21.7% from RMB33.8 million in 2017 to RMB26.5 million in 2018. The decrease was mainly attributed to decrease in effective interest rate on borrowings from 15.9% in 2017 to 11.8% in 2018, which resulted in a RMB9.1 million decrease in interest expenses on loans. Further, the decrease was attributed to the decrease in total borrowings during the year from RMB641.4 million in 2017 to RMB623.0 million in 2018, which resulted in a decrease in RMB0.6 million in interest expenses on borrowings. The decrease was partially offset by an increase in average duration of the borrowings from approximately 119 days in 2017 to approximately 130 days in 2018, which resulted in a RMB2.4 million increase in interest expenses on loans.

Business related taxes and surcharges

Business related taxes and surcharges decreased by RMB0.1 million or 12.5% from RMB0.7 million in 2017 to RMB0.6 million in 2018. The decrease was mainly attributable to the decrease in cash receipt on interest income.

Credit impairment losses

We maintain the allowance for loan losses, as presented in our financial statements, at a level we consider to be reasonable by management to absorb probable losses inherent in the loan portfolio as of each balance sheet date. Our management evaluates the adequacy of the allowance for loan losses on a regular basis or more often as necessary. The allowance is based on our past loan loss history, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Allowance for loan losses increased by RMB63.3 million or 1,768.8% from RMB3.6 million in 2017 to RMB66.9 million in 2018. The increase was primarily attributable to increase in credit loss allowance for loan receivable due to collectability issues with certain loans. Although PRC's year-on-year Gross Domestic Product growth reached 6.6 percent in 2018, the economic and business environment for small and medium enterprises were very challenging. As a result, certain of our loan customers were experiencing financial difficulty, RMB698.5 million of our loan were credit impaired. We assessed credit loss allowance on these credit-impaired loans based on an assessment of the recoverable cash flows under a range of scenarios, including the realization of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Other interest and other income

Other interest and other income decreased by RMB0.4 million or 46.3% from RMB0.8 million in 2017 to RMB0.4 million in 2018. The decrease was primarily attributable to decrease in interest income on bank deposits.

Sales and marketing expenses

Sales and marketing expenses decreased by RMB1.3 million or 42.8% from RMB3.1 million in 2017 to RMB1.8 million in 2018. The decrease was primarily attributable to the cost control initiative which reduced sales and marketing expenses.

General and administrative expenses

General and administrative expenses decreased by RMB14.5 million or 41.6% from RMB34.9 million in 2017 to RMB20.4 million in 2018. The decrease was primarily attributable to the decrease in legal, consulting and professional expenses for the listing initiative in 2017.

Income tax expenses

Our income tax expenses increased by RMB2.4 million or 16.0% from RMB15.6 million in 2017 to RMB18.0 million in 2018. The increase was primarily attributed to higher expenses not deductible for tax purposes in 2018 as compared to 2017.

Net profit

As a result of the foregoing, our net profit decreased by RMB20.6 million or 71.7% from RMB28.8 million in 2017 to RMB8.2 million in 2018. The decrease was primarily attributed to the significant increase in credit impairment losses, as discussed above.

B. Liquidity and Capital Resources

Liquidity

Our ongoing cash requirements include payments of our employees' salaries and benefits, office expenses, lending to our customers, repayments of our borrowings, taxes and other operational expenses. We fund our loans, working capital and other capital requirements primarily by equity contribution from shareholders, cash flow from operations and borrowings from various individuals and companies through securities exchanges.

We had negative cash flows for the years ended December 31, 2019, 2018 and 2017, the net cash decreased during the year were RMB3.5 million (\$0.5 million), RMB17.9 million and RMB75.1 million for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, we had cash balances totaled RMB132,000.

We have historically met our cash needs through a combination of cash flows from operating activities, loans payable from third parties raised through various securities exchanges, loans from shareholders and loans from related parties. The cash requirements are generally for operating activities and repayments of loans from third parties, related parties and shareholders. Since securities exchanges ceased offering any form of financing to us through their platforms as well as our loans receivable were credit-impaired, the Company ran into severe liquidity issue. In the beginning of 2019, the Company began to default in certain loans payable, even though certain loans payable were negotiated for revised repayment terms. With loans receivables continued to be further credit-impaired, all obligations of loans payable were defaulted. The liquidity issue of the Company has further severely affected its ability to pay its taxes, service providers, employees and others. Due to non-payment of its obligations when due, multiple significant legal proceedings were initiated by its shareholders, service providers and others against the Company (see Note 28 of the Consolidated Financial Statements – Legal proceedings for detailed disclosure). COVID-19 discussed in Note 29 Subsequent event of the Consolidated Financial Statements has further exacerbated the liquidity issue of the Company.

The Company has taken an intensive review of operations and expenditures, including intensify loan and interest collection initiative and monetizing collaterals of loans receivable. The Company has also acquired the financial support letter from Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, and from Dunxin Holdings Co., Ltd, a company that is 70% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, which have expressed the willingness and intention to provide the necessary financial support to the Company. Further, the Company actively plans to seek equity financing from private placements, so as to enable the Company to meet its liabilities and to carry on its business without a significant curtailment of operations for the next 12 months from the issuance date of this report.

The Company believes that available cash and cash equivalents, future cash provided by operating activities, together with the efforts from aforementioned management plan and actions, should enable the Company to meet presently anticipated cash needs for at least the next 12 months after the date that the financial statements are issued and the Company has prepared the consolidated financial statements on a going concern basis. However, the Company continues to have ongoing obligations and it expects that it will require additional capital in order to execute its longer-term business plan. If the Company encounters unforeseen circumstances that place constraints on its capital resources, management will be required to take various measures to conserve liquidity, which could include, but not necessarily be limited to, curtailing the Company's business development activities, suspending the pursuit of its business plan, controlling operating expenses and seeking to further dispose of non-core assets. Management cannot provide any assurance that the Company will raise additional capital if needed.

The following table sets forth a summary of our borrowings for the periods indicated.

	For the Years Ended December 31			
	2017 RMB	2018 RMB	2019 RMB	2019 S
	(amount in thousands)			
Total borrowings	641,370	622,999	278,993	40,075
Effective interest rate	15.9%	11.8%	10.9%	
Average duration of borrowings	119 days	130 days	365 days	

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Years Ended December 31			
	2017 RMB	2018 RMB	2019 RMB	2019 S
	(amount in thousands)			
Net cash (used)/generated by operating activities	(70,419)	27,266	15,077	2,166
Net cash used in investing activities	(14,928)	(18,385)	(76)	(11)
Net cash generated/(used) by financing activities	10,273	(26,795)	(18,462)	(2,652)
Net decrease in cash, cash equivalents and restricted cash	(75,074)	(17,914)	(3,461)	(497)
Cash, cash equivalents and restricted cash at beginning of the year	96,791	21,717	3,188	458
Exchange losses on cash, cash equivalents and restricted cash	-	(615)	405	58
Cash, cash equivalents and restricted cash at end of the year	21,717	3,188	132	19

As of December 31, 2019, our cash, cash equivalents and restricted cash amounted to RMB132,000 (\$19,000). Our cash, cash equivalents and restricted cash consist of cash on hand, cash deposited in banks and restricted cash at bank.

Cash flow (used)/generated by operating activities

Our net cash generated by operating activities primarily consists of profit before income tax, as adjusted by depreciation of property and equipment, allowance for loan and interest receivable losses, income tax paid, and changes in assets and liabilities, which include interest receivables, loan receivables, prepaid expenses, advances from customers, salary and benefit payable, business and other taxes payable, interest payable, and other payable.

Our net cash generated by operating activities for the year ended December 31, 2019 was RMB15.1 million (\$2.2 million), which mainly consisted of (i) profit before taxation of RMB58.6 million (\$8.4 million) adjusted by credit impairment losses for loans of RMB24.7 million (\$3.5 million), (ii) increase in interest payable of RMB12.6 million (\$1.8 million) due to non-payment, as mainly offset by decrease in loans receivables of RMB70.1 million (\$10.1 million) due to novation of loans receivable to a related party to offset payable to a related party and corresponding decrease in other payable of RMB25.1 million (\$3.6 million).

Our net cash generated by operating activities for the year ended December 31, 2018 was RMB27.3 million, which mainly consisted of (i) profit before taxation of RMB26.2 million adjusted by credit impairment losses for loans of RMB66.9 million, (ii) increase in other payable of RMB9.4 million as funds provided by related parties to us for working capital purposes, as mainly offset by increase in loan receivables of RMB79.6 million due to increase in credit impairment losses.

Our net cash used by operating activities for the year ended December 31, 2017 was RMB70.4 million, which mainly consisted of (i) increase in loan receivables of RMB121.0 million due to net loan disbursements to customer, (ii) payment of taxes of RMB10.6 million for profit made during the year, and (iii) increase in interest receivables of RMB19.5 million due to increase in outstanding loan as of December 31, 2017, as mainly offset by (i) profit before taxation of RMB44.4 million, and (ii) increase in other payable of RMB24.0 million mainly due to funding provided by a related party for payment of listing expenses.

Cash flow used in investing activities

Our net cash of RMB76,000 (\$11,000) used in investing activities for the year ended December 31, 2019, mainly consisted of payment for property and equipment of RMB271,000 (\$39,000) as offset by disposal of a motor vehicle of RMB195,000 (\$28,000).

Our net cash of RMB18.4 million used in investing activities for the year ended December 31, 2018, mainly consisted of payment for property and equipment of RMB18.4 million.

Our net cash of RMB14.9 million used in investing activities for the year ended December 31, 2017, mainly consisted of down payment of RMB14.9 million for a property.

Net cash generated/(used) by financing activities

Our net cash of RMB18.5 million (\$2.7 million) used by financing activities for the year ended December 31, 2019, mainly consisted of cash outflows of RMB79.3 million (\$11.4 million) repayments of loans payable, partially offset by cash inflows of RMB48.1 million (\$6.9 million) received from loans payable.

Our net cash of RMB26.8 million used by financing activities for the year ended December 31, 2018, mainly consisted of cash outflows of RMB414.9 million repayments of loans payable, partially offset by cash inflows of RMB308.6 million received from loans payable.

Our net cash of RMB10.3 million generated by financing activities for the year ended December 31, 2017, mainly consisted of cash inflows of RMB363.7 million received from loans payable and loans of RMB52.6 million received from shareholders, partially offset by cash outflows of RMB347.8 million repayments of loans payable and repayments of RMB42.6 million loan to a shareholder.

Capital Resources

Our capital expenditures, consisting of the purchase of motor vehicles, leasehold improvements, office equipment and furniture, were RMB14.9 million, RMB18.4 million and RMB271,000 (\$39,000) in 2017, 2018 and 2019, respectively. Historically, we have financed our operations primarily through cash flows from operations and have not relied on any other sources to finance our operations.

C. Research and Development

We have not made, and do not expect to make significant expenditures on research and development.

D. Trend Information

Other than as disclosed elsewhere herein, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2019 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

We did not have any off-balance sheet commitments or arrangements as of December 31, 2019. We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We also have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as shareholders' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2019.

	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(RMB in thousands)		
Debt Obligations	172,891	172,891	-	-	-
Operating Lease Obligations	-	-	-	-	-
Capital commitment	-	-	-	-	-

Debt obligations represent loans payable to various individuals and companies that are generally due within one (1) year. Loans payable are all overdue and have the weighted average annual interest rate of 10.5% on loans payable.

G. Safe Harbor

See "Forward-Looking Statements."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report. The business address of each of our directors and executive officers is c/o Dunxin Financial Holdings Limited, 23rd Floor, LianFa International Building, 128 Xu Dong Street, Wuchang District, Wuhan City, Hubei Province, the People's Republic of China.

Name	Age	Position
Qizhi Wei	52	Director (Chairman); Chief Executive Officer
Chee Jiong Ng	49	Chief Financial Officer
Weidong Xu	51	Director, Chief Operating Officer
Duoguang Bei	62	Independent Director
Michael J. Viotto	68	Independent Director

Qizhi Wei, Director (Chairman of the Board) and Chief Executive Officer. Mr. Wei became our chairman and chief executive office in December 2017. Mr. Wei, graduating from Wuhan University with an MBA degree, was engaged in savings, credit, project evaluation and other credit management in the Hubei Branch and Huanggang Branch of China Construction Bank in 1991-1992. He entered the Chinese capital market in 2001 through the creation of Hubei New Nature Investment Co., Ltd. and serving as Chairman and General Manager. As one of the pioneers in China's first securities consulting business, he has been focusing on the middle and long-term equity investment of high-quality enterprises. Having built rich experience in the primary and secondary markets and achieved remarkable investment results, he has a comprehensive and deep understanding of the macro and micro-economic environment.

In March 2013, he led the creation of Hubei Chutian Microfinance Co., Ltd. and has served as Managing Director till now. By consistently upholding the philosophy of "building a customer-friendly microfinance institution and growing together with corporate clients," the Company was awarded as one of the "Top 100 Most Competitive Micro-credit Companies in China" for three consecutive years. It always focuses on the development of China's micro-credit industry, providing clients with the comprehensive and customized credit management services.

Key social honor: "2013 Top 10 Business Leaders of the Year in Huber", "2015 Outstanding Hubei Merchants Award" and "2016 Outstanding Hubei Merchants Award."

Key social positions: Vice President of China Micro-credit Companies Association, member of the NPC Standing Committee in Wuchang District of Wuhan, executive vice president of Hubei Merchants Association, founding president of EMBA Alumni Association of Wuhan University, founding member of Anhui Project Center of SEE Foundation (China's famous nonprofit organization), executive president of Zhisland Hubei Branch and visiting professor of School of Economics and Management of South-Central University for Nationalities.

Chee Jiong Ng, Chief Financial Officer. Mr. Ng joined the Company as chief financial officer in June 2010. Mr. Ng has more than 20 years of experience in the finance sector and has served in various management roles at several companies before joining our company. He is primarily responsible for overall financial management of our company. Before joining our company, Mr. Ng was a financial consultant in Beijing UGO Ltd. From June 2006 to August 2009, Mr. Ng served as a senior manager in PricewaterhouseCoopers Beijing. From July 2005 to May 2006, Mr. Ng worked at AIR-SYS Refrigeration Engineering Technology (Beijing) Co., Ltd. as financial controller. From November 1995 to June 2005, Mr. Ng worked at PricewaterhouseCoopers Singapore and held several positions, including senior manager. Mr. Ng has been qualified as a Certified Public Accountant of the Australian Society of Certified Public Accountants since 1999. Mr. Ng received his bachelor's degree in Economics from the University of Sydney, Australia and his master's degree in Commerce from the University of New South Wales, Australia.

Weidong Xu, Director, Chief Operating Officer. Mr Xu became a director in July 2020. Mr. Xu became our chief operating officer on December 28, 2017 and joined Chutian in 2015. He is currently responsible for the overall operation strategy and business planning, and is also a member of the Chutian's Risk Management Committee and Innovation Credit Products Team. Mr. Xu graduated from Zhongnan University of Economics and Law with a major in finance and has more than 20 years of financial experience in credit risk management. He is familiar with corporate guarantee, pawn broking, micro-credit and other debt business review management, and has a strong knowhow and practical experience in the due diligence, risk review and post-loan management.

Duoguang Bei, Director. Mr. Bei is an independent director of our company. He served as an independent director of the Company since December 28, 2017. Mr. Bei serves as Chairman of the Board of Directors of National Micro-finance Investment Co., Ltd. Mr. Bei received a bachelor's degree and a master's degree in economics from Shanghai University of Finance and Economics in 1982 and 1985, respectively. He earned a doctoral degree in economics from Renmin University of China in 1988, and worked as visiting scholar at University of California, Berkeley and Federal Reserve Bank of New York in the United States from 1991 to 1993. With over 25 years of experience in the financial industry, he has participated in many major reforms and development events in China's financial markets, and also led a number of major deals in China's capital market, such as those with ICBC, Pacific Insurance, Baosteel and China Unicom. He previously served as Deputy Director of National Debt Department of the Ministry of Finance, Deputy Director of International Department of the SFC, Chief Representative of J.P. Morgan Beijing, Managing Director of China International Capital Corporation, CEO of Shanghai Financial Development Fund, CEO of J.P. Morgan First Capital Securities, and etc. In addition to his outstanding performance in the political and business areas, he is also a well-known scholar in China. Mr. Bei is a part-time professor and doctoral supervisor of Renmin University of China and Shanghai University of Finance and Economics, as well as Co-Chair of the committee of Center for Microfinance Initiatives & Networks of Renmin University of China.

Michael J. Viotto. Mr. Viotto is an independent director of our company. He served as an independent director of the Company since December 28, 2017. Mr. Viotto was appointed to the Board of Directors of Nova Lifestyles, Inc. (Nasdaq: NVFY) on May 28, 2013 and served as Chairman of the Nominating and Corporate Governance Committee between 2013 and 2017. From 2009 to 2014 Mr. Viotto was President of MJV Financial Inc. and was appointed as exclusive agent for Coface North America, an internationally recognized leader in the Trade Finance Industry. During 2008 and 2009, Mr. Viotto served as Senior Wholesale Account Executive at Bank of America, promoting commercial and residential lending programs. From 2002 to 2008, he was a Senior Wholesale Account Executive for Washington Mutual, Inc as its leading mortgage banker. Mr. Viotto received his Bachelor of Science Degree in Business Administration from California Polytechnic University in Pomona, California. Mr. Viotto has been selected as a nominee for director because he has extensive business experience in finance industry, including with respect to business development and risk assessment.

B. Compensation

Compensation of Directors and Executive Officers

For the fiscal year ended December 31, 2019, we incurred an aggregate of approximately RMB3.8 million (\$546,000) in compensation to our executive officers and our non-executive directors. For share incentive grants to our directors and executive officers, see “—Share Incentive Plan.”

As required by PRC regulations, we participate in various government statutory social security plans, including a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan and a housing provident fund. We are required under PRC law to contribute to social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time. Other than the above-mentioned statutory contributions mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors.

2010 Equity Incentive Plan

We adopted an equity incentive plan effective upon the completion of our initial public offering. Our 2010 Equity Incentive Plan (“2010 Plan”) provides for the grant of options, share appreciation rights, restricted shares, restricted share units, and other share-based awards. The maximum aggregate number of our ordinary shares that may be issued under the 2010 Plan is 23,200,000. The purpose of the plan is to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business. Our board of directors believes that our company’s long-term success is dependent upon our ability to attract and retain superior individuals who, by virtue of their ability, experience and qualifications, make important contributions to our business.

Options. The exercise price of incentive stock options must be at least equal to the fair market value of our ordinary shares on the date of grant except pursuant to a transaction under Section 424(a) of the Internal Revenue Code. However, the exercise price of all other options may be as determined by the administrator. The term of an incentive stock option may not exceed ten years, except that with respect to any participant who owns 10% of the voting power of all classes of our outstanding shares as of the grant date, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date. The administrator of our 2010 Plan determines the term of all other options. After termination of an employee, director or consultant, he or she may exercise his or her options for the period of time stated in the option agreement. Generally, if termination is due to death or disability, the option will remain exercisable for twelve (12) months. In all other cases, the option will generally remain exercisable for three months.

Restricted shares. Restricted share awards are ordinary shares that vest in accordance with terms and conditions established by the administrator and set forth in an award agreement. The administrator will determine the number of restricted shares granted to any employee and may impose whatever conditions to vesting it determines to be appropriate.

Share appreciation rights. Share appreciation rights allow the recipient to receive the appreciation in the fair market value of our ordinary shares between the date of grant and the exercise date. The exercise price of share appreciation rights granted under our plan may be as determined by the administrator. Share appreciation rights expire under the same rules that apply to options on the date as determined by the administrator.

Performance units and performance shares. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance goals in its discretion, which, depending on the extent to which they are met, will determine the number and the value of performance units and performance shares to be paid out to participants.

Restricted share units. Restricted share units are similar to awards of restricted shares, and are typically settled when the award vests or at some later date if the date of settlement is deferred. Restricted share units may consist of restricted shares, performance shares or performance unit awards, and the administrator may set forth restrictions based on the achievement of specific performance goals.

Amendment and termination. Our 2010 Plan will automatically terminate in 2020, unless we terminate it sooner. Our board of directors has the authority to amend, alter, suspend or terminate the plan provided such action does not impair the rights of any participant with respect to any outstanding awards.

As of December 31, 2019, we have granted 1,131,400 restricted stock units to independent directors and Chief Financial Officer under the 2010 Plan.

C. Board Practices

Board of Directors

We are a “controlled company” as defined in Section 801 of the NYSE American Company Guide. As a result, we are exempt from certain of the NYSE American Company Guide corporate governance requirements, including the requirement that a majority of the board of directors be independent, the requirement applicable to the nomination process of directors and the requirements applicable to the determination or recommendation of executive compensation by a committee comprised of independent directors or by a majority of the independent directors and the additional requirements concerning compensation committee independence, compensation advisor engagement and independence.

Our board of directors currently consists of four (4) directors. Under the NYSE American Company Guide, or the Company Guide, U.S. domestic listed companies are required to have a majority independent board, which is not required under the Companies Law of the Cayman Islands, our home country. We currently have two (2) independent directors.

Terms of Directors and Executive Officers

Our directors are not subject to a term of office and hold office until such times as they resign or are removed from office by ordinary resolutions or as otherwise described below. Ms. Xiao and Messrs. Wei, Bei, and Viotto have served as our director since December 28, 2017. Any director can be removed from office by ordinary resolution. A director will be removed from office automatically if, among other things, the director becomes bankrupt or has become of unsound mind. Our officers are appointed by and serve at the discretion of the Board of Directors.

Committees of the Board of Directors

Our Board of Directors currently has a standing audit committee, a compensation committee and a nominating and corporate governance committee. The Company Guide requires U.S. domestic listed companies to have an audit committee of at least three (3) members. These requirements differ from the Companies Law of the Cayman Islands. As described below, our audit committee, compensation committee and nominating and corporate governance committees composed of two (2) members, all of whom are independent directors.

Audit Committee

Our audit committee consists of Messrs. Bei and Viotto. Each of Messrs. Bei and Viotto satisfies the “independence” requirements of Section 803A of the Company Guide and Rule 10A-3 under the Exchange Act. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- reviewing with our independent auditors any audit issues and management’s response;
- reviewing and approving all proposed related party transactions;
- discussing the annual audited financial statements with management and our independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of our current material weaknesses in internal control;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our Board of Directors from time to time;
- meeting separately and periodically with management and our internal and independent auditors; and
- reporting regularly to the full Board of Directors.

Compensation Committee

Our compensation committee consists of Messrs. Viotto and Bei and is chaired by Mr. Viotto. Each of Messrs. Viotto and Bei satisfies the “independence” requirements of the Company Guide. The compensation committee assists the board in reviewing and approving the compensation structure of the directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. The Chief Executive Officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- approving and overseeing the compensation package for our executive officers;
- reviewing and making recommendations to the board with respect to the compensation of our directors;
- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives and setting the compensation level of our chief executive officer based on this evaluation; and
- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Messrs. Bei and Viotto, and is chaired by Mr. Bei. Each of Messrs. Bei and Viotto satisfies the “independence” requirements of the Company Guide. The nominating and corporate governance committee assists the Board of Directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to the company;
- identifying and recommending to the board the directors to serve as members of the board’s committees;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Interested Transactions

A director may vote in respect of any contract or transaction in which he or she is interested, provided that the nature of the interest of any directors in such contract or transaction is disclosed by him or her at or prior to its consideration and any vote in that matter, unless he or she is disqualified to vote by the chairman of the relevant board meeting.

Remuneration and Borrowing

The directors may determine remuneration to be paid to the directors. The compensation committee assists the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of our company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

Qualification

There is no shareholding qualification for directors.

Indemnification Matters

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our memorandum and articles of association provide for indemnification of directors and officers for losses, damages, costs and expenses incurred in their capacities as such, except by reasons of their own dishonesty, gross negligence, willful misconduct, or fraud.

Employment Agreements

We have entered into employment agreements with all of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate his or her employment for cause at any time for certain acts of such executive officer, including but not limited to a conviction of a felony, or any gross negligence by the executive officer in connection with the performance of his or her duties that have resulted in material and demonstrable financial harm to us. Upon termination for cause, the executive officer is entitled to the base salary only. We may terminate the employment agreement at any time without cause and upon termination without cause, the employee is generally entitled to a severance payment. An executive officer may resign from our company, in which case such executive officer is generally entitled to his or her base salary only.

Each executive officer has agreed to hold, both during and subsequent to the terms of his or her agreement, in confidence and not to use, except in pursuance of his or her duties in connection with the employment, any of our confidential information, technological secrets, commercial secrets and know-how. Our executive officers have also agreed to disclose to us all inventions, designs and techniques resulted from work performed by them, and to assign us all right, title and interest of such inventions, designs and techniques.

D. Employees

As of December 31, 2019, we have 16 full-time employees. We have entered into written employment contracts with all of the employees in accordance with PRC Labor Law and Contract Law. None of our employees is covered by collective bargaining contracts. We enter into standard labor, confidentiality and non-compete agreements with our employees. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

As required by PRC regulations, we participate in various government statutory social security plans, including a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan and a housing provident fund. We are required under PRC law to contribute to social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time.

We had 38, 34, and 16 employees as of December 31, 2017, 2018, and 2019, respectively. The following table sets forth by function the number of our employees as of December 31, 2019:

Function	As of December 31, 2019
Operations	3
Loan Department	5
Risk Management	2
Finance and Administration	6
Total	16

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13(d)(3) of the Exchange Act, based on 1,001,993,730 of our ordinary shares outstanding as of August 14, 2020, by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

Name and Address of Beneficial Owner	Nature of Shares	Percentage of Beneficial Ownership
Directors and Executive Officers		
Qizhi Wei, Director (Chairman); Chief Executive Officer	887,280,237(1)	88.6%
Duoguang Bei, Director	300,000	*
Michael J. Viotto, Director	600,000	*
Chee Jiong Ng, Chief Financial Officer	912,766	*
Weidong Xu, Director, Chief Operating Officer	-	-
Directors and Executive Officers as a Group	<u>889,093,003</u>	<u>88.7%</u>
5% or More Beneficial Owners⁽²⁾		

* less than one percent (1%)

(1) Includes 22,999,386 ordinary shares held by Perfect Lead International Limited (“Perfect Lead”) and 864,280,851 ordinary shares held by Honest Plus Investments Limited (“Honest Plus”). Mr. Wei is the sole director of Honest Plus and Perfect Lead, (ii) the sole shareholder of Perfect Lead, and (iii) an indirect controlling shareholder of Honest Plus.

(2) Excludes the following indirect beneficial owners of Honest Plus: Luxuriant Mount Limited, a British Virgin Islands company, (which holds approximately 55.8% ownership interest in Honest Plus and is controlled by Mr. Wei), Right Praise Limited, a British Virgin Islands company, (which owns approximately 20.1% ownership interest in Honest Plus and is controlled by Yang Sizhi), Blissful Sino Limited, a British Virgin Islands company, (which owns approximately 10.8% ownership interest in Honest Plus), and Hesperus Investments Limited, a British Virgin Islands company, (which owns approximately 13.3% ownership interest in Honest Plus and is controlled by Ms. Xiao).

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

As of December 31, 2019, we had 1,001,131,400 ordinary shares issued and outstanding, and Deutsche Bank Trust Company Americas, as the depository of our ADS facility, was the only record holder of our ordinary shares in the United States, holding 108,711,840 ordinary shares or 2,264,831 ADSs or approximately 10.9% of our total outstanding ordinary shares. The number of beneficial owners of our ADSs in the United States is likely much larger than the number of record holders of our ordinary shares in the United States.

None of our existing shareholders has voting rights that differ from the voting rights of our other shareholders. To the best of our knowledge, we are not directly or indirectly controlled by another corporation, by any foreign government or by any other natural or legal person, severally or jointly, not disclosed in this annual report. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

B. Related Party Transactions

After the completion of our initial public offering on November 29, 2010, we adopted an audit committee charter, which requires that the audit committee review all related party transactions on an ongoing basis and all such transactions be approved by the committee. Set forth below is a description of all of our material related party transactions since the beginning of 2016 up to the date of this annual report.

Contractual Arrangements with Our VIE and Their Shareholders

We currently engage and operate our microfinance business through Chutian, our VIE operating company, through the VIE Agreements. For a description of these VIE Agreements, see “Item 4.A. History and Development of the Company.”

1. Lease of office space from a shareholder

In September 2012, a ten-year operating lease agreement from October 8, 2012 to October 7, 2022 was entered into with Hubei Daily Media Group, a shareholder who owned 20% of the variable interest entity, in Wuhan City, Hubei Province, where office space of approximately 1,673 square meters was leased and the office is located at 6th Floor, Block 1, Hubei Daily Cultural Creative Industrial Park, No 181 Donghu Road, Wuchang District, Wuhan City, Hubei Province, China. The lease amount is RMB1.0 million per year for the first five years and RMB1.1 million per year for the last five years. The lease was terminated in December 2018. The lease expenses of RMB1.2 million, RMB1.3 million and nil were incurred for the years ended December 31, 2017, 2018 and 2019, respectively.

As of December 31, 2018 and 2019, prepaid rental to a shareholder were RMB0.4 million and nil, respectively.

2. Subleasing income with a related party

In 2017, 2018 and 2019, a subleasing agreement was entered into with Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, to sublease office spaces of approximately 304 square meters for RMB0.2 million, RMB0.2 million and nil, respectively.

As of December 31, 2018 and 2019, receivable from a related party was RMB0.3 million and nil, respectively.

3. Loans payable to related parties

3.1 In 2018, loans payable of RMB60.0 million were borrowed from a related party, Hubei Shanyin Wealth Management Co., Ltd, a company that is 69.5% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, at an interest rate of 9% per annum with maturity ranging from August to October 2019. As of December 31, 2019, these loans payable and the related interest payable were overdue. The interest expenses were RMB1.4 million and RMB4.7 million in 2018 and 2019, respectively.

As of December 31, 2018 and 2019, loans payable were RMB60.0 million and RMB50.0 million and the related interest payable was RMB1.4 million and RMB5.9 million, respectively.

3.2 In 2018, loans payable of RMB20.0 million were borrowed from a related party, Hubei New Nature Investment Co., Ltd (“Hubei New Nature”), a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, at an interest rate of 12% per annum and repayable in November 2019. In December 2018, loan of RMB0.5 million was repaid. In 2019, loans payable of RMB17.4 million were further borrowed, loans of RMB14.7 million were repaid. In 2019, certain loans receivable were novated to Hubei New Nature to offset against loans payable of RMB9.9 million and interest payable of RMB3.1 million to Hubei New Nature. The interest expenses were RMB0.3 million and RMB3.0 million in 2018 and 2019, respectively.

As of December 31, 2018 and 2019, loans payable were RMB19.5 million and RMB12.3 million and the related interest payable was RMB259,000 and RMB127,000, respectively.

3.3 In 2018, loans payable of RMB8.0 million were borrowed from a related party, Hubei New Chutaifu Asset Management Co., Ltd, a company that is 50% owned by Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, at an interest rate of 8% per annum and the loan duration was 97 days. The interest expenses were RMB0.2 million in 2018. The loan and related interest payable were fully repaid in 2018.

4. Loans payable to shareholders

4.1 In June 2017, a loan payable of RMB10.0 million was borrowed from Wang Hailin, a shareholder who owned 7.7% of the variable interest entity, at 10% interest per annum. The interest expenses for this loan were RMB0.5 million and RMB1.3 million in 2017 and 2018, respectively. According to the loan extension agreement, the loan of RMB10.0 million is at interest rate of 15% per annum with additional 9% penalty interest per annum and repayable in February 2019. Subsequent to year end, this loan payable was further extended to repayment date in September 2019, at 15% interest per annum with additional 9% penalty interest.

As of December 31, 2018 and 2019, loans payable were RMB10.0 million and RMB10.0 million, respectively. As of December 31, 2018 and 2019, interest payable was RMB243,000 and RMB1.8 million, respectively.

4.2 In 2017, loans payable of RMB28.6 million were borrowed from Li Ling, a shareholder who owned 2.5% of the variable interest entity, at 10% per annum interest from January 2017 to December 2017. The Group paid RMB1.2 million for interest on the loan from Li Ling. The loan and related interest payable were fully repaid in 2017.

4.3 In 2018, a loan payable of RMB5.0 million was borrowed from Li Ling, a shareholder who owned 2.5% of the variable interest entity, at 10% per annum for 230 days. The interest expense on this borrowing was RMB0.3 million in 2018. The loan and related interest payable were fully repaid in 2018.

4.4 In 2019, loans payable of RMB3.0 million and RMB10.0 million were borrowed from Li Ling, a shareholder who owned 2.5% of the variable interest entity, at 12% per annum for 29 days and 74 days, respectively. At maturity, loan payable of RMB3.0 million and the related interest of RMB29,000 were fully repaid. Loan payable of RMB10.0 million was, however, overdue. On August 27, 2019, Li Ling applied to the Wuhan Wuchang People's Court for pre-litigation property preservation of respondents Chutian and Mr Ricky Qizhi Wei in connection with a loan contract dispute. Court issued a preservation order that froze the bank deposits of Chutian and Wei Qizhi in the amount of RMB12.0 million, or to seize or attach property in the corresponding value.

On October 9, 2019, the case was filed and accepted in the Wuhan Jiang'an People's Court. Li Ling filed the following actions with the court: (1) that the two defendants Chutian and Mr Ricky Qizhi Wei repay the borrowed principal of RMB10.0 million and interest of RMB787,500 (based on the interest rate of 1.125% per month on the principal of RMB10.0 million, calculated from February 1, 2019 until fully paid, currently calculated until August 30, 2019), and (2) the costs of litigation to be fully borne by both defendants. On December 4, 2019, the court ruled that there was a valid loan relationship, that Chutian had failed to repay the loan as agreed and that Li Ling had the right to request full repayment of the loan principal and interest. The court ordered Chutian to repay the principal amount of the loan of RMB10.0 million to Li Ling, and to pay the interest rate of 1.125% per month on the principal amount of RMB10.0 million, beginning February 2019 until the date the loan is fully paid. The court further ordered that Mr Ricky Qizhi Wei shall also be jointly and severally liable for the repayment of the loan. In the event that the repayment obligation is not fulfilled, the court ordered that the debt interest would be doubled in accordance with PRC law.

On May 20, 2020, due to the failure of Chutian to fulfil its obligation to repay the principal amount determined above, the court issued a consumer restriction order against Mr Ricky Qizhi Wei to restrict high consumption and high expenditure behaviors. Violation of this order carries the imposition of fines and detention, and in circumstances sufficiently serious to constitute a crime, pursuit of criminal liability according to law.

As a result of the court ruling mentioned above, the interest expense on these loans was RMB1.3 million in 2019. As of December 31, 2019, loan payable was RMB10.0 million and interest payable was RMB1.3 million.

4.5 In 2017, loans payable of RMB14.0 million were borrowed from Hubei Daily Media Group, a shareholder which owned 20% of the variable interest entity, respectively. The weighted average annual interest rates for interest expenses were 10.0% in 2017. The average duration was 209 days in 2017. The interest expenses were RMB0.8 million in 2017. The loans and related interest payable were fully repaid in 2017.

5. Consulting expenses for representatives from a shareholder

Consulting expenses of RMB0.5 million, RMB0.5 million and RMB0.5 million were incurred for two representatives sent from Hubei Daily Media Group, a shareholder who owned 20% of the variable interest entity, for the years ended December 31, 2017, 2018 and 2019, respectively.

As of December 31, 2018 and 2019, consulting expenses payable to these representatives were RMB0.5 million and RMB1.0 million, respectively.

6. Reverse merger expenses payable to a related party

During the reverse merger process of the Company, a related party, Hubei New Nature Investment Co., Ltd (“Hubei New Nature”), a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, paid reverse merger expenses on behalf of the Company, totaling RMB11.3 million and RMB10.9 million for the year ended December 31, 2017 and 2018, respectively. In 2019, certain operating expenses of RMB0.7 million were paid by Hubei New Nature on behalf of the Company. Also, in 2019, certain loans receivable were novated to Hubei New Nature to offset against payable to Hubei New Nature of RMB22.6 million (see Note 27 of Notes to Consolidated Financial Statements, Section 11).

As of December 31, 2018 and 2019, payable to a related party was RMB22.2 million and RMB0.3 million, respectively.

7. Advisory expenses with a related party

In 2017 and 2018, an advisory agreement was entered into with Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, to provide funding advisory services at 2% per annum on funds raised through Wuhan Securities Exchanges for RMB2.5 million and RMB0.7 million, respectively.

As of December 31, 2018 and 2019, advisory expense payable was RMB4,235,000 and nil, respectively.

8. Intermediary agreement with a related party

In 2016, an intermediary agreement was entered into with Chutian Wealth (Wuhan) Financial Services Co., Ltd, a subsidiary jointly owned by Hubei New Nature Investment Co., Ltd and Hubei Daily Media Group, to assist in fund raising through Wuhan Securities Exchange at 6% per annum on funds raised. In 2017, 2018 and 2019, the intermediary fees were RMB5.3 million, RMB1.7 million and nil, respectively.

As of December 31, 2018 and 2019, intermediary fee payable to a related party was nil and nil, respectively.

9. Funds provided by related parties for payments to certain loans payable

In 2018, fund of RMB954,000 was provided by Wuhan Xin Heng Tai Investment Co., Ltd and fund of RMB412,000 was provided by Wuhan Zhong Ji Gold Co., Ltd for payments to certain loans payable, interest payable and listing service fee. Wuhan Xin Heng Tai Investment Co., Ltd is related to Ms Wenting Xiao, a shareholder who owned 10.6% of the Group's variable interest entity, whom is a general manager with Wuhan Xin Heng Tai Investment Co., Ltd. Wuhan Zhong Ji Gold Co., Ltd is also related to Ms Wenting Xiao whom is a member of the supervisory committee with Wuhan Zhong Ji Gold Co., Ltd. These funds were provided without interest and with no fixed terms of repayment.

As of December 31, 2018 and 2019, payables to related parties were RMB1.4 million and RMB1.4 million, respectively.

10. Loans receivable from related parties

10.1 In 2016, loans receivable of RMB8.0 million were lent to Hubei Baoli Ecological Conservation Co., Ltd at an interest rate of 36% per annum. The loan was guaranteed by Ms. Jing Liang, a shareholder who owned 4.3% of the variable interest entity. The interest received on the loan was nil, nil and nil for the years ended December 31, 2017, 2018 and 2019, respectively. As of December 31, 2018 and 2019, this loan was overdue.

10.2 In 2016, loans receivable of RMB3.0 million were lent to Kang Chen at an interest rate of 36% per annum. The loan was guaranteed by Ms. Jing Liang, a shareholder who owned 4.3% of the variable interest entity. The interest received on the loan was nil, nil and nil for the years ended December 31, 2017, 2018 and 2019, respectively. As of December 31, 2018 and 2019, this loan was overdue.

10.3 In 2017, loans receivable of RMB18.0 million were lent to Wuhan Zhong Ji Gold Co., Ltd at a weighted average interest rate of 25.3% per annum. The loan was related to Ms Wenting Xiao, a shareholder who owned 10.6% of the variable interest entity, whom is a member of the supervisory committee with Wuhan Zhong Ji Gold Co., Ltd. The interest received on loan was RMB6.5 million for the year ended December 31, 2017. This loan was fully repaid in 2017.

10.4 In 2017, loans receivable of RMB19.0 million were lent to Wuhan Xin Heng Tai Investment Co., Ltd at a weighted average interest rate of 24.9% per annum. The loan was related to Ms Wenting Xiao, a shareholder who owned 10.6% of the variable interest entity, whom is a general manager with Wuhan Xin Heng Tai Investment Co., Ltd. The interest received on loan was RMB4.9 million for the year ended December 31, 2017. This loan was fully repaid in 2017.

11. Loans receivable novated to a related party

In 2019, certain loans receivable were novated to a related party, Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, to offset loans payable of RMB9.9 million, interest payable of RMB3.1 million to Hubei New Nature, reverse merger and operating expenses payable of RMB22.6 million, and advisory expenses payable of RMB4.6 million.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See “Item 18. Financial Statements.”

Dividend Policy

Our board of directors has complete discretion on whether to pay dividends, subject to the approval of our shareholders. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable there under. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

We are a holding company, and we rely on dividends paid by our operating subsidiary in China for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses. The payment of dividends in China is subject to limitations. Regulations in the PRC currently permit payment of dividends by our PRC subsidiaries only out of their accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits each year to contribute to its reserve fund until the accumulated balance of the reserve fund reaches 50% of its paid-up capital. Each of our PRC subsidiaries is also required to reserve a portion of its after-tax profits to its employee welfare and bonus fund, the amount of which is determined by its board of directors. These funds are not distributable in cash dividends.

Legal and Administrative Proceedings

From time to time, we have become and may in the future become a party to various legal or administrative proceedings arising in the ordinary course of our business, including actions with respect to loans that we have made, breach of contract claims, labor and employment claims and other matters. Microfinance lending companies are frequently involved in litigation as claimants against borrowers and guarantors. Although such proceedings are inherently uncertain and their results cannot be predicted with certainty, we believe that the resolution of our current pending matters will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flow. Regardless of the outcome, however, any litigation can have an adverse impact on us because of defense costs, diversion of management’s attention and other factors.

As of December 31, 2019, Chutian has been involved in multiple significant legal proceedings as claimants against various borrowers and guarantors, which are incidental to the lending business. During 2019, Chutian and our Chairman and CEO, Mr. Ricky Qizhi Wei, have also been involved in multiple significant legal proceedings which resulted in final rulings by the courts for pre-litigation property preservation or pre-litigation protective measures. In addition, Chutian and Mr. Wei have been the defendants in legal proceedings in connection with the payment of property services fee and a loan dispute.

Proceedings incidental to our lending business

On March 27, 2019, Chutian filed a motion with the Wuchang District People’s Court of Wuhan to withdraw an action originally filed on July 18, 2018 against defendants Hubei Poly Ecology Construction Co., Ltd (湖北保利生态建设有限公司), Chen Kang and Liang Jing regarding a civil loan dispute. On March 29, 2019, the court granted Chutian permission to withdraw the action.

On June 13, 2019, Chutian filed an action in the Wuchang District People’s Court of Wuhan against defendant He Jun regarding a loan contract dispute. The case was filed by the Court on July 5, 2019. However, Chutian failed to pay the case acceptance fee within seven (7) days after we were served the notice for payment of litigation fees in accordance with the law. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

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On June 13, 2019, Chutian filed an action in the Wuchang District People's Court of Wuhan against defendant He Fengxia regarding a loan contract dispute. The case was filed by the Court on July 5, 2019. However, Chutian failed to pay the case acceptance fee within seven (7) days after we were served the notice for payment of litigation fees in accordance with the law. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

On June 13, 2019, Chutian filed an action in the Wuchang District People's Court of Wuhan against defendant Yu Xiang regarding a loan contract dispute. The case was filed by the Court on July 5, 2019. However, Chutian failed to pay the case acceptance fee within seven (7) days after we were served the notice for payment of litigation fees in accordance with the law. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

On June 13, 2019, Chutian filed an action in the Wuchang District People's Court of Wuhan against defendant Nan Yongping regarding a loan contract dispute. The case was filed by the Court on July 5, 2019. However, Chutian failed to pay the case acceptance fee within seven (7) days after we were served the notice for payment of litigation fees in accordance with the law. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

On June 13, 2019, Chutian filed an action in the Wuchang District People's Court of Wuhan against defendant Zhang Liping regarding a loan contract dispute. The case was filed by the Court on July 5, 2019. However, Chutian failed to pay the case acceptance fee within seven (7) days after we were served the notice for payment of litigation fees in accordance with the law. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

On June 13, 2019, Chutian filed an action in the Wuchang District People's Court of Wuhan against defendants Wuhan City and City Economic and Trade Co., Ltd (武汉市域和城经贸有限公司) and Zhang Peng regarding a loan contract dispute. The case was filed by the Court on July 5, 2019. However, Chutian failed to pay the case acceptance fee within seven (7) days after we were served the notice for payment of litigation fees in accordance with the law. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

On June 13, 2019, Chutian filed an action in the Wuchang District People's Court of Wuhan against defendants Zhang Peng, Wuhan City and City Economic and Trade Co., Ltd (武汉市域和城经贸有限公司) and Li Zhengbi regarding a loan contract dispute. The case was filed by the Court on July 5, 2019. However, Chutian failed to pay the case acceptance fee within seven (7) days after we were served the notice for payment of litigation fees in accordance with the law. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

On June 13, 2019, Chutian filed an action in the Wuchang District People's Court of Wuhan against defendants Hubei Tianxing Financing Guarantee Co., Ltd (湖北天行融资担保有限公司) and Zou Chuanlin regarding a loan contract dispute. The case was filed by the Court on July 5, 2019. However, Chutian failed to pay the case acceptance fee within seven (7) days after we were served the notice for payment of litigation fees in accordance with the law. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

On June 13, 2019, Chutian filed an action in the Wuchang District People's Court of Wuhan against defendant Guo Guiying regarding a loan contract dispute. The case was filed by the Court on July 5, 2019. However, Chutian failed to pay the case acceptance fee within seven (7) days after we were served the notice for payment of litigation fees in accordance with the law. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

On June 13, 2019, Chutian filed an action in the Wuchang District People's Court of Wuhan against defendant Xiong Baokang regarding a loan contract dispute. On July 16, 2019, the court issued a civil order and ordered the case to be withdrawn.

On August 8, 2019, Chutian filed a lawsuit in the Wuchang District People's Court of Wuhan against defendants Liu Mengxia, Wuhan Shengzhong Decoration Engineering Co., Ltd (武汉深中建筑装饰设计工程有限公司) and Wu Jiang regarding a loan contract dispute. On September 20, 2019, the court ruled that the case will be handled pursuant to a withdrawal of the lawsuit by Chutian, as Chutian had failed to appear as summoned by the Court without justifiable reasons.

On August 8, 2019, Chutian filed a lawsuit in the Wuchang District People's Court of Wuhan against defendants Cao Jian, Wuhan Shengzhong Decoration Engineering Co., Ltd (武汉深中装建筑装饰设计工程有限公司) and Wu Jiang regarding a loan contract dispute. On September 20, 2019, the court ruled that the case will be handled pursuant to a withdrawal of the lawsuit by Chutian, as Chutian had failed to appear as summoned by the Court without justifiable reasons.

On July 24, 2017, Chutian filed an execution case with the Wuhan Wuchang District People's Court for property preservation on Hubei Sheng Guang Gong Pharmaceutical Co., Ltd and related borrowers. On August 20, 2019, Chutian further filed the real estate valuation report to the court for further processing.

Property Preservation Proceedings

On July 16, 2019, Shenzhen Lihe Wantong Commercial Factoring Co., Ltd (深圳立合旺通商业保理有限公司) applied to the Wuhan Wuchang People's Court for pre-litigation protective measures to be taken against the respondents Chutian and Mr. Ricky Qizhi Wei with regards to a contract dispute. On July 31, 2019, the court issued a preservation order freezing a total of RMB12.3 million of deposits in the bank accounts of Chutian and Mr Ricky Qizhi Wei for a period of one (1) year; and seizing four properties of Mr Ricky Qizhi Wei and Ms Peng Yan, Mr Ricky Qizhi Wei's wife. The total limit of the property preservation in this matter is RMB29.9 million.

On September 4, 2019, Hubei Changjiang Microcredit Co., Ltd (湖北长江小额贷款有限公司) applied to the Wuhan Wuchang People's Court for pre-litigation property preservation of respondents Mr Ricky Qizhi Wei and Ms Peng Yan, Mr Ricky Qizhi Wei's wife, Chutian, Hubei New Nature Investment Co., Ltd and Dunxin Holdings Co., Ltd in connection with a loan contract dispute. On September 6, 2019, the court issued a preservation order seizing the bank deposits, or property in the corresponding value, of Mr Ricky Qizhi Wei, Ms Peng Yan, Chutian, Hubei New Nature Investment Co., Ltd and Dunxin Holdings Co., Ltd in the amount of RMB13.0 million and RMB12.0 million. Hubei New Nature Investment Co., Ltd is a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei. Dunxin Holdings Co., Ltd is a company that is 70% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei and 30% owned by Ms Wenting (Tina) Xiao, Chief Personal/Human Resource Officer. The Court's ruling was effective immediately.

On October 14, 2019, Mr Deng Xinxue, Mr Zhang Xuan and Mr Yang Bobiao each applied to the Wuhan Wuchang People's Court for pre-litigation property preservation of respondents Hubei Shanyin Wealth Management Co., Ltd (湖北善银财富管理有限公司), a company that is 69.5% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, and Chutian in connection with loan contracts dispute. The court issued a preservation order seizing the bank deposits, or property in the corresponding value, of Hubei Shanyin Wealth Management Co., Ltd and Chutian in the amount of RMB2.9 million, RMB9.0 million and RMB9.0 million, respectively. The court's ruling was effective immediately.

On October 15, 2019, the Wuhan Wuchang People's Court received a Letter of Property Preservation from the Wuhan Arbitration Commission in connection with a loan contract dispute among the applicant Hubei Huaya Investment Co., Ltd (湖北华亚投资有限公司) and respondents Mr Ricky Qizhi Wei, Ms Peng Yan and Chutian. On October 23, 2019, after review of the letter by the court, the court issued a preservation order seizing the bank deposits, or property in the corresponding value, of Mr Ricky Qizhi Wei, Ms Peng Yan, and Chutian in the amount of RMB12.3 million. The Court's ruling was effective immediately.

Property Services Contract Proceeding

On September 26, 2019, the Wuhan Branch of Xiamen Lianfa (Group) Property Services Co., Ltd ("Xiamen Lianfa") filed an action in the Wuhan Wuchang People's Court against Chutian in connection with a property service contract dispute. On November 27, 2019, the case was scheduled to be heard and Chutian was lawfully summoned and failed to appear, and did not submit a reply. The case was decided and concluded on November 27, 2019. The court found that Chutian failed to pay the owed property services fees to Xiamen Lianfa from April 1, 2019 to August 31, 2019. The court rendered a judgment in favor of Xiamen Lianfa and ordered Chutian to pay property services fee in the amount of RMB193,944 for the period from April 1, 2019 to August 31, 2019 to Xiamen Lianfa, within 10 days of the judgment. The court further ordered Chutian to pay the accrued interest, to be calculated based on the principal amount of RMB193,944 and based on the People's Bank of China lending interest rate for the period from September 26, 2019 until fully paid. In the event that the repayment obligation is not fulfilled, the court ordered that the debt interest would be doubled in accordance with PRC law. Chutian did not appeal the judgment and the judgment was effected immediately.

Li Ling Loan Dispute Proceeding

On August 27, 2019, Ms Li Ling applied to the Wuhan Wuchang People's Court for pre-litigation property preservation of respondents Chutian and Mr Ricky Qizhi Wei in connection with a loan contract dispute. court issued a preservation order that froze the bank deposits of Chutian and Mr Ricky Qizhi Wei in the amount of RMB12.0 million, or to seize or attach property in the corresponding value.

On October 9, 2019, the case was filed and accepted in the Wuhan Jiang'an People's Court. Li Ling filed the following actions with the court: (1) that the two defendants Chutian and Mr Ricky Qizhi Wei repay the borrowed principal of RMB10.0 million and interest of RMB787,500 (based on the interest rate of 1.125% per month on the principal of RMB10.0 million, calculated from February 1, 2019 until fully paid, currently calculated until 30 August, 2019), and (2) the costs of litigation to be fully borne by both defendants. On December 4, 2019, the court ruled that there was a valid loan relationship, that Chutian had failed to repay the loan as agreed and that Ms Li Ling had the right to request full repayment of the loan principal and interest. The court ordered Chutian to repay the principal amount of the loan of RMB10.0 million to Ms Li Ling, and to pay the interest rate of 1.125% per month on the principal amount of RMB10.0 million, beginning February 2019 until the date the loan is fully paid. The court further ordered that Mr Ricky Qizhi Wei shall also be jointly and severally liable for the repayment of the loan. In the event that the repayment obligation is not fulfilled, the court ordered that the debt interest would be doubled in accordance with PRC law.

On May 20, 2020, due to the failure of Chutian to fulfil its obligation to repay the principal amount determined above, the court issued a consumer restriction order against Mr Ricky Qizhi Wei to restrict high consumption and high expenditure behaviors. Violation of this order carries the imposition of fines and detention, and in circumstances sufficiently serious to constitute a crime, pursuit of criminal liability according to law.

There are no proceedings in which any of our directors, officers, or any beneficial shareholder of more than five percent (5%) of our voting securities is an adverse party or has a material interest adverse to Chutian.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ADSs were listed on the NYSE on November 23, 2010 and transitioned to the NYSE American on December 28, 2017. We have been trading under the symbol “XNY” until we changed to “DXF” on March 5, 2018. Prior to December 17, 2014, each ADS represented the right to receive four (4) ordinary shares, from December 18, 2014, the right to receive sixteen (16) ordinary shares and from December 28, 2017, the right to receive forty-eight (48) ordinary shares.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs were listed on the NYSE on November 23, 2010 and transitioned to the NYSE American on December 28, 2017. We have been trading under the symbol “XNY” until we changed to “DXF” on March 5, 2018. Prior to December 17, 2014, each ADS represented the right to receive four (4) ordinary shares, from December 18, 2014, the right to receive sixteen (16) ordinary shares and from December 28, 2017, the right to receive forty-eight (48) ordinary shares.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum and articles of association contained in our registration statement on Form F-1 (File No. 333-170368), as amended. On November 3, 2010, our shareholders adopted our first amended and restated memorandum and articles of association by special resolutions which became effective on November 29, 2010. On March 1, 2018, our shareholders adopted our second amended and restated memorandum and articles of association by special resolutions which became effective on March 1, 2018.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

D. Exchange Controls

The Cayman Islands currently has no exchange control restrictions. See also “Item 4. Information on the Company—B. Business Overview — Regulation — Foreign Currency Exchange” for information regarding foreign exchange controls in the PRC.

E. Taxation

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

PRC Taxation

The following discussion describes the material PRC tax consequences of an investment in the ADSs or ordinary shares under present PRC law. Under the EIT Law and its implementation rules, both of which became effective on January 1, 2008, as subsequently amended on February 24, 2017 and December 29, 2018, an enterprise established outside the PRC with its “actual management” within the PRC is considered a PRC tax resident enterprise. The “actual management” of an enterprise is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. Although we are incorporated in the Cayman Islands and the immediate holding company of our PRC subsidiaries is incorporated in Hong Kong, substantially all of our management members are based in the PRC. It remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore company, like us, having indirect ownership interests in PRC enterprises through intermediary holding vehicles. If we are classified as a PRC tax resident enterprise, dividends on our ADSs and ordinary shares and capital gains from sales of our ADSs and ordinary shares realized by non-PRC enterprise shareholders may be regarded as income from “sources within the PRC” and may be subject to 10% PRC withholding tax, subject to reduction by an applicable treaty.

U.S. Federal Income Taxation

The following discussion is a summary of United States federal income tax considerations generally applicable to the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below) that holds our ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based upon existing United States federal income tax law, which is subject to differing interpretations and may be changed, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- certain financial institutions;
- insurance companies;
- broker dealers;
- U.S. expatriates;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction; or
- persons that actually or constructively own 10% or more of our voting stock.

In addition, this discussion does not discuss any non-United States, alternative minimum tax, state, or local tax or any non-income tax (such as the U.S. federal gift or estate tax) considerations, or the Medicare tax on net investment income.

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The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are a beneficial owner of ADSs or ordinary shares and you are:

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) located or organized in or under the laws of the United States, any State thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) that holds ADSs or ordinary shares, your tax treatment generally will depend on your status and the activities of the partnership. Partners in partnerships holding ADSs or ordinary shares should consult their own tax advisors as to the U.S. federal income tax consequences of their investment in ADSs or ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. If you hold ADSs, you should be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

Each U.S. Holder is urged to consult its tax advisor regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our ADSs or ordinary shares.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

Subject to the PFIC rules discussed below, the gross amount of all of our distributions to you with respect to the ADSs or ordinary shares will be included in your gross income as dividend income on the date of receipt by the depository, in the case of ADSs, or by you, in the case of ordinary shares, to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, dividends on the ADSs would constitute “qualified dividend income” and, thus, be taxed at the lower applicable capital gains rate, provided that (1) either (a) the ADSs are readily tradable on an established securities market in the United States or (b) we are eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program and which the U.S. Treasury Department has determined is satisfactory for these purposes, (2) we are not a PFIC (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year and (3) certain holding period requirements are met. Under U.S. Internal Revenue Service authority, ADSs representing ordinary shares are considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on NYSE, as our ADSs are. If we are treated as a “resident enterprise” for PRC tax purposes, we may also be eligible for the benefits of the income tax treaty between the United States and the PRC. You should consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares.

Dividends will constitute foreign source income for U.S. foreign tax credit limitation purposes. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the U.S. foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends distributed by us with respect to ADSs or ordinary shares will generally constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

If PRC withholding taxes apply to dividends paid to you with respect to the ADSs or ordinary shares, as described under “-PRC Taxation,” such withholding taxes may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. You should consult your own tax advisors regarding the creditability of any PRC tax.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and to the extent the amount of the distribution exceeds your tax basis in the ADSs or ordinary shares, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that a distribution with respect to the ADSs or ordinary shares will generally be treated as a dividend.

Taxation of Disposition of ADSs or Ordinary Shares

Subject to the PFIC rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized (in U.S. dollars) for the ADS or ordinary share and your tax basis (in U.S. dollars) in the ADS or ordinary share. The gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you may be eligible for reduced tax rates under current law. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes. If PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, as described under “—PRC Taxation,” you would only be able to claim a foreign tax credit for the amount withheld to the extent that you have foreign source income. However, if you are eligible for the benefits of the income tax treaty between the United States and the PRC, you may elect to treat such gain as PRC source income. You should consult your own tax advisors regarding the creditability of any PRC tax.

PFIC Considerations

A non-U.S. corporation is considered to be a PFIC for any taxable year if either:

- at least 75% of its gross income for such year is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

Although the law in this regard is unclear, we intend to treat Chutian as being owned by us for United States federal income tax purposes, and we treat it that way, not only because we exercise effective control over the operation of such entity but also because we are entitled to eighty percent (80%) of Chutian’s economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. Assuming that we are the owner of Chutian for United States federal income tax purposes, and based upon our current and expected income and assets and the market price of our ADSs at the end of our 2019 taxable year, we do not presently expect to be a PFIC for the current taxable year or the foreseeable future. However, a separate determination must be made at the close of each year as to whether we are a PFIC for such year. In particular, our PFIC status may be determined in large part based on the market price of our ADSs and ordinary shares, which is likely to fluctuate. Our PFIC status will also be affected by how, and how quickly, we spend the cash we hold. Accordingly, there can be no assurance that we will not be a PFIC for our current taxable year ending December 31, 2019 or any future taxable year. If we are a PFIC for any year during which you hold ADSs or ordinary shares, unless you make a “mark-to-market” election or a “deemed sale” election, as discussed below, we will continue to be treated as a PFIC for all succeeding years during which you hold ADSs or ordinary shares. In addition, for the purposes of the PFIC rules, you would be deemed to own your proportionate share of any of our subsidiaries that are treated as PFICs.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a “mark-to-market” election or a “deemed sale” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital gain, even if you hold the ADSs or ordinary shares as capital assets.

If we are treated as a PFIC with respect to you for any taxable year, to the extent any of our subsidiaries are also PFICs or we make direct or indirect equity investments in other entities that are PFICs, you will be deemed to own shares in such lower-tier PFICs that are directly or indirectly owned by us in that proportion that the value of our equity that you own bears to the value of all of our equity, and you may be subject to the rules described above with respect to the shares of such lower-tier PFICs that you would be deemed to own. You should consult your tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

Alternatively, you may make a mark-to-market election to potentially mitigate the adverse U.S. federal income tax consequences of holding an equity interest in a PFIC. If you make a timely mark-to-market election for the ADSs or ordinary shares, the tax treatment described in the three preceding paragraphs would not apply to you. Instead, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of your taxable year over your adjusted tax basis in such ADSs or ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted tax basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your tax basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts.

The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. The ADSs are listed on the NYSE, which is a qualified exchange for this purpose. Consequently, if the ADSs are considered to be regularly traded on the NYSE, the mark-to-market election should be available to you with respect to the ADSs. Although there can be no assurances in this regard, the ADSs should be treated as regularly traded on the NYSE for this purpose for the calendar year ended December 31, 2017. However, because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that we may own, you may become or continue to be subject to the PFIC rules described above regarding excess distributions and gains with respect to an indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. A mark-to-market election generally must be made for the first taxable year in which you hold stock of a PFIC, and is made by filing Internal Revenue Service Form 8621 with your original or amended U.S. federal income tax return on or before the due date (including extensions) of the return. If you do not make a mark-to-market election for the first taxable year in which you hold stock of a PFIC but you subsequently make the election, the excess distribution rules will generally apply to any appreciation in the stock’s value compared to its tax basis as of the effective date of the election, as well as certain distributions with respect to, and dispositions of, the stock and such consequences will apply during the year of election. You should consult your tax advisors as to the availability and desirability of a mark-to-market election, as well as the impact of such election on interests in any lower-tier PFICs.

If we have been a PFIC in one or more prior taxable years during which you held ADSs or ordinary shares, but cease to be a PFIC in a later taxable year, and you have not previously made a mark-to-market election, we will continue to be treated as a PFIC with respect to you unless you make a deemed sale election. If you make a deemed sale election, you will be deemed to have sold the ADSs or ordinary shares you hold at their fair market value as on the last day of the last year during which we were a PFIC. Any gain from such deemed sale would be subject to the U.S. federal income tax consequences applicable to excess distributions described above. You should consult your tax advisors as to the availability and desirability of a deemed sale election.

If you hold ADSs or ordinary shares in any year in which we are a PFIC, you will be required to file U.S. Internal Revenue Service Form 8621 (or any other form that may be required by future guidance) with respect to any distributions received on the ADSs or ordinary shares, any gain realized on the disposition of ADSs or ordinary shares, any reportable election (including a mark-to-market election) or, for taxable years ending on or after December 31, 2019, on an annual basis as described in the Instructions for Form 8621, subject to certain exceptions based on the value of PFIC stock held. You should consult your tax advisor regarding any reporting requirements that may apply to you. In addition, we do not intend to prepare or provide you with the information necessary to make a “qualified electing fund” election with respect to your ADSs or ordinary shares.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ADSs or ordinary shares.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. If you are required to establish your exempt status, generally you must provide such certification on Internal Revenue Service Form W-9. You should consult your tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the U.S. Internal Revenue Service and furnishing any required information.

In addition, certain U.S. Holders who are individuals that hold certain foreign financial assets (which may include our ADSs or ordinary shares) may be required to report information relating to such assets, subject to certain exceptions. You should consult your own tax advisors regarding the effect, if any, of this requirement on your ownership and disposition of our ADSs or ordinary shares.”

Tax Cuts and Jobs Act

On December 22, 2017, President Trump signed into law H.R. 1, “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018” (informally titled the “Tax Cuts and Jobs Act”). The Tax Cuts and Jobs Act broadly changes the taxation of foreign earnings attributable to certain U.S. Holders from a worldwide tax regime to a territorial regime. The Tax Cuts and Jobs Act created a transition tax that creates a deemed repatriation of previously untaxed foreign earnings and profits. Certain U.S. Holders may be subject to this transition tax and recognize taxable income due to undistributed earnings and profits of the Company.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As permitted by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we have filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional offices in New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, the depository of our ADSs, all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us. We will file our annual report on Form 20-F, including our audited financial statements, with the SEC. Our annual report on Form 20-F can be accessed on the SEC's website as well the investor relations section of our website. Investors may request a hard copy of our annual report, free of charge, by contacting us.

Our financial statements have been prepared in accordance with IFRS. We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with IFRS.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Credit Risk

Credit risk is one of the most significant risks for the Company's business. Credit risk exposures arise principally in lending activities.

Our credit committee is responsible for managing the credit risk by:

- Ensuring that we have appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk from an individual loan to a portfolio level.
- creating credit policies to protect us against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Establishing a robust control framework regarding the authorization structure for the approval and renewal of credit facilities.
- Developing and maintaining our processes for measuring expected credit loss including monitoring of credit risk, incorporation of forward-looking information and the method used to measure expected credit loss.
- Ensuring that we have policies and procedures in place to appropriately maintain and validate methods used to assess and measure expected credit loss.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for expected credit loss. Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

Liquidity Risk

Liquidity risk is the risk that we do not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in lending operations and can be affected by a range of Group-specific and market-wide events.

Foreign Currency Risk

All of our revenues and substantially all of our expenses are denominated in RMB, which is not freely convertible into foreign currencies. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the RMB because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars

Approval of foreign currency payments by the PBOC or other regulatory institutions requires submitting a payment application form together with suppliers' invoices and signed contracts. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to our net interest income, which is the difference between interest earned from loans we provide and interest paid to the borrowings we obtain from various individuals and companies through certain securities exchanges. Our future interest income may fall short of expectations due to changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and basis risk. We have not used, and do not expect to use in the future, any derivative financial instruments to hedge our interest risk exposure.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Payable to the Depositary

Deutsche Bank Trust Company Americas, the depositary of our ADS facility, may charge the following service fees, provided, however, that no fees shall be payable upon distribution of cash dividends so long as the charging of such fee is prohibited by the New York Stock Exchange, upon which the ADSs are listed:

<u>Service</u>	<u>Fees</u>
• Issuance or distribution of ADSs, including distributions made pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	Up to \$0.05 per ADS issued
• Surrender of ADSs for cancellation and withdrawal of deposited securities, including cash distributions made pursuant to a cancellation or withdrawal	Up to \$0.05 per ADS surrendered
• Distribution of cash proceeds, including cash dividends or sale of rights and other entitlements (not made pursuant to a cancellation or withdrawal)	Up to \$0.05 per ADS held
• Distribution of ADSs upon the exercise of rights	Up to \$0.05 per ADS issued
• Operation and maintenance costs in administering the ADSs	Up to \$0.05 per ADS held, such fee to be assessed against holders of record on an annual basis as of the date or dates set by the depositary as it sees fit and collected at the sole discretion of the depositary by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions

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Holders and beneficial owners of our ADSs, as well persons depositing our ordinary shares and persons surrendering ADSs for cancellation and for withdrawal of deposited securities, will be required to pay the following charges:

- taxes (including applicable interest and penalties) and other governmental charges;
- such registration fees as may from time to time be in effect for the registration of our ordinary shares or other deposited securities on the share register and applicable to transfers of our ordinary shares or other deposited securities to or from the name of the custodian, the depository or any nominees upon the making of deposits and withdrawals, respectively;
- such cable, telex, facsimile and electronic transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of the person depositing or withdrawing our ordinary shares or the holders and beneficial owners of our ADSs;
- the expenses and charges incurred by the depository in the conversion of foreign currency;
- such fees and expenses as are incurred by the depository in connection with compliance with exchange control regulations and other regulatory requirements applicable to our ordinary shares, the deposited securities, ADSs and ADRs;
- the fees and expenses incurred by the depository in connection with the delivery of deposited securities, including any fees of a central depository for securities in the local market, where applicable; and
- any additional fees, charges, costs or expenses that may be incurred by the depository from time to time.

The depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depository bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depository bank and by the brokers (on behalf of their clients) delivering the ADSs to the depository bank for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository bank to the holders of record of ADSs as of the applicable ADS record date.

The depository fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depository bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depository bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depository bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depository banks.

In the event of refusal to pay the depository fees, the depository bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depository fees from any distribution to be made to the ADS holder.

Fees and Payments From the Depository to Us

The depository has agreed to reimburse us for a portion of certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses. There are limits on the amount of expenses for which the depository will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depository collects from investors. As of December 31, 2019, we received from the depository reimbursement totaling \$1,044,262 for our ADR program-related expenses.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See “Item 10. Additional Information” for a description of the rights of holders of our ordinary shares, which remain unchanged.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

B. Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company’s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with IFRS, and that a company’s receipts and expenditures are being made only in accordance with authorizations of a company’s management and directors and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by the Securities and Exchange Commission, our management, including our chief executive officer and chief financial officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2019 using the criteria set forth in the report “Internal Control — Integrated Framework (2013)” published by the Committee of Sponsoring Organizations of the Treadway Commission (known as COSO).

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A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The following material weakness in internal control over financial reporting has been identified as of December 31, 2018.

Management did not apply the appropriate authoritative accounting literature and led to accounting errors, as a result of the following deficiencies that, collectively, represent a material weakness:

- The appropriate accounting expertise (internally and externally) was not engaged, resulting in a failure to recognize important IFRS accounting treatments;
- The accounting consequences of significant, unusual transactions were not identified and evaluated;
- The accounting positions taken on significant, unusual transactions were not reviewed and approved at the appropriate level; and
- Certain related party transactions were not completely and accurately identified and reported.

These material weaknesses in our internal control over financial reporting resulted in the accounting errors that led to the restatement of previously issued financial statements.

We have taken, and continue to take, the actions described below to remediate the identified material weakness. As we continue to evaluate and work to improve our internal controls over financial reporting, our senior management may determine to take additional measures to address control deficiencies or modify the remediation efforts described in this section. While the Audit Committee and senior management are closely monitoring the implementation, until the remediation efforts discussed in this section, including any additional remediation efforts that our senior management identifies as necessary, are completed, tested, and determined effective, the material weakness described below will continue to exist.

To address this material weakness, our management has implemented new procedures and internal controls surrounding financial reporting, we implemented more rigorous and more detailed review on procedures and processes on reviewing and recording significant, unusual transactions to ensure completeness and accuracy of financial reporting. Where required, appropriate accounting expert will be engaged to review important IFRS accounting treatments.

As a result of the remedial actions taken, there was no material weaknesses for the fiscal year ended December 31, 2019.

Our management has concluded that we had maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

C. Attestation Report for the Independent Registered Public Accounting Firm

Not applicable.

D. Changes in Internal Control Over Financial Reporting

With the exception of the remedial measures taken as discussed above, there were no other changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Duoguang Bei qualifies as “audit committee financial expert” as defined in Item 16A of Form 20-F. Each of the members of our audit committee satisfies the “independence” requirements of Section 303A of the NYSE Rules and Rule 10A-3 under the Exchange Act. See “Item 6. Directors, Senior Management and Employees.”

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (File No. 333-170368). We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person’s written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our independent registered public accounting firm for the year ended December 31, 2018 and 2019, respectively. We did not pay any other fees to Pan-China Singapore PAC during the periods indicated below.

	Year Ended December 31,		
	2018	2019	
	RMB	RMB	\$
		(in Thousands)	
Audit fees ⁽¹⁾	1,375	1,392	200
Audit-related fees ⁽²⁾	-	-	-
Tax fees ⁽³⁾	-	-	-
All other fees ⁽⁴⁾	-	-	-

(1) “Audit fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements that are normally provided in connection with statutory and regulatory filings or engagements for those fiscal years.

(2) “Audit-related fees” means the aggregate fees billed in each of the fiscal years listed for assurance and related services by our independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit fees.” Services comprising the fees disclosed under category of “Audit-related fees” involve principally general audit-related services for the years ended December 31, 2018 and 2019.

(3) “Tax fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice, and tax planning.

(4) “All other fees” means the aggregate fees billed in each of the fiscal years listed for products and services provided by our independent registered public accounting firm, other than the services reported in the other categories.

The audit committee of our board of directors is directly responsible for the appointment, retention, evaluation, compensation, oversight and termination of the work of the independent auditors employed by our company. Pursuant to the audit committee charter adopted by the board of directors on November 4, 2010, the committee has the authority and responsibility to appoint, retain and terminate our independent auditors and has the sole authority to pre-approve any audit and non-audit services, including tax services, to be provided by our independent auditors. In addition, the audit committee has the power to pre-approve the hiring of any employee or former employee of the independent auditors who was a member of our company's audit team during the preceding two fiscal years, or the hiring of any employee or former employee of the independent auditors (within the preceding two fiscal years) for a senior position within our company, regardless of whether that person was a member of our company's audit team.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Effective June 4, 2020, the Company dismissed the former auditors Marcum Bernstein & Pinchuk LLP and appointed Pan-China Singapore PAC as the successor auditor. In connection therewith, the Company provides that during the Company's fiscal years ended December 31, 2018 and 2017 and through the subsequent interim period on or prior to the resignation of the former auditors: (a) there were no disagreements between the Company and the former auditors on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of the former accountant, would have caused it to make reference to the subject matter of the disagreement in connection with its report; and (b) no reportable events as set forth in Item 16F(a)(1)(v)(A) through (D) of Form 20-F have occurred.

Effective October 28, 2020, the Company dismissed Pan-China Singapore PAC and appointed Audit Alliance LLC as the successor auditor. In connection therewith, the Company provides that from June 4, 2020, the date of engagement of Pan-China Singapore PAC through the subsequent interim period on or prior to the dismissal of Pan-China Singapore PAC, (a) there were no disagreements between the Company and the former auditors on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of the former accountant, would have caused it to make reference to the subject matter of the disagreement in connection with its report; and (b) no reportable events as set forth in Item 16F(a)(1)(v)(A) through (D) of Form 20-F have occurred.

ITEM 16G. CORPORATE GOVERNANCE

NYSE American Company Guide and Home Country Laws

We are a foreign private issuer with our ADSs listed on the NYSE American. Section 110 of the NYSE American Company Guide permits NYSE American to consider the laws, customs and practices of foreign private issuers like us in relaxing certain NYSE American corporate governance requirements, and to grant exemptions from NYSE MKT corporate governance requirements on these considerations. A company seeking relief under these provisions is required to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A description of the significant ways in which our governance practices differ from those followed by domestic companies pursuant to NYSE American corporate governance standards is as follows:

- Independent Directors: U.S. domestic listed companies must have a majority of independent directors. Under the laws of Cayman Islands, we are not required to have a majority of our directors as independent directors. Of our four (4) directors, two are independent directors.
- Audit Committee: U.S. domestic listed companies must have an audit committee of at least three (3) members. These requirements differ from the Companies Law of the Cayman Islands. We currently have two (2) members, all of whom are independent directors.
- Dissemination: Section 623 of the NYSE American Company Guide requires that the company to prepare and disseminate its interim/quarterly (unaudited) statements to its shareholders. We are a foreign private issuer and under the laws of the Cayman Islands, we are not required to prepare and disseminate our interim/quarterly (unaudited) statements to our shareholders. However, we will continue to submit to the SEC on a Form 6-K our interim balance sheet as of the end of our second fiscal quarter, and a semi-annual income statement that covers our first two fiscal quarters as required under the NYSE American Company Guide.
- Shareholder Approval Requirement: Sections 711-713 of the NYSE American Company Guide require shareholder approval prior to an issuance of securities in connection with: (i) the acquisition of the stock or assets of another company; (ii) equity-based compensation of officers, directors, employees or consultants; (iii) a change of control; and (iv) private placements. Under the laws of the Cayman Islands, we are not required to solicit shareholder approval of stock plans, including those in which our officers or directors may participate; stock issuances that will result in a change in control; the issuance of our stock in related party transactions or other transactions in which we may issue 20% or more of our outstanding shares; or, below market issuances of 20% or more of our outstanding shares to any person.

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In addition, as a foreign private issuer, and our equity securities are accordingly exempt from the proxy rules set forth in Sections 14(a), 14(b), 14(c) and 14(f) of the Exchange Act. We solicit proxies in accordance with our Memorandum and Articles of Association the applicable rules and regulations in the Cayman Islands.

The foregoing is consistent with the laws, customs and practices in the Cayman Islands. In addition, we may from time-to-time seek relief from NYSE American corporate governance requirements on specific transactions under Section 110 of the NYSE American Company Guide by providing written certification from independent local counsel that the non-complying practice is not prohibited by our home country law.

Controlled Company

We are a “controlled company” as defined in Section 801 of the NYSE American Company Guide. As a result, we are exempt from certain of the NYSE American Company Guide corporate governance requirements, including the requirement that a majority of the board of directors be independent, the requirement applicable to the nomination process of directors and the requirements applicable to the determination or recommendation of executive compensation by a committee comprised of independent directors or by a majority of the independent directors. We follow the requirements of the Companies Law of Cayman Islands with respect to these issues.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

See “Index to Consolidated Financial Statements” on page F-1 for a list of all financial statements filed as part of this annual report.

ITEM 19. EXHIBITS

The following exhibits are furnished along with this annual report or are incorporated by reference as indicated.

Number	Description of Document
1.1	Second Amended and Restated Memorandum and Articles of Association of Dunxin Financial Holdings Limited Shares is incorporated herein by reference to Exhibit 1.1 to our Form 20-F filed on April 30, 2018.
2.1	Specimen Certificate for Ordinary Shares is incorporated herein by reference to Exhibit 4.2 to our Form F-1/A Registration Statement (File No. 333-170368) filed on November 8, 2010.
2.2	Form of Deposit Agreement, including form of American Depositary Receipts is incorporated herein by reference to Exhibit (a) to our Form F-6 Registration Statement (File No. 333-170489) filed on November 08, 2010.
2.3	Form of Amendment to Deposit Agreement including form of American Depositary Receipts is incorporated herein by reference to Exhibit (a)(2) to our Form F-6/A Registration Statement (File No. 333-170489) filed on November 25, 2014.
2.4	Form of Second Amendment to Deposit Agreement including form of American Depositary Receipts is incorporated herein by reference to Exhibit (a)(3) to our Form F-6/A Registration Statement (File No. 333-170489) filed on December 15, 2017.
2.5	Form of Third Amendment to Deposit Agreement including form of American Depositary Receipts is incorporated herein by reference to Exhibit (a)(4) to our Form F-6 Registration Statement (File No. 333-223442) filed on March 5, 2018.
4.1	Form of 2010 Equity Incentive Plan is incorporated herein by reference to Exhibit 10.3 to our Form F-1/A Registration Statement (File No. 333-170368) filed on November 10, 2010.
4.2	Share Transfer Agreement, dated December 10, 2017, between China Xiniya Fashion Limited and Qiming Investment Limited is incorporated herein by reference to Exhibit 99.4 to our Form 6-K furnished on December 11, 2017.
4.3	Securities Purchase Agreement, dated December 10, 2017, by and among China Xiniya Fashion Limited, True Silver Limited, and Honest Plus Investments Limited is incorporated herein by reference to Exhibit 99.5 to our Form 6-K furnished on December 11, 2017.
4.4	Exclusive Cosigned Management Service Agreement, dated August 10, 2017, by Hubei Chutian Microfinance Co., Ltd. and Wuhan Chutian Investment Holding Co., Ltd is incorporated herein by reference to Exhibit 99.6 to our Form 6-K furnished on December 11, 2017.
4.5	Exclusive Purchase Option Agreement, dated August 10, 2017, by Wuhan Chutian Investment Holding Co., Ltd. Hubei Chutian Microfinance Co., Ltd. and the shareholders holding 80% equity interests of Hubei Chutian Microfinance Co., Ltd (Hubei New Nature Investment Co., Ltd, Qizhi Wei, Sizhi Yang, Yuyou Hu, Wanxin Deng, Jing Liang, Hailin Wang, Wenting Xiao, Ling Li) is incorporated herein by reference to Exhibit 99.7 to our Form 6-K furnished on December 11, 2017.
4.6	Shareholders' Voting Proxy Agreement, dated August 10, 2017, by Wuhan Chutian Investment Holding Co., Ltd. Hubei Chutian Microfinance Co., Ltd. and the shareholders holding 80% equity interests of Hubei Chutian Microfinance Co., Ltd (namely Hubei New Nature Investment Co., Ltd, Qizhi Wei, Sizhi Yang, Yuyou Hu, Wanxin Deng, Jing Liang, Hailin Wang, Wenting Xiao, Ling Li) is incorporated herein by reference to Exhibit 99.8 to our Form 6-K furnished on December 11, 2017.
4.7	Share Pledge Agreement, dated August 10, 2017, by Wuhan Chutian Investment Holding Co., Ltd. Hubei Chutian Microfinance Co., Ltd. and the shareholders holding 80% equity interests of Hubei Chutian Microfinance Co., Ltd (namely Hubei New Nature Investment Co., Ltd, Qizhi Wei, Sizhi Yang, Yuyou Hu, Wanxin Deng, Jing Liang, Hailin Wang, Wenting Xiao, Ling Li) is incorporated herein by reference to Exhibit 99.9 to our Form 6-K furnished on December 11, 2017.
4.8	Financial Support Commitment from Dunxin Holdings Co., Ltd.*
4.9	Financial Support Commitment from Hubei New Nature Investment (Group) Co., Ltd.*
8.1	Principal subsidiaries and VIE of Dunxin Financial Holdings Limited.*
11.1	Code of Business Conduct and Ethics of China Xiniya Fashion Limited is incorporated herein by reference to Exhibit 99.1 to our Form F-1 Registration Statement (File No. 333-170368) filed on November 4, 2010.
12.1	Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.*
12.2	Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.*
13.1	Certification of Chief Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
13.2	Certification of Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document

* Filed herewith.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

DUNXIN FINANCIAL HOLDINGS LIMITED

Date: November 9, 2020

By: /s/ Ricky Qizhi Wei

Name: Ricky Qizhi Wei

Title: Chairman and Chief Executive Officer

DUNXIN FINANCIAL HOLDINGS LIMITED
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Dunxin Financial Holdings Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial position of Dunxin Financial Holdings Limited (the "Company") as of December 31, 2019, the related consolidated statements of profit and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated statement of financial position of the Company as of December 31, 2019, and the related consolidated statements of profit and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Going concern uncertainty

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company had negative cash flows for the years ended December 31, 2019, 2018 and 2017, the net cash decreased during the year were RMB3.5 million, RMB17.9 million and RMB75.1 million for the years ended December 31, 2019, 2018 and 2017, respectively. We also draw attention to Note 28 of the financial statements, which describes the uncertainty related to the outcome of the lawsuits filed against the Company. In addition, as discussed in Note 29, the Company faces uncertainty as to the operational impact of the COVID-19 outbreak has had a material adverse effect on the Company's results of operations, cash flows and liquidity. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Audit Alliance LLP

We have served as the Company's auditor since 2019.

Singapore
November 9, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Dunxin Financial Holdings Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial position of Dunxin Financial Holdings Limited (the “Company”) as of December 31, 2018, the related consolidated statements of profit and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated statement of financial position of the Company as of December 31, 2018, and the related consolidated statements of profit and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the Company adopted IFRS 9, Accounting for Financial Instruments, January 1, 2018 using the modified retrospective approach.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Marcum Bernstein & Pinchuk LLP

New York, New York
May 15, 2019

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To the Board of Directors and Shareholders of
Dunxin Financial Holdings Limited and Subsidiaries

We refer to our audit report dated 30 April 2018, which is reproduced below.

"We have audited the accompanying consolidated statements of financial position of Dunxin Financial Holdings Limited and subsidiaries ("the Company") as of December 31, 2017 and 2016, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three year ended December 31, 2017, in conformity with International Financial Reporting Standard (IFRS) as issued by the International Accounting Standard Board.

Basis for opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion."

Subsequent to the above report, we were appointed to perform a limited scope audit and to form an opinion on variations to the financial statements with respect to Year Ended 31 December 2017, in particular, matters relating to Appendix 1 Correction Of Errors – Year Ended 31 December 2017.

The management is responsible for the preparation of Appendix 1 Correction of Errors – Year Ended 31 December 2017. The above relates to restatements and our audit was only confined to matters pertaining to the restatements contained in Appendix 1 Correction Of Errors – Year Ended 31 December 2017.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB") (United States). We are independent of the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the matters contained in Appendix 1 Correction Of Errors – Year Ended 31 December 2017, with respect to Year Ended 31 December 2017, is fairly presented, in all material respects, and is in conformity with International Financial Reporting Standards.

/s/ RT LLP

RT LLP

Public Accountants and
Chartered Accountants

Singapore

May 15, 2019

DUNXIN FINANCIAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF PROFIT AND OTHER COMPREHENSIVE INCOME
(Expressed in Thousands of Chinese Renminbi Yuan, except share and per share amounts)
For the Years Ended December 31, 2017, 2018 and 2019

	Notes	2017 Restated	2018	2019
Interest income on loans		119,639	141,857	118,396
Interest expense				
Interest expenses on loans		(33,791)	(26,451)	(19,846)
Business related taxes and surcharges		(674)	(590)	(435)
Total interest expense		(34,465)	(27,041)	(20,281)
Net interest income		85,174	114,816	98,115
Credit impairment losses		(3,580)	(66,904)	(24,694)
Net interest income after credit impairment losses		81,594	47,912	73,421
Non-interest and other income		815	438	173
Operating costs and expenses				
Sales and marketing		(3,138)	(1,794)	(1,698)
General and administrative		(34,895)	(20,368)	(13,280)
Total operating costs and expenses		(38,033)	(22,162)	(14,978)
Profit before income taxes	10	44,376	26,188	58,616
Income tax expense	11	(15,550)	(18,033)	-
Net profit		<u>28,826</u>	<u>8,155</u>	<u>58,616</u>
Net profit attributable to:				
Equity holders of the Company	12	23,061	6,524	46,893
Non-controlling interest		5,765	1,631	11,723
Net profit		<u>28,826</u>	<u>8,155</u>	<u>58,616</u>
Other comprehensive income for the year				
Net profit		28,826	8,155	58,616
Exchange differences on translation of financial statements of entities outside the mainland of the People's Republic of China		-	616	(405)
Total comprehensive income for the year		<u>28,826</u>	<u>8,771</u>	<u>58,211</u>
Total comprehensive income attributable to:				
Equity holders of the Company		23,061	7,017	46,569
Non-controlling interests		5,765	1,754	11,642
Total comprehensive income		<u>28,826</u>	<u>8,771</u>	<u>58,211</u>
Basic and diluted earnings per share for the profit attributable to the equity holders of the Company during the year (expressed in RMB per share)				
	12	0.10	0.01	0.05
Weighted average number of shares outstanding in the year	12	236,180,071	1,000,171,839	1,001,046,568

The Annexed notes form an integral part of and should be read in conjunction with the consolidated financial statements.

DUNXIN FINANCIAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 (Expressed in Thousands of Chinese Renminbi Yuan)
 As at December 31, 2018 and 2019

	Note	2018	2019
ASSETS			
CURRENT ASSETS			
Cash, cash equivalents and restricted cash	13	3,188	132
Interest receivables, net of credit impairment losses	14	7,057	-
Loans receivable, net of credit impairment losses	15	579,654	615,184
Prepaid expenses and others	16	1,038	295
Total current assets		<u>590,937</u>	<u>615,611</u>
NON-CURRENT ASSETS			
Property and equipment, net	17	50,824	48,130
Intangible asset	18	9	7
Total non-current assets		<u>50,833</u>	<u>48,137</u>
Total assets		<u>641,770</u>	<u>663,748</u>
CURRENT LIABILITIES			
Loans payable	19	200,417	172,891
Salary and benefit payable	20	1,411	5,261
Income taxes payable	21	32,477	32,477
Interest payable	22	5,139	17,723
Other payable	23	35,260	9,234
Total current liabilities		<u>274,704</u>	<u>237,586</u>
SHAREHOLDERS' EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	24	326	326
Additional paid-in capital		383,174	383,174
Statutory reserve	25	14,017	18,706
General risk reserve	26	9,885	9,180
Currency translation reserve		(493)	(169)
Accumulated losses		(113,257)	(70,288)
Non-controlling interests in equity		73,414	85,233
Total shareholders' equity		<u>367,066</u>	<u>426,162</u>
Total equity and liabilities		<u>641,770</u>	<u>663,748</u>

The Annexed notes form an integral part of and should be read in conjunction with the consolidated financial statements.

DUNXIN FINANCIAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Thousands of Chinese Renminbi Yuan)
For the Years Ended December 31, 2017, 2018 and 2019

	Share capital	Additional paid-in capital	Statutory reserve	General risk reserve	Currency translation reserve	Retained earnings/ accumulated loss	Total	Non- controlling interests	Total Equity
Balance at January 1, 2017	77	395,924	7,751	5,891	-	54,105	463,748	115,937	579,685
Issuance of shares pursuant to reverse acquisition	248	(222)	-	-	-	-	26	7	33
Share issuance expense	-	(12,528)	-	-	-	-	(12,528)	(3,132)	(15,660)
Appropriation to reserves	-	-	5,614	3,926	-	(9,540)	-	-	-
Net profit for the year	-	-	-	-	-	23,061	23,061	5,765	28,826
Balance at December 31, 2017 (restated)	325	383,174	13,365	9,817	-	67,626	474,307	118,577	592,884
Changes on initial application of IFRS 9 (see note 2.21)	-	-	-	-	-	(187,237)	(187,237)	(46,809)	(234,046)
Adjusted balance at January 1, 2018	325	383,174	13,365	9,817	-	(119,611)	287,070	71,768	358,838
Share-based compensation	1	-	-	-	-	550	551	138	689
Appropriation to reserve	-	-	652	68	-	(720)	-	-	-
Other comprehensive loss for the year – currency translation differences	-	-	-	-	(493)	-	(493)	(123)	(616)
Net profit for the year	-	-	-	-	-	6,524	6,524	1,631	8,155
Balance at December 31, 2018	326	383,174	14,017	9,885	(493)	(113,257)	293,652	73,414	367,066
Share-based compensation	-	-	-	-	-	60	60	15	75
Other comprehensive income for the year – currency translation differences	-	-	-	-	324	-	324	81	405
Appropriation to reserve	-	-	4,689	(705)	-	(3,984)	-	-	-
Net profit for the year	-	-	-	-	-	46,893	46,893	11,723	58,616
Balance at December 31, 2019	326	383,174	18,706	9,180	(169)	(70,288)	340,929	85,233	426,162

The Annexed notes form an integral part of and should be read in conjunction with the consolidated financial statements.

DUNXIN FINANCIAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Thousands of Chinese Renminbi Yuan)
For the Years Ended December 31, 2017, 2018 and 2019

	2017 Restated	2018	2019
Cash flow from operating activities			
Profit before income taxes	44,376	26,188	58,616
Adjustments for:			
Depreciation of property and equipment	441	818	2,944
Amortization of intangible assets	-	-	2
Gain on disposal of property and equipment	-	-	(174)
Share-based compensation	-	689	75
Credit impairment losses	3,580	66,904	24,694
Operating profit before changes in working capital	48,397	94,599	86,157
Interest receivables	(19,487)	4,933	7,057
Loan receivables	(121,040)	(79,577)	(70,131)
Prepaid expenses and others	10,673	(555)	743
Advance from customers	(457)	(142)	-
Salary and benefit payable	1,254	(2,012)	3,850
Interest payable	602	1,310	12,584
Other payable	24,032	9,386	(25,183)
Net cash (used)/generated by operating activities	(56,026)	27,942	15,077
Income tax paid	(14,393)	(676)	-
Net cash (used)/generated by operating activities	(70,419)	27,266	15,077
Cash flow from investing activities			
Payment for intangible asset	-	(9)	-
Proceeds from disposal of property and equipment	-	-	195
Payment for property and equipment	-	(18,376)	(271)
Prepayment for a property	(14,928)	-	-
Net cash used in investing activities	(14,928)	(18,385)	(76)
Cash flow from financing activities			
Share issuance expenses	(15,627)	-	-
Proceeds received from related party loans	-	88,000	17,434
Repayments of related party loans	-	(8,500)	(14,693)
Proceeds received from shareholders' loans	52,600	5,000	13,000
Repayments of shareholders' loans	(42,600)	(5,000)	(3,000)
Proceeds received from loans payable	363,700	308,629	48,142
Repayments of loans payable	(347,800)	(414,924)	(79,345)
Net cash generated/(used) by financing activities	10,273	(26,795)	(18,462)
Net decrease in cash, cash equivalents and restricted cash	(75,074)	(17,914)	(3,461)
Cash and cash equivalents at beginning of year	96,791	21,717	3,188
Exchange losses on cash, cash equivalents and restricted cash	-	(615)	405
Cash, cash equivalents and restricted cash at end of year	21,717	3,188	132
Net cash (used)/generated by operating activities include			
Interest received	107,086	98,185	3,307
Interest paid	(27,202)	(25,769)	(3,709)
Foreclosure of a pledged property	-	(18,000)	-
Net cash generated/(used) by financing activities			
Loans receivable novated to a related party to offset its related party loans to the Company	-	-	40,216

The Annexed notes form an integral part of and should be read in conjunction with the consolidated financial statements.

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

1. Organization and principal activities

Dunxin Financial Holdings Limited (the “Company”), formerly known as China Xiniya Fashion Limited, was incorporated in the Cayman Islands as an exempted limited liability company on June 24, 2010. On December 28, 2017, the Company completed the Divestiture and Acquisition transactions (the “Transactions”). In connection with the Divestiture transaction, the Company divested its wholly-owned subsidiary, Xiniya Holdings Limited, a Hong Kong company, to Qiming Investment Limited, a British Virgin Islands company, in exchange for a purchase consideration of RMB228,000,000 (\$34,588,428). After the divestiture transaction, the Company did not meet the definition of a business for accounting and financial reporting purposes. In connection with the Acquisition transaction, the Company purchased all of the issued and outstanding ordinary shares of True Silver Limited (“True Silver”) for a cash payment of RMB228,000,000 (\$34,588,428) and the issuance of 772,283,308 of the ordinary shares at RMB1.00 (\$0.15) per share to the shareholders of True Silver. True Silver became the wholly owned subsidiary of the Company. True Silver utilizes a variable interest entity structure to operate and consolidate 80% of the financial results of Hubei Chutian Microfinance Co., Ltd (“Chutian”). Chutian, with a registered capital of RMB450 million, is a joint stock company incorporated under the laws of China specializing in providing loan facilities to micro, small and medium enterprises and sole proprietors in Hubei Province, China.

The Transactions were accounted for as a “reverse acquisition” since, immediately following the consummation of the Transactions, the shareholders and management of Chutian having effectuated control of the combined company. The former shareholders of Chutian, whose shares were acquired by the Company, own and control 88.7% of shares and votes in the Company. The management of the Company is drawn predominantly from Chutian. For accounting purposes, the legal subsidiaries of True Silver were deemed to be the accounting acquirer in the transaction and the Company, the legal acquirer, was deemed to be the accounting acquiree.

The consolidated financial statements represent a continuation of the consolidated financial statements of True Silver and its subsidiaries (the “True Silver Group”) and reflect the following:

- (a) the assets and liabilities of the True Silver Group were recognized and measured in the consolidated statement of financial position at their carrying amount before the Acquisition;
- (b) the identifiable assets and liabilities of the Company were recognized and measured in the consolidated financial statements at their acquisition date fair values;
- (c) the excess of the fair value of purchase consideration over the identifiable net assets of the Company at fair value is recognized as a reduction of additional paid-in capital in the consolidated statement of financial position;
- (d) the retained earnings and other equity balances recognized in the consolidated financial statement are the retained earnings and other equity balances of the True Silver Group immediately before the Acquisition;
- (e) the amount recognized as issued equity interest in the consolidated financial statements were determined by adding the issued equity of the True Silver Group outstanding immediately before the Acquisition to the fair value of purchase consideration of the Acquisition. The fair value of purchase consideration is based on the fair value of the Company at the completion date. However, the equity structure appearing in the consolidated financial statement shall reflect the equity structure of the Company, including the equity instruments issued by the Company to effect the Acquisition;
- (f) the consolidated statement of profit and other comprehensive income for the financial year ended December 31, 2017 reflects that of the True Silver Group for the full period together with the post-acquisition results of the Company;

**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019**

1. Organization and principal activities – continued

- (g) the comparative figures presented in the consolidated financial statements were that of the True Silver Group; and
- (h) earnings per share for the financial year ended December 31, 2017 reflects the results of the True Silver Group until the date of acquisition and the results of the enlarged Group from the acquisition date.

The principal place of business is 23th Floor, Lian Fa International Building, No 128 Xu Dong Road, Wuchang District, Wuhan City, Hubei Province, People's Republic of China 430063.

The Company is listed on the New York Stock Exchange American, the ticker symbol is DXF.

These financial statements are presented in Renminbi, unless otherwise stated.

The consolidated financial statements for the three years ended December 31, 2017, 2018 and 2019 were authorized for issue by resolution of the board of directors on November 9, 2020.

Reporting entities

Dunxin Financial Holdings Limited (the "Company") is a holding company. The Company, its wholly-owned subsidiaries and variable interest entity are collectively referred to as the "Group".

The Group is principally engaged in the business of providing loan facilities to micro, small and medium sized enterprises and sole proprietors in Hubei province of the People's Republic of China ("PRC"). The Group operates its microfinance lending business through the 80% variable interest entity ("VIE") operating company, Hubei Chutian Microfinance Co., Ltd ("Chutian"). All of the Group's operations are conducted in the PRC through Chutian. The Group operates the microfinance lending business in the PRC on the basis of the approval certificates, business license and other requisite licenses held by Chutian. The Group generates virtually all revenues of the business through the VIE Agreements.

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

1. Organization and principal activities – continued

The following is a brief description of each of the Company's subsidiaries:

- True Silver – True Silver Limited (“True Silver”) is a limited company incorporated on June 28, 2016, a British Virgin Islands company. The total amount of paid-up share capital of True Silver is \$50,000 with 50,000 ordinary shares. True Silver is a holding company and is wholly owned by the Company.
- Chutian HK. Chutian Financial Holdings (Hong Kong) Limited (“Chutian HK”) is a limited company incorporated on August 12, 2016, under the Companies Ordinance of Hong Kong. The total amount of paid-up share capital of Chutian HK is HKD10,000 with 100 ordinary shares. Chutian HK is a holding company and is wholly owned by True Silver.
- Chutian Holding. Wuhan Chutian Investment Holding Limited (“Chutian Holding”) is a wholly foreign owned enterprise established by Chutian HK on November 4, 2016. Chutian Holding has been issued a Business License (unified social credit code: 91420100MA4KPA0H54) by Wuhan Administration for Industry and Commerce on November 4, 2016, and a Recordation Receipt for Establishment of Foreign-Invested Enterprises (recordation No.: Wu Shang Zi Bei 201600006) issued by the Wuhan Commercial Bureau on October 19, 2016. Chutian Holding is a holding company and is wholly owned by Chutian HK.
- Chutian. Hubei Chutian Microfinance Co., Ltd. is a joint stock company incorporated under laws of PRC on February 20, 2013. Chutian currently holds a business license issued by the Administrative Approval Bureau of Wuchang District, Wuhan Municipality on April 25, 2017, which allows it to operate a microfinance business and provides individual and business loans to persons residing in and businesses operating in Hubei Province, China. Through a series of contractual agreements (VIE Agreements), Chutian Holding is deemed to control 80% of Chutian and have rights to consolidate 80% of Chutian's financial results.

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

1. Organization and principal activities – continued

As of December 31, 2019, the Company's subsidiaries and variable interest entity are as follows:

Subsidiary	Place of incorporation	Particular of issued and fully paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
True Silver Limited	British Virgin Islands	\$ 50,000	100%	100%	-	Investment holding
Chutian Financial Holdings (Hong Kong) Limited	Hong Kong	HK\$ 10,000	100%	-	100%	Investment holding
Wuhan Chutian Investment Holdings Co. Ltd	PRC	\$ 3,000,000	100%	-	100%	Investment holding
Variable interest entity						
Hubei Chutian Microfinance Co., Ltd	PRC	RMB 450,000,000	80%	-	80%	Microfinance lenders

An entity, Hubei Kai Wu Small and Micro Economic Research Institute Co. Ltd, was set up in May 2018 with a registered share capital of RMB5 million, where Chutian should subscribe RMB1.365 million of the registered share capital and held 27.3% of the equity interest of this company. However, all shareholders, including Chutian, did not subscribe to the share capital and this company remain dormant as of December 31, 2019.

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

1. Organization and principal activities – continued

The VIE arrangements

The following is a brief description of the VIE Agreements entered into on August 10, 2017, between Chutian Holding and the shareholders of Chutian, through which the Company controls 80% of Chutian:

- Exclusive Consigned Management Service Agreement. Pursuant to the Exclusive Consigned Management Service Agreement between Chutian and Chutian Holding, Chutian Holding was appointed as the exclusive services provider to Chutian (including its subsidiaries, branches and any other invested entities) for the following services: comprehensive business support, including but not limited to, daily business management consulting, financial consulting, professionals and technical training during the term of this Agreement in accordance with the terms and conditions of this Agreement. For services rendered to Chutian by Chutian Holding under this Agreement, Chutian Holding is entitled to collect a service fee equal to 80% of the net operating income of Chutian (the “Service Fees”). The Service Fees are due and payable on a quarterly basis; provided, however, in principle, the payment of the Service Fees should not cause any difficulty to the operation of either party to this Agreement. The exclusive Consigned Management Service Agreement has a term of five (5) years. Chutian is not entitled to unilaterally terminate this Agreement. Chutian Holding has the right to terminate this Agreement by giving a thirty (30) day prior notice to Chutian. This Agreement could be extended based on the originally agreed terms upon expiration if Chutian Holding gives written confirmation before expiration of the agreement. The period of extension will be decided by Chutian Holding, which Chutian is required to unconditionally accept.
- Exclusive Purchase Option Agreement. Under the Exclusive Purchase Option Agreement, Hubei New Nature Investment Co., Ltd, Qizhi Wei, Sizhi Yang, Yuyou Hu, Wanxin Deng, Jing Liang, Hailin Wang, and Wenting (Tina) Xiao (collectively “Shareholders holding 80% Equity Interests of Chutian”) irrevocably granted to Chutian Holding, or any third party designated by WFOE, an exclusive purchase option right, at any time to purchase all or part of such shareholders’ current and future equity interests in Chutian, to the extent permitted by PRC laws and regulations. Apart from Chutian Holding or any third party designated by Chutian Holding, no other person has the right to purchase such equity interests in Chutian. Shareholders holding 80% Equity Interests of Chutian are required to transfer their respective equity interests in Chutian to Chutian Holding in accordance with their percentage ownership of such equity interests provided Chutian Holding selects to purchase such shareholders’ equity interests. Chutian irrevocably granted to Chutian Holding or any third party designated by Chutian Holding an exclusive purchase option right, at any time to purchase all or a substantial part of Chutian’s assets, to the extent permitted by PRC laws and regulations.

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

1. Organization and principal activities – continued

The VIE arrangements - continued

- Shareholders' Voting Proxy Agreement. Under the Voting Proxy Agreement, the Shareholders holding 80% Equity Interests of Chutian irrevocably granted and entrusted Chutian Holding or their designee to be their exclusive proxy to exercise their voting rights that they would have at a shareholders' meeting or by written consent for the maximum period permitted pursuant to the PRC laws and in accordance with and within the limitations of the PRC laws and the then effective articles of association of Chutian, including but not limited to, the following rights:
 - (a) to attend and participate in the shareholders' meetings of Chutian as the voting proxy of the Shareholders holding 80% Equity Interests of Chutian;
 - (b) to vote on the matters proposed at the shareholders' meetings, including, but not limited to, voting on the appointment and election of the directors and supervisors of Chutian;
 - (c) to suggest convening the shareholders' meetings of Chutian; and
 - (d) all other voting rights entitled to the shareholders of Chutian as stipulated in the articles of association of Chutian, as amended from time to time.
- Share Pledge Agreement. Under the Share Pledge Agreement, the Shareholders holding 80% Equity Interests of Chutian pledged all of their equity interests in Chutian to Chutian Holding to guarantee the performance of Chutian's obligations under the Exclusive Consigned Management Agreement, Shareholders Voting Proxy Agreement and Exclusive Purchase Option Agreement (the "Main Agreements"). The equity pledge under the agreement constitutes a continuous guarantee and remains effective before fulfillment of the obligations under the Main Agreements or full repayment of the guaranteed liability.

Through the above contractual arrangements, Chutian Holdings, has obtained 80% of shareholders' voting interest in the VIEs, has the right to receive all dividends declared and paid by the VIEs and may receive substantially all of the net income of the VIEs through the technical support and service fees as determined by Chutian Holdings at its sole discretion. Accordingly, the Group has consolidated the VIEs because the Group believes, through the contractual arrangements, (1) Chutian Holdings could direct the activities of the VIEs that most significantly affect its economic performance and (2) Chutian Holdings could receive substantially all of the benefits that could be potentially significant to the VIEs.

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

1. Organization and principal activities – continued

Risks in relation to the VIE structure

The Group believes that the VIE arrangements are in compliance with PRC law and are legally enforceable. The shareholders of the VIEs are also shareholders of the Group and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Group's ability to enforce these contractual arrangements and if the shareholders of the VIEs were to reduce their interest in the Group, their interests may diverge from that of the Group and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the VIEs not to pay the service fees when required to do so.

The Group's ability to control the VIEs also depends on the authorization letters that Chutian Holdings has to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Group believes the rights granted by the authorization letters is legally enforceable but may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC government could:

- revoke the business and operating licenses of the Group's PRC subsidiaries and affiliates;
- discontinue or restrict the Group's PRC subsidiaries' and affiliates' operations;
- impose conditions or requirements with which the Group or its PRC subsidiaries and affiliates may not be able to comply; or
- require the Group or its PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations;

The imposition of any of these penalties may result in a material and adverse effect on the Group's ability to conduct the Group's business. In addition, if the imposition of any of these penalties causes the Group to lose the rights to direct the activities of the VIEs and its subsidiaries or the right to receive their economic benefits, the Group would no longer be able to consolidate the VIEs. The Group does not believe that any penalties imposed or actions taken by the PRC Government would result in the liquidation of the Group, Chutian Holdings, or the VIEs.

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

1. Organization and principal activities – continued

Risks in relation to the VIE structure - continued

Certain shareholders of VIEs are also beneficial owners or directors of the Company. In addition, certain beneficial owners and directors of the Company are also directors or officers of VIEs. Their interests as beneficial owners of VIEs may differ from the interests of the Company as a whole. The Company cannot be certain that if conflicts of interest arise, these parties will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest these parties may encounter in their capacity as beneficial owners of VIEs, on the one hand, and as beneficial owners of the Company, on the other hand. The Company believes the shareholders of VIEs will not act contrary to any of the contractual arrangements and the exclusive purchase right contract provides the Company with a mechanism to remove them as shareholders of VIEs should they act to the detriment of the Company. If any conflict of interest or dispute between the Company and the shareholders of VIEs arises and the Company is unable to resolve it, the Company would have to rely on legal proceedings in the PRC. Such legal proceedings could result in disruption of its business; moreover, there is substantial uncertainty as to the ultimate outcome of any such legal proceedings.

The following financial statements information for the Company's VIEs were included in the accompanying consolidated financial statements, presented net of intercompany eliminations, as of and for the years ended December 31:

	As of December 31,	
	2018	2019
	RMB'000	RMB'000
Total current assets	599,931	615,611
Total non-current assets	50,833	48,137
Total assets	650,764	663,748
Total current liabilities	274,316	237,587
Total liabilities	274,316	237,587

	For the year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Interest income on loans	119,639	141,857	118,396
Net profit	28,826	8,155	58,616

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

1. Organization and principal activities – continued

Risks in relation to the VIE structure – continued

The VIEs contributed an aggregate of 100.0%, 100.0% and 100.0% of the consolidated interest income on loans for the years ended December 31, 2017, 2018 and 2019, respectively. As of December 31, 2018 and 2019, the VIEs accounted for an aggregate of 101.4% and 100.0%, respectively, of the consolidated total assets, and 99.9% and 99.3%, respectively, of the consolidated total liabilities.

There are no consolidated VIEs' assets that are collateral for the VIEs' obligations and can only be used to settle the VIEs' obligations. There are no creditors (or beneficial interest holders) of the VIEs that have recourse to the general credit of the Company or any of its consolidated subsidiaries. There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests, which require the Company or its subsidiaries to provide financial support to the VIEs. However, if the VIEs ever need financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to its VIEs through loans to the shareholder of the VIEs or entrustment loans to the VIEs.

On December 23, 2018, the State Council submitted the draft version of the Foreign Investment Law to the Standing Committee of the National People's Congress, which was promulgated by the National People's Congress on its official site on December 26, 2018 for public consultation until February 24, 2019. On March 15, 2019, the National People's Congress approved the Foreign Investment Law, which On December 23, 2018, the PRC State Council submitted the draft version of the Foreign Investment Law to the Standing Committee of the National People's Congress, which was promulgated by the National People's Congress on its official site on December 26, 2018 for public consultation until February 24, 2019. On March 15, 2019, the National People's Congress approved the Foreign Investment Law, which will come into effect on January 1, 2020 and replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations.

**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019**

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These accounting policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Dunxin Financial Holdings Limited, its subsidiaries and variable interest entity (the “Group”).

2.1 Basis of preparation

(i) Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with applicable International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis.

(iii) Liquidity

The accompanying financial statements do not include any adjustments or classifications that may result from the possible inability of the Company to continue as a going concern. The accompanying financial statements have been prepared on a basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements as of December 31, 2019, the Company had negative cash flows for the years ended December 31, 2019, 2018 and 2017, the net cash decreased during the year were RMB3.5 million, RMB17.9 million and RMB75.1 million for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, we had cash balances totaled RMB132,000.

The Company has historically met its cash needs through a combination of cash flows from operating activities, loans payable from third parties raised through various securities exchanges, loans from shareholders and loans from related parties. The cash requirements of the Company are generally for operating activities and repayments of loans from third parties, related parties and shareholders. Ever since, securities exchanges have ceased offering any form of financing to the Company through their platforms as well as loans receivable were credit-impaired, the Company ran into severe liquidity issue. In the beginning of 2019, the Company began to default in certain loans payable, even though certain loans payable were negotiated for revised repayment terms. With loans receivables continued to be further credit-impaired, all obligations of loans payable were defaulted. The liquidity issue of the Company has further severely affected its ability to pay its taxes, service providers, employees and others. Due to non-payment of its obligations when due, multiple significant legal proceedings were initiated by its shareholders, service providers and others against the Company (see Note 28 – Legal proceedings for detailed disclosure). COVID-19 discussed in Note 29 Subsequent event has further exacerbated the liquidity issue of the Company.

The Company has taken an intensive review of operations and expenditures, including intensify loan and interest collection initiative and monetizing collaterals of loans receivable. The Company has also acquired the financial support letter from Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, and from Dunxin Holdings Co., Ltd, a company that is 70% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, which have expressed the willingness and intention to provide the necessary financial support to the Company. Further, the Company actively plans to seek equity financing from private placements, so as to enable the Company to meet its liabilities as and when it falls due and to carry on its business without a significant curtailment of operations for the next 12 months from the issuance date of this report.

**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019**

2.1 Basis of preparation - continued

(iii) Liquidity - continued

The Company believes that available cash and cash equivalents, future cash provided by operating activities, together with the efforts from aforementioned management plan and actions, should enable the Company to meet presently anticipated cash needs for at least the next 12 months after the date that the financial statements are issued and the Company has prepared the consolidated financial statements on a going concern basis. However, the Company continues to have ongoing obligations and it expects that it will require additional capital in order to execute its longer-term business plan. If the Company encounters unforeseen circumstances that place constraints on its capital resources, management will be required to take various measures to conserve liquidity, which could include, but not necessarily be limited to, curtailing the Company's business development activities, suspending the pursuit of its business plan, controlling operating expenses and seeking to further dispose of non-core assets. Management cannot provide any assurance that the Company will raise additional capital if needed.

2.2 Basis of consolidation

(i) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group.

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

(ii) Non-controlling interests

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statements of Profit and Other Comprehensive Income, the Consolidated Statements of Financial Position and Consolidated Statements of Changes in Equity respectively.

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2.3 Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the

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

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

2.4 Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the steering committee that makes strategic decisions. The Group operates in only one segment.

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2.5 Foreign currency translation

(j) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the statement of profit and other comprehensive income.

Foreign exchange gains and losses are presented in the Consolidated Statements of Profit and Other Comprehensive Income on a net basis within other income or other expenses.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- (b) income and expenses for each consolidated statement of profit and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognized in other comprehensive income.

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2.6 Interest

Interest (IFRS 9 - 2018 and 2019 only)

Interest income and expense for all financial instruments are recognized in “Net interest income” as “Interest income” and “Interest expense” in the Consolidated Statement of Profit and Other Comprehensive Income using the effective interest method. Interest income for financial assets held at amortized cost is recognized in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discount estimated future cash payments or receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

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

The interest income / interest expense is calculated by applying the effective interest rate to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or at amortized cost of financial liabilities. Interest income for financial assets that are amortized cost that have become credit-impaired subsequent to initial recognition is recognized using the credit adjusted effective interest rate. This rate is calculated in the same manner as the effective interest rate except that expected credit losses are included in the expected cash flows. Interest income is therefore recognized on the amortized cost of the financial asset including expected credit losses. Should the credit risk on a credit-impaired financial asset improve such that the financial asset is no longer considered credit-impaired, interest income recognition reverts to a computation based on the rehabilitated gross carrying value of the financial asset.

A contract modification is a change in the scope or interest rate (or both) of a contract that is approved by the parties to the contract. A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. When a contract modification is not accounted for as a separate contract, the Group shall account for the contract modification as if it were a part of the existing contract as the remaining services are not distinct and therefore, form part of single performance obligation that is partially satisfied at the date of the contract modification. The effect that the contract modification has on the interest rate, and on the entity’s measure of progress towards complete satisfaction of the performance obligation, is recognized as an adjustment to interest income (either as an increase in or a reduction of interest income) at the date of the contract modification (ie the adjustment to interest income is made on a cumulative catch-up basis).

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2.6 Interest - continued

Interest (IAS 18 – prior period only)

The Group applied the revenue recognition requirements of IAS 18, “Revenue” (IAS 18). Revenue was recognized when the amount of revenue and associated costs could be reliably measured, it is probable that economic benefits associated with the transaction will be realized and the stage of completion of the transaction could be reliably measured. This concept was applied to the key revenue generating activities of the Group as follows.

Interest from all interest-bearing assets and liabilities was recognized in “Net interest income” as “Interest income” and “Interest expense” in the Consolidated Statement of Profit and Other Comprehensive Income using the effective interest method. The effective interest rate is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period using the estimated future cash flows. The estimated future cash flows used in this calculation include those determined by the contractual terms of the asset or liability, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs and all other premiums or discounts.

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2.7 Income tax

Income tax expense comprises current and deferred tax. It is recognized in the Consolidated Statements of Profit and Other Comprehensive Income.

i. Current tax

Current tax comprises the expected tax payable or receivable on taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantially enacted at the reporting date.

ii. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries and variable interest entity in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

iii. Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgments regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

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2.8 Financial assets and financial liabilities (IFRS 9 – 2018 and 2019 only)

i Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after initial recognition, an expected credit loss allowance is recognized for financial assets measured at amortized cost, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

ii Classification and subsequent measurement

Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

Financial assets

From January 1, 2018, the Group has applied IFRS 9 and classifies its financial assets into amortized cost measurement category. The Company's financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") are measured at amortized cost.

Financial liabilities

The Group classifies its financial liabilities as measured at amortized cost.

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2.8 Financial assets and financial liabilities (IFRS 9 – 2018 and 2019 only) - continued

iii Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

In transactions in which the Group neither retains or transfers substantially all of the risks and rewards of ownership of a financial asset and its retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which its is exposed to changes in the value of the transferred asset.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv Amortized cost measurement

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

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2.8 Financial assets and financial liabilities (IFRS 9 – 2018 and 2019 only) - continued

v. Identification and measurement of impairment

IFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.
- Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Financial instruments in Stages 2 or 3 have their expected credit loss measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring expected credit loss in accordance with IFRS 9 is that it should consider forward looking information.

Significant increase in credit risk

The Group monitors its financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month expected credit loss. The Group’s accounting policy is not to use the practical expedient that financial assets with “low” credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group’s historical experience and expert credit assessment including forward-looking information.

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime probability of default by comparing:

- the remaining lifetime probability of default at the reporting date; with
- the remaining lifetime probability of default for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The probability of defaults used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for expected credit loss.

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2.8 Financial assets and financial liabilities (IFRS 9 – 2018 and 2019 only) - continued

v. Identification and measurement of impairment - continued

Significant increase in credit risk - continued

The qualitative factors that indicate significant increase in credit risk are reflected in probability of default models on a timely basis.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the probability of default will be more significant for a financial instrument with a lower initial probability of default than compared to a financial instrument with a higher probability of default.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime expected credit loss.

Credit-impaired financial assets

A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower;
- a breach of contract such as a default or past due event; or
- the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower’s financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) include unlikelihood to pay indicators.

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2.8 Financial assets and financial liabilities (IFRS 9 – 2018 and 2019 only) - continued

v. Identification and measurement of impairment – continued

Definition of default

Critical to the determination of expected credit loss is the definition of default. The definition of default is used in measuring the amount of expected credit loss and in the determination of whether the loss allowance is based on 12-month or lifetime expected credit loss, as default is a component of the probability of default which affects both the measurement of expected credit losses and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than nine months on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Objective evidence of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets and that the loss event has an impact on the future cash flows of the assets and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower;
- default or delinquency by a borrower;
- the restructuring of a loan by the Group on terms that the Group would not consider otherwise;
- indications that a borrower will enter bankruptcy; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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2.8 Financial assets and financial liabilities (IFRS 9 – 2018 and 2019 only) - continued

v. Identification and measurement of impairment – continued

Impairment measurement and recognition

The Group recognizes loss allowance for expected credit loss on loan receivables.

Expected credit losses are required to be measured through a loss allowance at an amount equal to:

- 12-month expected credit loss, i.e. lifetime expected credit loss that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime expected credit loss, i.e. lifetime expected credit loss that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime expected credit loss is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit loss.

Expected credit losses are computed as unbiased, a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward-looking, discounted at the asset's effective interest rate.

For Stage 1 and 2 loans, the estimate of expected cash shortfalls over the life time of the loans is determined by multiplying the probability of default ("PD") with the loss given default ("LGD").

For credit-impaired financial instruments (Stage 3 loans), the estimate of cash shortfalls may require the use of expert credit judgment. Cash shortfalls are discounted using the effective interest rate on the financial instrument as calculated at initial recognition.

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2.8 Financial assets and financial liabilities (IFRS 9 – 2018 and 2019 only) - continued

v. Identification and measurement of impairment – continued

Impairment measurement and recognition

The Company's initial contractual loan terms are within 12 months. For simplification purpose, for Stage 1 and Stage 2 loans, the Company recognized the expected credit losses for the lifetime of the loans.

Stage 1: Expected credit losses are recognized at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events for the life of loan from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired.

Stage 2: If a financial asset experiences a significant increase in credit risk since initial recognition, an expected credit loss provision is recognized for default events that may occur over the lifetime of the asset. Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk.

Stage 3: Financial assets that are credit-impaired (or in default) represent those that are past due more than the historical average collection period for past due loans, but not to exceed the original contractual loan terms. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.

Loss provisions against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realization of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

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2.8 Financial assets and financial liabilities (IAS 39 – prior period only)

i. Recognition

The Group initially recognizes loans and borrowings on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets

The Group classifies its financial assets into loans and receivables.

Financial liabilities

The Group classifies its financial liabilities as measured at amortized cost.

iii. Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

In transactions in which the Group neither retains or transfers substantially all of the risks and rewards of ownership of a financial asset and its retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which its is exposed to changes in the value of the transferred asset.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv. Amortized cost measurement

The “amortized cost” of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

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2.9 Financial assets and financial liabilities (IAS 39 – prior period only) - continued

v. Identification and measurement of impairment

Objective evidence of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets and that the loss event has an impact on the future cash flows of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower;
- default or delinquency by a borrower;
- the restructuring of a loan by the Group on terms that the Group would not consider otherwise;
- indications that a borrower will enter bankruptcy; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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2.9 Financial assets and financial liabilities (IAS 39 – prior period only) - continued

v. Identification and measurement of impairment - continued

Individual and collective assessment

The Group considers evidence of impairment for loans at both a specific asset and a collective level. All individually significant loans are assessed for specific impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans that are not individually significant are collectively assessed for impairment by grouping together loans with similar risk characteristics.

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment, and found to be individually impaired, and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

A collective component of the total allowance is established for groups of loans that are individually significant but that were not found to be individually impaired (loss "incurred but not reported" or IBNR).

The IBNR allowance covers credit losses inherent in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired terms but the individual impaired items cannot yet be identified.

The IBNR allowance is based on historical loss rates, adjusted to reflect the current economic conditions affecting the portfolio. It reflects assumptions made about the loss emergence period i.e. the period between a loss event occurring and it being identified. Management estimates a loss emergence period for each identified portfolio and back-tests these estimates against past experience. The factors that may influence the loss emergence period include economic and market conditions, customer behavior, credit management process and collective experience.

In assessing the collective loss allowance, management considers factors such as credit quality, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

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2.9 Financial assets and financial liabilities (IAS 39 – prior period only) - continued

v. Identification and measurement of impairment - continued

Measurement

Impairment losses on assets measured at amortized costs are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in the Consolidated Statement of Profit and Other Comprehensive Income and reflected in an allowance for loan losses account against loans. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed in the Consolidated Statement of Profit and Other Comprehensive Income.

2.10 Cash, cash equivalents and restricted cash

For the purpose of the consolidated cash flow statements, cash, cash equivalents and restricted cash consist of balances with banks and restricted cash with banks.

2.11 Property and equipment

Property and equipment are initially measured at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after property and equipment have been put into operation, such as repairs and maintenance, is normally expensed in the period in which incurred.

Property and equipment are subsequently measured at cost less accumulated depreciation. Property and equipment are depreciated on a straight-line basis, considering any estimated residual value, over the estimated useful lives of the assets. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives of the assets are as follows:

	Estimated useful life
Property	20 years
Leasehold improvement	5 years
Vehicles	5 years
Office equipment and furniture	3 years

2.12 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of five years.

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2.13 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized in the Consolidated Statement of Profit and Other Comprehensive Income.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.14 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

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2.15 Share-based payments

In December 2010, the Company established the 2010 Equity Incentive Plan to help recruit and retain key employees, directors or consultants by providing incentives through the granting of equity awards. Under the 2010 Equity Incentive Plan, the Company may issue equity awards in the form of share options, restricted shares, or share appreciation rights. The maximum aggregate number of ordinary shares that may be issued pursuant to all awards is 23,200,000. No awards were made under the plan during the years ended December 31, 2016 and 2017. For the year ended December 31, 2018 and 2019, a total of 862,148 and 269,252 ordinary shares were issued to certain directors and a key employee as a share-based compensation, respectively.

The Group recognizes share-based compensation in relation to awards issued under the 2010 Equity Incentive Plan in the Consolidated Statements of Profit and Other Comprehensive Income based on the fair value of the equity awards on the date of the grant, and considering any applicable performance criteria and estimated forfeitures, with compensation expense recognized over the period in which the recipient is required to provide service to the Group in exchange for the equity award.

The estimation of share awards that ultimately vest requires judgment, and to the extent actual results differ from estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. The Company will consider various factors when estimating expected forfeitures, including historical experience. Actual results may differ substantially from these estimates.

The fair value of share options granted to employees and directors under the 2010 Equity Incentive Plan is determined using option pricing models, which consider the exercise price relative to the market value of the underlying shares, the expected share price volatility, the risk-free interest rate and the dividend yield, and the estimated period of time option grants are outstanding before they are ultimately exercised.

For shares granted to employees, the fair value of the shares is measured as the difference between the market price of the Company's ordinary shares, adjusted to take into account the terms and conditions upon which the shares were granted (except for vesting conditions that are excluded from the measurement of fair value) and the purchase price of the grant. Adjustments to the market price of the ordinary shares could arise, for example, if the employee is not entitled to receive dividends during the vesting period.

2.16 Social benefits contributions

Pursuant to the relevant regulations of the PRC government, the Group's PRC subsidiaries participate in a local municipal government social benefits plan, and is required to contribute a certain percentage of the basic salaries of its employees to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees. The Group's only obligation is to pay the ongoing required contributions. Contributions are charged to expense as incurred. There are no provisions whereby forfeited contributions may be used to reduce future contributions. Amounts contributed during the years ended December 31, 2017, 2018 and 2019, are discussed in Note 10.

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2.17 Value added tax (“VAT”)

Interest income in the PRC are subject to VAT at 6% (output VAT). Input tax on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other receivables or other payables in the Consolidated Statement of Financial Position. Revenues, expenses and assets are recognized net of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with VAT included.

2.18 Share capital

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. These incremental costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisors, printing costs and stamp duties, excluding management salaries, items normally included in general and administrative expenses or other recurring costs. Specifically, legal and accounting fees do not include any fees that would have been incurred in the absence of such issuance.

2.19 Earnings per shares

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

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3 Standards issued but not yet effective

Up to the date of issue of these financial statements, the following standards and interpretations had been issued which are not mandatory for the year ended December 31, 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Definition of Material – Amendments to IAS 1 and IAS 8	January 1, 2020
Definition of a Business – Amendments to IFRS 3	January 1, 2020
Revised Conceptual Framework for Financial Reporting	January 1, 2020

Management anticipates that all of the relevant pronouncements will be adopted by the Group for the first period following the effective date of the pronouncement. Information on new standards and amendments, that are expected to be relevant, is provided below.

Definition of Material – Amendments to IAS 1 and IAS 8

Amendments were made to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which use a consistent definition of materiality throughout International Financial Reporting Standards and the *Conceptual Framework for Financial Reporting*, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and the meaning of “primary users of general purpose financial statements” to whom those financial statements are directed, by defining them as “existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

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3. Standards issued but not yet effective - continued

Definition of a Business – Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term “outputs” is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Revised Conceptual Framework for Financial Reporting

Key changes in a revised Conceptual Framework include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance and derecognition
- adding guidance on different measurement basis; and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

There are no other IFRSs or related interpretations that are not yet effective that would be expected to have a material impact on the Group’s consolidated financial statements.

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4 Critical accounting estimates and use of judgments

In preparing these consolidated financial statements, management are required to make judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognized prospectively.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i. Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost is an area that requires the use of significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring expected credit loss, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit loss.

Further details of identification and measurement of expected credit loss impairment were discussed in Note 2.8 of Notes to the Consolidated Financial Statements.

ii. Allowance for interest receivable

Management assesses the collectability of interest receivable from loan customer and estimates the allowance for interest receivable from customers. The Group reviews the interest receivable on a periodic basis and makes allowance when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual interest receivable balance, the Company considers many factors, including the age of the balance, a customer's historical payment history, its current creditworthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. Management reassesses the allowance for interest receivable at each statement of financial position date and revises the allowance for interest receivable accordingly.

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4. Critical accounting estimates and use of judgments - continued

iii. Income tax

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of event that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. International Accounting Standard 12 Income Taxes ("IAS12") requires a one-step approach that provides a company to satisfy the probability criterion when assessing whether a deferred tax account should be recorded or not. Under this criterion, the Company record a deferred tax account only to the extent it can show it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

Current IAS 12 does not have specific guidance on uncertain tax positions. The Company measures tax assets and liabilities at the amount expected to be paid, based on enacted or substantively enacted tax legislation. Interest and penalties related to uncertain tax position are recognized and recorded as necessary in the provision for income taxes. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computation errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, where the underpayment of taxes is more than RMB 100,000. In the case of transfer pricing issues, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion. The PRC tax returns for the Company's PRC subsidiaries are open to examination by tax authorities for the tax years beginning in 2018. There were no uncertain tax positions as of December 31, 2019 and 2018 and the Company does not believe that its unrecognized tax benefits will change over the next twelve months.

iv. Impairment of property and equipment

The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Company assesses the recoverability of the property and equipment by comparing the carrying value of the property and equipment to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition where the fair value is lower than the carrying value, measurement of an impairment loss is recognized in the consolidated statements of operations for the difference between the fair value, using the expected future discounted cash flows, and the carrying value of the assets. No impairment of property and equipment was recognized for the periods presented.

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5. Credit risk

Credit risk is the risk that a customer or counterparty fail to fulfill its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans to customers. The Group considers all elements of credit risk exposure such as counterparty default risk for risk management purposes.

Credit risk management

The Group's credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual loan to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Establishing a robust control framework regarding the authorization structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's processes for measuring expected credit loss including monitoring of credit risk, incorporation of forward-looking information and the method used to measure expected credit loss.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate methods used to assess and measure expected credit loss.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for expected credit loss. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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5. Credit risk – continued

Maximum exposure to credit risk – Financial instruments subject to impairment

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

	2019			Total
	ECL staging			
	Stage 1	Stage 2	Stage 3	
	Lifetime ECL	Lifetime ECL	Lifetime ECL	
	RMB'000	RMB'000	RMB'000	RMB'000
Loan receivables	-	-	765,034	765,034
Accrued interest	-	-	273,923	273,923
Gross loan receivables	-	-	1,038,957	1,038,957
Loss allowance	-	-	(423,773)	(423,773)
Carrying amount	-	-	615,184	615,184

	2018			Total
	ECL staging			
	Stage 1	Stage 2	Stage 3	
	Lifetime ECL	Lifetime ECL	Lifetime ECL	
	RMB'000	RMB'000	RMB'000	RMB'000
Loan receivables	24,100	101,150	698,520	823,770
Accrued interest	-	-	153,181	153,181
Gross loan receivables	24,100	101,150	851,701	976,951
Loss allowance	(3,919)	(20,498)	(372,880)	(397,297)
Carrying amount	20,181	80,652	478,821	579,654

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6. Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in lending operations and can be affected by a range of Group-specific and market-wide events.

Liquidity risk management

According to relevant laws and regulations, the funds obtained by a microfinance company from banking financial institutions may not exceed 50% of its net capital. As of December 31, 2019, the Group does not have funds obtained from banking financial institutions.

As all loans receivable of the Group are credit impaired, the Group is facing significant liquidity issue. Obligations to loans payable, State Taxation Administration, employees and service providers are all over due.

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7. Market risk

The main non-trading risk types are interest rates and credit spreads.

Interest rate risk may result in of loss from fluctuations in the future cash flows. Interest rate risk is managed principally through monitoring interest rate gaps and basis risk.

Credit spreads reflect the credit risk of the loans to customers, i.e. risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk exposure and the related management process are described in note 5.

The following table set out the carrying amount of assets and liabilities subject to market risk:

	As of December 31,	
	2018	2019
	RMB'000	RMB'000
Assets subject to market risk		
Loans receivable	579,654	615,184
Liabilities subject to market risk		
Loans payable	200,417	172,891

There has been no change to the manner in which the Group manages and measures its market exposure in the current year.

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8. Capital risk

As of December 31, 2019, there is no administrative regulatory authority for the microfinance industry at the national level. According to the Guiding Opinions on the Pilot Operation of Microfinance Companies, jointly issued by the CBRC and the PBOC on May 4, 2008, any provincial government that is able to assign a department, financial office or other similar authority to take charge of the supervision and administration of microfinance companies and is willing to assume the responsibility of risk management of microfinance companies may formulate pilot rules and measures in relation to the incorporation of such companies within the province, autonomous region or municipalities directly under the PRC government. Therefore, the microfinance industry in the PRC is primarily regulated by the financial offices and other similar authorities of the provincial governments of the relevant provinces.

In Hubei Province, the Microfinance Work Joint Session and its office are the regulatory authorities for microfinance companies in Hubei Province. Pursuant to the *Measures for Administration of Pilot Scheme on Microfinance Companies in Hubei Province* issued on May 13, 2009, the Microfinance Work Joint Session is responsible for the organization, coordination, administration, supervision, regulation, and the promotion of the pilot work of microfinance companies. The Microfinance Work Joint Session consists of the Financial Office of the Hubei Province People's Government, Hubei Province Administration for Industry and Commerce, Hubei Bureaus of the CBRC, Hubei Branch of the PBOC and the Public Security of Hubei Province.

On February 6, 2013, the Group's variable interest entity, Hubei Chutian Microfinance Co., Ltd ("VIE"), was issued an Official Reply (E Jin Ban Fa No. [2013]14) by the Financial Office of People's Government of Hubei, which approved VIE under the pilot program as a microfinance company, as proposed by the Wuchang People's Government.

According to the relevant laws and regulations applicable in the Hubei Province, the capital requirement for the microfinance industry is that the registered capital shall not be less than RMB50 million. As of December 31, 2019, the registered capital of the VIE was RMB450 million. There is no other capital requirement from the regulatory authority.

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9. Fair value of financial assets and liabilities

The Group's financial instruments consist of non-derivative financial assets and liabilities. The fair value of these non-derivative financial instruments is determined using internally generated valuation models, which are usually developed from generally accepted valuation models. The majority of the significant inputs into these models may not be observable in the market, and may be derived from interest rates based on assumptions. The selection of the appropriate valuation model, as well as the determination of key inputs used such as the expected future cash flows on the financial instrument, the probability of counterparty default and the appropriate discount rate to be used, require management judgment and estimation.

	As of December 31, 2019	
	Fair value	Carrying Amount
	RMB'000	RMB'000
Financial assets		
Cash, cash equivalents and restricted cash	132	132
Loan receivables	615,184	615,184
	<u>615,316</u>	<u>615,316</u>
Financial liabilities		
Loans payable	<u>172,891</u>	<u>172,891</u>

The fair values of loans payable are approximately the carrying amount of loans payable as all loans payable are overdue as of December 31, 2019.

	As of December 31, 2018	
	Fair value	Carrying amount
	RMB'000	RMB'000
Financial assets		
Cash and cash equivalents	3,188	3,188
Loan receivables	578,063	579,654
	<u>581,251</u>	<u>582,842</u>
Financial liabilities		
Loans payable	<u>203,837</u>	<u>200,417</u>

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10. Profit before income taxes

Expenses by nature

	Year Ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Depreciation of property and equipment	441	818	2,944
Amortization of intangible assets	-	-	2
Directors			
- salaries and related costs	234	1,815	1,704
- social benefits contribution	-	130	44
- share based compensation	-	589	50
Key management personnel (other than directors)			
- salaries and related costs	1,160	3,501	2,079
- social benefits contribution	174	150	51
- share based compensation	-	100	25
Other than directors and key management personnel			
- salaries and related costs	6,198	1,863	2,653
- social benefits contribution	398	452	456

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11. Income tax expense

The Company is a tax exempted company incorporated in the Cayman Islands. In addition, dividend payments by the Company are not subject to withholding taxes. No provision for Hong Kong Profits Tax has been made as the subsidiary incorporated in Hong Kong had no assessable profits earned or derived from Hong Kong during the years ended December 31, 2017, 2018 and 2019. Payments of dividends by Hong Kong companies are not subject to Hong Kong withholding tax. The subsidiaries incorporated in the PRC other than Hong Kong are governed by the Income Tax Law of the PRC concerning Foreign Investment and Foreign Enterprises and various local income tax laws. Dividends paid by our PRC operating subsidiaries may be subject to withholding taxes of 5%-10%. The Company does not have any deferred tax assets or liabilities as of December 31, 2017, 2018 and 2019.

The Company's income taxes consist of:

	Year Ended December 31,		
	2017	2018	2019
	Restated		
	RMB'000	RMB'000	RMB'000
Current income tax expenses	15,550	18,033	-
Deferred income tax expenses	-	-	-
Income tax expense	15,550	18,033	-

The reconciliation between tax expense and accounting profit at applicable PRC tax rates of 25% is as follows:

	Year Ended December 31,		
	2017	2018	2019
	restated		
	RMB'000	RMB'000	RMB'000
Income before taxation	44,376	26,188	58,616
Computed expected income tax expense	11,094	6,547	14,654
Tax effect of non-deductible expenses	592	17,173	6,260
Tax effect of tax-exempt entities	3,864	1,884	716
Tax effect of non-taxable income	-	(7,571)	(21,630)
Income tax expense	15,550	18,033	-

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12. Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

The weighted average ordinary shares outstanding were 236,180,071, 1,000,171,839 and 1,001,046,568 for 2017, 2018 and 2019, respectively.

Prior to December 17, 2014, each American Depository Share (“ADS”) represented the right to receive four (4) ordinary shares, par value \$0.00005 per share (the “Shares”), from December 18, 2014, the right to receive sixteen (16) Shares and from December 28, 2017, the right to receive forty-eight (48) Shares.

Computation of basic and diluted earnings per share:

	2017	2018	2019
	Restated	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000
Net profit attributable to the equity holders of the Company – numerator for basic and diluted earnings per share	23,061	6,524	46,893
<u>Number of shares in thousands</u>			
Weighted average share outstanding – denominator for basic and diluted earnings per share	236,180	1,000,172	1,001,047
Basic and diluted earnings per share	0.10	0.01	0.05

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13. Cash, cash equivalents and restricted cash

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Cash on hand	39	-
Cash at bank	3,149	67
Restricted cash at bank ⁽¹⁾	-	65
Cash, cash equivalents and restricted cash per consolidated statements of cash flow	<u>3,188</u>	<u>132</u>

⁽¹⁾ This related to cash deposits in the bank accounts that are frozen by court order as Chutian was subject to multiple legal proceedings, administrative proceedings, claims and other litigation as a result of overdue payments to service providers and loans payable to the lenders.

14. Interest receivables, net of credit impairment losses

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Interest receivables	8,839	-
Less: credit impairment losses	(1,782)	-
Interest receivable, net of credit impairment losses	<u>7,057</u>	<u>-</u>

As of December 31, 2019, the interest receivables are nil as the Group does not have any loans receivable that is not credit-impaired.

The table below provides the changes in credit impairment losses between the beginning and the end of the annual period:

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Credit impairment losses as at January 1	508	1,782
Changes on initial application of IFRS 9	1,944	-
Transfer to loans receivable credit impairment losses	(670)	(1,782)
Credit impairment losses as at December 31	<u>1,782</u>	<u>-</u>

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15. Loans receivable, net of credit impairment losses

The total loans receivable are comprised of the following:

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Loans receivable at amortized cost ⁽¹⁾	823,770	765,034
Accrued interest	153,181	273,923
Gross loans receivable	976,951	1,038,957
Less: Credit impairment losses	(397,297)	(423,773)
Loans receivable, net of credit impairment losses	579,654	615,184

⁽¹⁾ See Note 27 of Notes to the Consolidated Financial Statements, Section 11 for detailed disclosure.

The following table provides the changes in credit impairment losses between the beginning and the end of the annual period:

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Credit impairment losses as at January 1	26,724	397,297
Changes on initial application of IFRS 9	304,238	-
Transfer from interest receivable credit impairment losses	-	1,782
Charge to statement of profit	67,574	24,694
Write-off	(1,239)	-
Credit impairment losses as at December 31	397,297	423,773

In 2018, the write-off of loans with a total gross carrying amount of RMB1.2 million resulted in the reduction of credit impairment losses by the same amount.

The Group originates loans to customers located primarily in Wuhan City, Hubei Province. The Group's headquarters, borrowers and operations are located in Wuhan, China, the epicenter for the COVID-19 pandemic. As a result of the COVID-19 outbreak which was first reported on December 31, 2019 in Wuhan, China, the Chinese government imposed a lockdown on the entire Hubei province, travel restrictions and quarantine, the Company's borrowers and operations have been significantly disrupted. Further, all of our customers are located in Wuhan, China, as a result of the COVID-19 outbreak, government lockdown, travel restrictions, reduced economic activity and quarantines imposed by the Chinese government, our customers' business operations, financial conditions and cash flows were materially adversely affected, which, in turn, materially adversely affected our collection of interest and principal on our loans to customers.

This geographic concentration of credit exposes the Group to a higher degree of risk associated with this economic region.

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16. Prepaid expenses and others

Prepaid expenses and others consist of the following:

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Prepaid rental to a shareholder ⁽¹⁾	448	-
Receivable from a related party ⁽²⁾	251	-
Prepaid expenses	184	295
Others	155	-
Total	1,038	295

⁽¹⁾ See Note 27 of Notes to the Consolidated Financial Statements, section 1. Lease of office space from a shareholder for detailed disclosure.

⁽²⁾ See Note 27 of Notes to the Consolidated Financial Statements, section 2. Subleasing income with a related party for detailed disclosure.

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17. Property and equipment

The Group's property and equipment consisted of the following:

	<u>Property</u>	<u>Motor</u>	<u>Office</u>	<u>Leasehold</u>	<u>Total</u>
	<u>RMB'000</u>	<u>vehicle</u>	<u>equipment &</u>	<u>improvements</u>	<u>RMB'000</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>furniture</u>	<u>RMB'000</u>	
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Cost					
At January 1, 2018	-	995	408	1,158	2,561
Additions	47,908	-	631	2,765	51,304
At December 31, 2018	47,908	995	1,039	3,923	53,865
Additions	232	-	39	-	271
Disposals	-	(416)	-	-	(416)
At December 31, 2019	48,140	579	1,078	3,923	53,720
Accumulated depreciation					
At January 1, 2018	-	889	388	946	2,223
Addition	470	87	3	258	818
At December 31, 2018	470	976	391	1,204	3,041
Depreciation	2,286	-	136	553	2,975
Adjustment	-	(31)	-	-	(31)
Disposals	-	(395)	-	-	(416)
At December 31, 2019	2,756	550	527	1,757	5,590
Net book value					
At December 31, 2018	47,438	19	648	2,719	50,824
At December 31, 2019	45,384	29	551	2,166	48,130

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18. Intangible asset

	Acquired computer software
	RMB'000
Cost	
At January 1, 2018	-
Additions	9
At December 31, 2018 and 2019	<u>9</u>
Accumulated amortization	
At January 1, and December 31 2018	-
Amortization	2
At January 1, 2019	<u>2</u>
Net book value	
At December 31, 2018	9
At December 31, 2019	<u>7</u>

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19. Loans payable

Loans payable represent borrowings from various individuals and companies through various securities exchanges and loans from shareholders. The average annual interest rates were approximately 9.6% and 10.5% at December 31, 2018 and 2019, respectively.

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Loans payable to third parties	110,917	140,558
Loans payable to related parties ⁽¹⁾	79,500	12,333
Loans payable to shareholders ⁽²⁾	10,000	20,000
Total	<u>200,417</u>	<u>172,891</u>

As of December 31, 2019, loans payable to third parties, related parties and shareholders are all overdue. Although certain loans payable were negotiated with schedule of repayments, the Group is unable to fulfill those obligations due to liquidity issue.

⁽¹⁾ See Note 27 of Notes to the Consolidated Financial Statements, sub-sections 3.1 and 3.2 of Section 3. Loans payable to related parties for detailed disclosure.

⁽²⁾ See Note 27 of Notes to the Consolidated Financial Statements, sub-sections 4.1 and 4.4 of Section 4. Loans payable to shareholders for detailed disclosure.

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20. Salary and benefit payable

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Salary and benefit payable to employees	895	4,229
Consulting expenses payable to a shareholder's representatives ⁽¹⁾	516	1,032
Total	1,411	5,261

As of December 31, 2019, due to liquidity issue faced by the Group, the Group is unable to pay its employees.

⁽¹⁾ See Note 27 of Notes to the Consolidated Financial Statements, Section 5. Consulting expenses for representatives from a shareholder for detailed disclosure.

21. Income taxes payable

As of December 31, 2019, Chutian has not been paying its corporate income tax of RMB32.5 million to the China State Taxation Administration since 2018 due to liquidity issue.

22. Interest payable

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Interest payable to third parties	3,234	14,510
Interest payable to related parties ⁽¹⁾	1,662	127
Interest payable to shareholders ⁽²⁾	243	3,086
Total	5,139	17,723

⁽¹⁾ See Note 27 of Notes to the Consolidated Financial Statements, sub-sections 3.1 and 3.2 of Section 3. Loans payable to related parties for detailed disclosure.

⁽²⁾ See Note 27 of Notes to the Consolidated Financial Statements, sub-section 4.1 and 4.4 of Section 4. Loans payable to shareholders for detailed disclosure.

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23. Other payable

	As at December 31,	
	2018	2019
	RMB'000	RMB'000
Other payable to related parties ⁽¹⁾	27,804	1,735
Accrued expenses	5,734	5,515
Other taxes payable ⁽²⁾	1,722	1,984
Total	<u>35,260</u>	<u>9,234</u>

⁽¹⁾ See Note 27 of Notes to the Consolidated Financial Statements, Section 6. Reverse merger expenses and operating expenses payable to a related party, Section 7. Advisory expenses payable to a related party, Section 8. Intermediary agreement payable to a related party and Section 9. Funds provided by related parties for payments to certain loans payable for detailed disclosure.

⁽²⁾ Other taxes payable include value-added taxes, urban construction and maintenance taxes, educational surcharge tax, local education surcharge tax, disability insurance tax, property tax and urban land use tax, which are all outstanding to the State Administration of Taxation since 2018.

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24. Share capital and additional paid-in capital

(a) Authorized share capital

In June 2010, the Company was incorporated in the Cayman Islands with an authorized share capital of one billion shares, par value of \$0.00005, of which 20,000 shares were issued at incorporation. On March 1, 2018, the authorized share capital of the Company increased from \$50,000 divided into 1,000,000,000 Ordinary Shares of a par value of \$0.00005 each to \$100,000 divided into 2,000,000,000 Ordinary Shares of a par value of \$0.00005 each by the creation of an additional 1,000,000,000 Ordinary Shares of a par value of \$0.00005 each to rank pari passu in all respects with the existing Ordinary Shares.

(b) Issued share capital and additional paid-in capital

	Number of shares (thousands)	Ordinary shares RMB'000	Additional paid-in capital RMB'000	Total RMB'000	Non- controlling interest RMB'000	Total equity RMB'000
At January 1, 2017	227,717	77	395,924	396,001	99,000	495,001
Shares issued during the year	772,283	248	(222)	26	7	33
Share issuance expenses	-	-	(12,528)	(12,528)	(3,132)	(15,660)
At December 31, 2017	1,000,000	325	383,174	383,499	95,875	479,374
Shares issued during the year	862	1	-	1	-	1
At December 31, 2018	1,000,862	326	383,174	383,500	95,875	479,375
Shares issued during the year	269	*	-	*	-	-
At December 31, 2019	1,001,131	326	383,174	383,500	95,875	479,375

* Less than 1,000.

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25. Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the entities established in the PRC are required to transfer 10% of profits after taxation (in accordance with the accounting regulations of the PRC) to a statutory reserve, until the reserve balance reaches 50% of the entity's registered capital. The reserve may be used to offset accumulated losses or to increase the registered capital, subject to approval from the PRC authorities, and are not available for dividend distribution to equity owners. As of December 31, 2018 and 2019, total statutory reserves were RMB17.5 million and RMB23.4 million, respectively, which did not reach 50% of the variable interest entity's registered capital.

26. General risk reserve

In accordance with the relevant laws and regulations of the PRC, the Group's variable interest entity is required to maintain a general risk reserve within the equity, through appropriation of profit, which should not be less than 1.5% of the year end balance of its risk assets over the course of five years. As of December 31, 2018 and 2019, total statutory reserves were RMB12.4 million and RMB9.2 million, respectively.

27. Related party transactions

1. Lease of office space from a shareholder

In September 2012, a ten-year operating lease agreement from October 8, 2012 to October 7, 2022 was entered into with Hubei Daily Media Group, a shareholder who owned 20% of the variable interest entity, in Wuhan City, Hubei Province, where office space of approximately 1,673 square meters was leased and the office is located at 6th Floor, Block 1, Hubei Daily Cultural Creative Industrial Park, No 181 Donghu Road, Wuchang District, Wuhan City, Hubei Province, China. The lease amount is RMB1.0 million per year for the first five years and RMB1.1 million per year for the last five years. The lease was terminated in December 2018. The lease expenses of RMB1.2 million, RMB1.3 million and nil were incurred for the years ended December 31, 2017, 2018 and 2019, respectively.

As of December 31, 2018 and 2019, prepaid rental to a shareholder were RMB0.4 million and nil, respectively.

2. Subleasing income with a related party

In 2017, 2018 and 2019, a subleasing agreement was entered into with Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, to sublease office spaces of approximately 304 square meters for RMB0.2 million, RMB0.2 million and nil, respectively.

As of December 31, 2018 and 2019, receivable from a related party was RMB0.3 million and nil, respectively.

DUNXIN FINANCIAL HOLDINGS LIMITED
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27. Related party transactions - continued

3. Loans payable to related parties

- 3.1 In 2018, loans payable of RMB60.0 million were borrowed from a related party, Hubei Shanyin Wealth Management Co., Ltd, a company that is 69.5% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, at an interest rate of 9% per annum with maturity ranging from August to October 2019. As of December 31, 2019, these loans payable and the related interest payable were overdue. The interest expenses were RMB1.4 million and RMB4.7 million in 2018 and 2019, respectively.

As of December 31, 2018 and 2019, loans payable were RMB60.0 million and RMB50.0 million and the related interest payable was RMB1.4 million and RMB5.9 million, respectively.

- 3.2 In 2018, loans payable of RMB20.0 million were borrowed from a related party, Hubei New Nature Investment Co., Ltd ("Hubei New Nature"), a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, at an interest rate of 12% per annum and repayable in November 2019. In December 2018, loan of RMB0.5 million was repaid. In 2019, loans payable of RMB17.4 million were further borrowed, loans of RMB14.7 million were repaid. In 2019, certain loans receivable were novated to Hubei New Nature to offset against loans payable of RMB9.9 million and interest payable of RMB3.1 million to Hubei New Nature. The interest expenses were RMB0.3 million and RMB3.0 million in 2018 and 2019, respectively.

As of December 31, 2018 and 2019, loans payable were RMB19.5 million and RMB12.3 million and the related interest payable was RMB259,000 and RMB127,000, respectively.

- 3.3 In 2018, loans payable of RMB8.0 million were borrowed from a related party, Hubei New Chutaifu Asset Management Co., Ltd, a company that is 50% owned by Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, at an interest rate of 8% per annum and the loan duration was 97 days. The interest expenses were RMB0.2 million in 2018. The loan and related interest payable were fully repaid in 2018.

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27. Related party transactions - continued

4. Loans payable to shareholders

- 4.1 In June 2017, a loan payable of RMB10.0 million was borrowed from Wang Hailin, a shareholder who owned 7.7% of the variable interest entity, at 10% interest per annum. The interest expenses for this loan were RMB0.5 million and RMB1.3 million in 2017 and 2018, respectively. According to the loan extension agreement, the loan of RMB10.0 million is at interest rate of 15% per annum with additional 9% penalty interest per annum and repayable in February 2019. Subsequent to year end, this loan payable was further extended to repayment date in September 2019, at 15% interest per annum with additional 9% penalty interest.

As of December 31, 2018 and 2019, loans payable were RMB10.0 million and RMB10.0 million, respectively. As of December 31, 2018 and 2019, interest payable was RMB243,000 and RMB1.8 million, respectively.

- 4.2 In 2017, loans payable of RMB28.6 million were borrowed from Li Ling, a shareholder who owned 2.5% of the variable interest entity, at 10% per annum interest from January 2017 to December 2017. The Group paid RMB1.2 million for interest on the loan from Li Ling. The loan and related interest payable were fully repaid in 2017.
- 4.3 In 2018, a loan payable of RMB5.0 million was borrowed from Li Ling, a shareholder who owned 2.5% of the variable interest entity, at 10% per annum for 230 days. The interest expense on this borrowing was RMB0.3 million in 2018. The loan and related interest payable were fully repaid in 2018.
- 4.4 In 2019, loans payable of RMB3.0 million and RMB10.0 million were borrowed from Li Ling, a shareholder who owned 2.5% of the variable interest entity, at 12% per annum for 29 days and 74 days, respectively. At maturity, loan payable of RMB3.0 million and the related interest of RMB29,000 were fully repaid. Loan payable of RMB10.0 million was, however, overdue. On August 27, 2019, Li Ling applied to the Wuhan Wuchang People's Court for pre-litigation property preservation of respondents Chutian and Mr Ricky Qizhi Wei in connection with a loan contract dispute. Court issued a preservation order that froze the bank deposits of Chutian and Wei Qizhi in the amount of RMB12.0 million, or to seize or attach property in the corresponding value.

On October 9, 2019, the case was filed and accepted in the Wuhan Jiang'an People's Court. Li Ling filed the following actions with the court: (1) that the two defendants Chutian and Mr Ricky Qizhi Wei repay the borrowed principal of RMB10.0 million and interest of RMB787,500 (based on the interest rate of 1.125% per month on the principal of RMB10.0 million, calculated from February 1, 2019 until fully paid, currently calculated until August 30, 2019), and (2) the costs of litigation to be fully borne by both defendants. On December 4, 2019, the court ruled that there was a valid loan relationship, that Chutian had failed to repay the loan as agreed and that Li Ling had the right to request full repayment of the loan principal and interest. The court ordered Chutian to repay the principal amount of the loan of RMB10.0 million to Li Ling, and to pay the interest rate of 1.125% per month on the principal amount of RMB10.0 million, beginning February 2019 until the date the loan is fully paid. The court further ordered that Mr Ricky Qizhi Wei shall also be jointly and severally liable for the repayment of the loan. In the event that the repayment obligation is not fulfilled, the court ordered that the debt interest would be doubled in accordance with PRC law.

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27. Related party transactions - continued

4. Loans payable to shareholders - continued

4.4 - continued

On May 20, 2020, due to the failure of Chutian to fulfil its obligation to repay the principal amount determined above, the court issued a consumer restriction order against Mr Ricky Qizhi Wei to restrict high consumption and high expenditure behaviors. Violation of this order carries the imposition of fines and detention, and in circumstances sufficiently serious to constitute a crime, pursuit of criminal liability according to law.

As a result of the court ruling mentioned above, the interest expense on these loans was RMB1.3 million in 2019. As of December 31, 2019, loan payable was RMB10.0 million and interest payable was RMB1.3 million.

- 4.5 In 2017, loans payable of RMB14.0 million were borrowed from Hubei Daily Media Group, a shareholder which owned 20% of the variable interest entity, respectively. The weighted average annual interest rates for interest expenses were 10.0% in 2017. The average duration was 209 days in 2017. The interest expenses were RMB0.8 million in 2017. The loans and related interest payable were fully repaid in 2017.

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27. Related party transactions - continued

5. Consulting expenses for representatives from a shareholder

Consulting expenses of RMB0.5 million, RMB0.5 million and RMB0.5 million were incurred for two representatives sent from Hubei Daily Media Group, a shareholder who owned 20% of the variable interest entity, for the years ended December 31, 2017, 2018 and 2019, respectively.

As of December 31, 2018 and 2019, consulting expenses payable to these representatives were RMB0.5 million and RMB1.0 million, respectively.

6. Reverse merger expenses and operating expenses payable to a related party

During the reverse merger process of the Company, a related party, Hubei New Nature Investment Co., Ltd (“Hubei New Nature”), a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, paid reverse merger expenses on behalf of the Company, totaling RMB11.3 million and RMB10.9 million for the year ended December 31, 2017 and 2018, respectively. In 2019, certain operating expenses of RMB0.7 million were paid by Hubei New Nature on behalf of the Company. Also, in 2019, certain loans receivable were novated to Hubei New Nature to offset against payable to Hubei New Nature of RMB22.6 million (see Note 27 of Notes to Consolidated Financial Statements, Section 11).

As of December 31, 2018 and 2019, payable to a related party was RMB22.2 million and RMB0.3 million, respectively.

7. Advisory expenses payable to a related party

In 2017 and 2018, an advisory agreement was entered into with Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, to provide funding advisory services at 2% per annum on funds raised through Wuhan Securities Exchanges for RMB2.5 million and RMB0.7 million, respectively.

As of December 31, 2018 and 2019, advisory expense payable was RMB4,235,000 and nil, respectively.

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27. Related party transactions - continued

8. Intermediary agreement payable to a related party

In 2016, an intermediary agreement was entered into with Chutian Wealth (Wuhan) Financial Services Co., Ltd, a subsidiary jointly owned by Hubei New Nature Investment Co., Ltd and Hubei Daily Media Group, to assist in fund raising through Wuhan Securities Exchange at 6% per annum on funds raised. In 2017, 2018 and 2019, the intermediary fees were RMB5.3 million, RMB1.7 million and nil, respectively.

As of December 31, 2018 and 2019, intermediary fee payable to a related party was nil and nil, respectively.

9. Funds provided by related parties for payments to certain loans payable

In 2018, fund of RMB954,000 was provided by Wuhan Xin Heng Tai Investment Co., Ltd and fund of RMB412,000 was provided by Wuhan Zhong Ji Gold Co., Ltd for payments to certain loans payable, interest payable and listing service fee. Wuhan Xin Heng Tai Investment Co., Ltd is related to Ms Wenting Xiao, a shareholder who owned 10.6% of the Group's variable interest entity, whom is a general manager with Wuhan Xin Heng Tai Investment Co., Ltd. Wuhan Zhong Ji Gold Co., Ltd is also related to Ms Wenting Xiao whom is a member of the supervisory committee with Wuhan Zhong Ji Gold Co., Ltd. These funds were provided without interest and with no fixed terms of repayment.

As of December 31, 2018 and 2019, payables to related parties were RMB1.4 million and RMB1.4 million, respectively.

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27. Related party transactions - continued

10. Loans receivable from related parties

- 10.1 In 2016, loans receivable of RMB8.0 million were lent to Hubei Baoli Ecological Conservation Co., Ltd at an interest rate of 36% per annum. The loan was guaranteed by Ms. Jing Liang, a shareholder who owned 4.3% of the variable interest entity. The interest received on the loan was nil, nil and nil for the years ended December 31, 2017, 2018 and 2019, respectively. As of December 31, 2018 and 2019, this loan was overdue.
- 10.2 In 2016, loans receivable of RMB3.0 million were lent to Kang Chen at an interest rate of 36% per annum. The loan was guaranteed by Ms. Jing Liang, a shareholder who owned 4.3% of the variable interest entity. The interest received on the loan was nil, nil and nil for the years ended December 31, 2017, 2018 and 2019, respectively. As of December 31, 2018 and 2019, this loan was overdue.
- 10.3 In 2017, loans receivable of RMB18.0 million were lent to Wuhan Zhong Ji Gold Co., Ltd at a weighted average interest rate of 25.3% per annum. The loan was related to Ms Wenting Xiao, a shareholder who owned 10.6% of the variable interest entity, whom is a member of the supervisory committee with Wuhan Zhong Ji Gold Co., Ltd. The interest received on loan was RMB6.5 million for the year ended December 31, 2017. This loan was fully repaid in 2017.
- 10.4 In 2017, loans receivable of RMB19.0 million were lent to Wuhan Xin Heng Tai Investment Co., Ltd at a weighted average interest rate of 24.9% per annum. The loan was related to Ms Wenting Xiao, a shareholder who owned 10.6% of the variable interest entity, whom is a general manager with Wuhan Xin Heng Tai Investment Co., Ltd. The interest received on loan was RMB4.9 million for the year ended December 31, 2017. This loan was fully repaid in 2017.

11. Loans receivable novated to a related party

In 2019, certain loans receivable were novated to a related party, Hubei New Nature Investment Co., Ltd, a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, to offset loans payable of RMB9.9 million, interest payable of RMB3.1 million to Hubei New Nature (see Note 27 of Notes to Consolidated Financial Statements, sub-section 3.2 of Section 3 for detailed disclosure), reverse merger and operating expenses payable of RMB22.6 million (see Note 27 of Notes to Consolidated Financial Statements, Section 6 for detailed disclosure), and advisory expenses payable of RMB4.6 million (see Note 27 of Notes to Consolidated Financial Statements, Section 7 for detailed disclosure).

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28. Legal proceedings

Property Preservation Proceedings

- 28.1 On July 16, 2019, Shenzhen Lihe Wantong Commercial Factoring Co., Ltd applied to the Wuhan Wuchang People's Court for pre-litigation protective measures to be taken against the respondents Chutian and Mr Ricky Qizhi Wei with regards to a contract dispute. On July 31, 2019, the court issued a preservation order freezing a total of RMB12.3 million of deposits in the bank accounts of Chutian and Mr Ricky Qizhi Wei for a period of one (1) year; and seizing four properties of Mr Ricky Qizhi Wei and Ms Peng Yan, Mr Ricky Qizhi Wei's wife. The total limit of the property preservation in this matter is RMB29.9 million.
- 28.2 On September 4, 2019, Hubei Changjiang Microcredit Co., Ltd applied to the Wuhan Wuchang People's Court for pre-litigation property preservation of respondents Mr Ricky Qizhi Wei and Ms Peng Yan, Mr Ricky Qizhi Wei's wife, Chutian and Hubei New Nature Investment Co., Ltd in connection with a loan contract dispute. On September 6, 2019, the court issued a preservation order seizing the bank deposits, or property in the corresponding value, of Mr Ricky Qizhi Wei, Ms Peng Yan, Chutian, Hubei New Nature Investment Co., Ltd and Dunxin Holdings Co., Ltd in the amount of RMB13.0 million and RMB12.0 million. Hubei New Nature Investment Co., Ltd is a company that is 80.8% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei. Dunxin Holdings Co., Ltd is a company that is 70% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei and 30% owned by Ms Wenting (Tina) Xiao, Chief Personal/Human Resource Officer. The Court's ruling was effective immediately.
- 28.3 On October 14, 2019, Mr Deng Xinxue, Mr Zhang Xuan and Mr Yang Bobiao each applied to the Wuhan Wuchang People's Court for pre-litigation property preservation of respondents Hubei Shanyin Wealth Management Co., Ltd, a company that is 69.5% owned by the Chairman and the Chief Executive Officer, Mr Ricky Qizhi Wei, and Chutian in connection with loan contracts dispute. The court issued a preservation order seizing the bank deposits, or property in the corresponding value, of Hubei Shanyin Wealth Management Co., Ltd and Chutian in the amount of RMB2.9 million, RMB9.0 million and RMB9.0 million, respectively. The court's ruling was effective immediately.
- 28.4 On October 15, 2019, the Wuhan Wuchang People's Court received a Letter of Property Preservation from the Wuhan Arbitration Commission in connection with a loan contract dispute among the applicant Hubei Huaya Investment Co., Ltd and respondents Mr Ricky Qizhi Wei, Ms Peng Yan and Chutian. On October 23, 2019, after review of the letter by the court, the court issued a preservation seizing the bank deposits, or property in the corresponding value, of Mr Ricky Qizhi Wei, Ms Peng Yan, and Chutian in the amount of RMB12.3 million. The Court's ruling was effective immediately.

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28. Legal proceedings - continued

Property Services Contract Proceeding

28.5 On September 26, 2019, the Wuhan Branch of Xiamen Lianfa (Group) Property Services Co., Ltd (“Xiamen Lianfa”) filed an action in the Wuhan Wuchang People’s Court against Chutian in connection with a property service contract dispute. On November 27, 2019, the case was scheduled to be heard and Chutian was lawfully summoned and failed to appear, and did not submit a reply. The case was decided and concluded on November 27, 2019. The court found that Chutian failed to pay the owed property services fees to Xiamen Lianfa from April 1, 2019 to August 31, 2019. The court rendered a judgment in favor of Xiamen Lianfa and ordered Chutian to pay property services fee in the amount of RMB193,944 for the period from April 1, 2019 to August 31, 2019 to Xiamen Lianfa, within 10 days of the judgment. The court further ordered Chutian to pay the accrued interest, to be calculated based on the principal amount of RMB193,944 and based on the People’s Bank of China lending interest rate for the period from September 26, 2019 until fully paid. In the event that the repayment obligation is not fulfilled, the court ordered that the debt interest would be doubled in accordance with PRC law. Chutian did not appeal the judgment and the judgment was effected immediately.

Li Ling Loan Dispute Proceeding

28.6 On August 27, 2019, Ms Li Ling applied to the Wuhan Wuchang People’s Court for pre-litigation property preservation of respondents Chutian and Mr Ricky Qizhi Wei in connection with a loan contract dispute. court issued a preservation order that froze the bank deposits of Chutian and Mr Ricky Qizhi Wei in the amount of RMB12.0 million, or to seize or attach property in the corresponding value.

On October 9, 2019, the case was filed and accepted in the Wuhan Jiang’an People’s Court. Li Ling filed the following actions with the court: (1) that the two defendants Chutian and Mr Ricky Qizhi Wei repay the borrowed principal of RMB10.0 million and interest of RMB787,500 (based on the interest rate of 1.125% per month on the principal of RMB10.0 million, calculated from February 1, 2019 until fully paid, currently calculated until 30 August, 2019), and (2) the costs of litigation to be fully borne by both defendants. On December 4, 2019, the court ruled that there was a valid loan relationship, that Chutian had failed to repay the loan as agreed and that Ms Li Ling had the right to request full repayment of the loan principal and interest. The court ordered Chutian to repay the principal amount of the loan of RMB10.0 million to Ms Li Ling, and to pay the interest rate of 1.125% per month on the principal amount of RMB10.0 million, beginning February 2019 until the date the loan is fully paid. The court further ordered that Mr Ricky Qizhi Wei shall also be jointly and severally liable for the repayment of the loan. In the event that the repayment obligation is not fulfilled, the court ordered that the debt interest would be doubled in accordance with PRC law.

On May 20, 2020, due to the failure of Chutian to fulfil its obligation to repay the principal amount determined above, the court issued a consumer restriction order against Mr Ricky Qizhi Wei to restrict high consumption and high expenditure behaviors. Violation of this order carries the imposition of fines and detention, and in circumstances sufficiently serious to constitute a crime, pursuit of criminal liability according to law.

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28. Legal proceedings - continued

Property preservation proceedings

- 28.7 On July 24, 2017, Chutian filed an execution case with the Wuhan Wuchang District People's Court for property preservation on Hubei Sheng Guang Gong Pharmaceutical Co., Ltd and related borrowers. On August 20, 2019, Chutian further filed the real estate valuation report to the court for further processing.

29. Subsequent events

In late December 2019, COVID-19 was discovered in Wuhan City, China. Wuhan City was locked down by the Government on January 23, 2020 for about 61 days. During the lock down in Wuhan City, except for medical workers and essential services, all businesses were mandatory closed and all residents were ordered to stay at home. The Company's headquarters and operations are located in Wuhan City, China, the epicenter for COVID-19 pandemic. As a result of the government lockdown, travel restrictions and quarantines imposed by the Chinese government, the Company's operations, financial conditions and cash flows are materially and adversely affected.

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30. Correction of errors

Subsequent to the filing of Form 20F for the financial year ended December 31, 2017, management identified the following accounting errors:

1. The Group had over accrued certain interest expenses of RMB4,349,000 which should have been recorded in the year of 2018. This error understated the net profit of RMB4,349,000 in 2017, overstated other payable of RMB3,618,000 and overstated interest payable of RMB731,000 as of December 31, 2017.
2. There was a total of RMB14,604,000 payable for expenses related to the reverse merger and equity transaction should have been accrued for as of December 31, 2017. RMB8,175,000 was determined to be related to the reverse merger while RMB6,429,000 was determined to be related to the equity transaction. These errors caused an overstatement of net profit in the amount of RMB8,175,000, understatement of other payable of RMB14,604,000 and overstatement of shareholders' equity of RMB6,429,000 (or RMB5,143,000 after accounted for non-controlling interests).
3. Income tax impact for the errors stated in 1 and 2 above totaled RMB269,000 which understated the net profit for the year ended December 31, 2017.
4. The Group overstated deferred tax assets of RMB645,000 of December 31, 2017. As a result, such deferred tax asset was being reversed. This error overstated net profit by RMB645,000 for the year ended December 31, 2017.
5. The Group incorrectly computed earnings per share using net profit, instead of using net profit attributable to equity holders of the Company. Basic and diluted earnings per share impact for errors stated in 1, 2, 3, 4 and 5 was RMB0.04 per share.
6. The Group incorrectly classified a deposit of RMB14,928,000 to purchase certain floors of an office building as prepaid expenses – current. Due to non-current nature of property and equipment to be acquired, such deposit should be classified as non-current as of December 31, 2017.
7. The Group incorrectly accrued the statutory reserve and general risk reserve in accordance with the PRC regulatory requirements. As a result, under the equity section, the statutory reserve was understated by RMB7,017,000 (or RMB5,614,000 after accounted for non-controlling interests), general risk reserve was understated by RMB4,908,000 (or RMB3,926,000 after accounted for non-controlling interests) and retained earnings were overstated by RMB11,925,000 (or RMB9,540,000 after accounted for non-controlling interests).
8. The Group classified loan receivables in cash flow from investing activities as originated loan disbursement and repayments of loans from customers. However, since the Group's principal business activities is to provide loan to customers to earn interest income, such activities should be considered as operating activities. As a result, cash flows generated by operating activities was overstated by RMB121,040,000 and RMB213,138,000 for the year ended December 31, 2017 and 2016, respectively. While cash flows used in investing activities was overstated by RMB121,040,000 and RMB213,138,000 for the year ended December 31, 2017 and 2016, respectively.
9. The Group understated proceeds received from shareholders' loans by RMB38,600,000 and repayment of shareholders' loans by RMB38,600,000 for the year ended December 31, 2017. The net result of both items was nil. There was no impact to the net cash generated by financing activities.
10. The Group understated proceeds received from shareholders' loans by RMB48,000,000 and repayments of shareholders' loans by RMB58,000,000 for the year ended December 31, 2016. There was no impact to the net cash generated by financing activities.

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

30. Correction of errors - continued

As a result, the financial statements for the years ended December 31, 2017 and 2016 have been restated, respectively, as follows:

Statement of profit and other comprehensive income (extract)	December 31, 2017		
	As previously reported	Adjustments	As currently reported
	RMB'000	RMB'000	RMB'000
Interest expense (note 30.1)	(38,140)	4,349	(33,791)
Total interest expense	(38,814)	4,349	(34,465)
General and administrative (note 30.2)	(26,720)	(8,175)	(34,895)
Total operating costs and expenses	(29,858)	(8,175)	(38,033)
Profit before income taxes (notes 30.1 and 30.2)	48,202	(3,826)	44,376
Income tax expense (notes 30.3 and 30.4)	(14,636)	(914)	(15,550)
Net profit	<u>33,566</u>	<u>(4,740)</u>	<u>28,826</u>
Basic and diluted earnings per share (note 30.5)	<u>0.14</u>	<u>(0.04)</u>	<u>0.10</u>

DUNXIN FINANCIAL HOLDINGS LIMITED
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

30. Correction of errors - continued

Balance sheet (extract)	As of December 31, 2017			As currently reported RMB'000
	As previously reported RMB'000	Restatement Adjustments		
		Adjustments RMB'000	Other impacts RMB'000	
Current assets				
Prepaid expenses and others (note 30.6)	15,411	-	(14,928)	483
Total current assets	868,146	-	(14,928)	853,218
Non-current assets				
Prepayment for a property (note 30.6)	-	-	14,928	14,928
Deferred tax asset (note 30.5)	645	(645)	-	-
Total non-current assets	983	(645)	14,928	15,266
Total assets	869,129	(645)	-	868,484
Current liabilities				
Income taxes payable (note 30.3)	14,851	269	-	15,120
Interest payable (note 30.1)	4,560	(731)	-	3,829
Other payable (notes 30.1 and 30.2)	15,730	10,986	-	26,716
Total current liabilities	265,076	10,524	-	275,600
Shareholders' equity				
Additional paid-in capital (note 30.2)	388,317	(5,143)	-	383,174
Statutory reserve (note 30.7)	7,751	-	5,614	13,365
General risk reserve (note 30.7)	5,891	-	3,926	9,817
Retained earnings	80,958	(3,792)	(9,540)	67,626
Non-controlling interests in equity	120,811	(2,234)	-	118,577
Total shareholders' equity	604,053	(11,169)	-	592,884
Total equity and liabilities	869,129	(645)	-	868,484

DUNXIN FINANCIAL HOLDINGS LIMITED
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

30. Correction of errors - continued

Cash flow Statement (extract)	December 31, 2017			
	As previously reported	Adjustments	Other impacts	As currently reported
	RMB'000	RMB'000	RMB'000	RMB'000
Cash flow from operating activities				
Profit before income taxes (notes 30.1 and 30.2)	48,202	(3,826)	-	44,376
Credit impairment losses	6,402	-	(2,822)	3,580
Operating profit before changes in working capital	55,045	(3,826)	(2,822)	48,397
Interest receivables	(22,309)	-	2,822	(19,487)
Loans receivable (note 30.8)	-	-	(121,040)	(121,040)
Interest payable (note 30.1)	1,333	(731)	-	602
Other payable (notes 30.1 and 30.2)	13,046	10,986	-	24,032
Net cash generated/(used) by operating activities	58,585	6,429	(121,040)	(56,026)
Net cash generated/(used) by operating activities	44,192	6,429	(121,040)	(70,419)
Cash flow from investing activities				
Originated loan disbursements (note 30.8)	(397,190)	-	397,190	-
Repayments of loans from customers (note 30.8)	276,150	-	(276,150)	-
Net cash used in investing activities (note 30.8)	(135,968)	-	121,040	(14,928)
Cash flow from financing activities				
Share issuance expenses (note 30.2)	(9,198)	(6,429)	-	(15,627)
Proceeds received from shareholders' loans (note 30.9)	14,000	-	38,600	52,600
Repayment of shareholders' loans (note 30.9)	(4,000)	-	(38,600)	(42,600)
Proceeds received from loans payable (note 30.9)	402,300	-	(38,600)	363,700
Repayment of loans payable (note 30.9)	(386,400)	-	38,600	(347,800)
Net cash generated by financing activities	16,702	(6,429)	-	10,273

DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 2017, 2018 AND 2019

30. Correction of errors - continued

Cash flow Statement (extract)	December 31, 2016		
	As previously reported	Other impacts	As currently reported
	RMB'000	RMB'000	RMB'000
Cash flow from operating activities			
Loans receivable (note 30.8)	-	(213,138)	(213,138)
Net cash generated/(used) by operating activities	38,167	(213,138)	(174,971)
Net cash generated/(used) by operating activities	16,708	(213,138)	(196,430)
Cash flow from investing activities			
Originated loan disbursements (note 30.8)	(446,264)	446,264	-
Repayments of loans from customers (note 30.8)	233,126	(233,126)	-
Net cash used in investing activities (note 30.8)	(213,138)	213,138	-
Cash flow from financing activities			
Proceeds received from shareholders' loans (note 30.10)	2,000	48,000	50,000
Repayments of shareholders' loans (note 30.10)	(2,000)	(58,000)	(60,000)
Proceeds received from loans payable (note 30.10)	384,240	(48,000)	336,240
Repayments of loans payable (note 30.10)	(332,990)	58,000	(274,990)

Correction Of Errors – Year Ended 31 December 2017

Subsequent to the filing of Form 20F for the financial year ended December 31, 2017, management identified the following accounting errors:

1. The Group had over accrued certain interest expenses of RMB4,349,000 which should have been recorded in the year of 2018. This error understated the net profit of RMB4,349,000 in 2017, overstated other payable of RMB3,618,000 and overstated interest payable of RMB731,000 as of December 31, 2017.
2. There was a total of RMB14,604,000 payable for expenses related to the reverse merger and equity transaction should have been accrued for as of December 31, 2017. RMB8,175,000 was determined to be related to the reverse merger while RMB6,429,000 was determined to be related to the equity transaction. These errors caused an overstatement of net profit in the amount of RMB8,175,000, understatement of other payable of RMB14,604,000 and overstatement of shareholders' equity of RMB6,429,000 (or RMB5,143,000 after accounted for non-controlling interests).
3. Income tax impact for the errors stated in 1 and 2 above totaled RMB269,000 which understated the net profit for the year ended December 31, 2017.
4. The Group overstated deferred tax assets of RMB645,000 of December 31, 2017. As a result, such deferred tax asset was being reversed. This error overstated net profit by RMB645,000 for the year ended December 31, 2017.
5. The Group incorrectly computed earnings per share using net profit, instead of using net profit attributable to equity holders of the Company. Basic and diluted earnings per share impact for errors stated in 1, 2, 3, 4 and 5 was RMB0.04 per share.
6. The Group incorrectly classified a deposit of RMB14,928,000 to purchase certain floors of an office building as prepaid expenses – current. Due to non-current nature of property and equipment to be acquired, such deposit should be classified as non-current as of December 31, 2017.
7. The Group incorrectly accrued the statutory reserve and general risk reserve in accordance with the PRC regulatory requirements. As a result, under the equity section, the statutory reserve was understated by RMB7,017,000 (or RMB5,614,000 after accounted for non-controlling interests), general risk reserve was understated by RMB4,908,000 (or RMB3,926,000 after accounted for non-controlling interests) and retained earnings were overstated by RMB11,925,000 (or RMB9,540,000 after accounted for non-controlling interests).
8. The Group classified loan receivables in cash flow from investing activities as originated loan disbursement and repayments of loans from customers. However, since the Group's principal business activities is to provide loan to customers to earn interest income, such activities should be considered as operating activities. As a result, cash flows generated by operating activities was overstated by RMB121,040,000 and RMB213,138,000 for the year ended December 31, 2017 and 2016, respectively. While cash flows used in investing activities was overstated by RMB121,040,000 and RMB213,138,000 for the year ended December 31, 2017 and 2016, respectively.
9. The Group understated proceeds received from shareholders' loans by RMB38,600,000 and repayment of shareholders' loans by RMB38,600,000 for the year ended December 31, 2017. The net result of both items was nil. There was no impact to the net cash generated by financing activities.
10. The Group understated proceeds received from shareholders' loans by RMB48,000,000 and repayments of shareholders' loans by RMB58,000,000 for the year ended December 31, 2016. There was no impact to the net cash generated by financing activities.

As a result, the financial statements for 2017 have been restated as follows:

CONSOLIDATED STATEMENTS OF PROFIT AND OTHER COMPREHENSIVE INCOME
(Expressed in Thousands of Chinese Renminbi Yuan, except share and per share amounts)

	As previously reported 2017	Adjustments	As currently reported 2017
Interest income	119,639	-	119,639
Interest expense			
Interest expenses (note 1)	(38,140)	4,349	(33,791)
Business related taxes and surcharges	(674)	-	(674)
Total interest expense	(38,814)	4,349	(34,465)
Net interest income	80,825	-	85,174
Credit impairment losses	(3,580)	-	(3,580)
Net interest income after credit impairment losses	77,245	-	81,594
Non-interest and other income	815	-	815
Operating costs and expenses			
Sales and marketing	(3,138)	-	(3,138)
General and administrative (note 2)	(26,720)	(8,175)	(34,895)
Total operating costs and expenses	(29,858)	(8,175)	(38,033)
Profit before income taxes (notes 1 and 2)	48,202	(3,826)	44,376
Income tax expense (notes 3 and 4)	(14,636)	(914)	(15,550)
Net profit and total comprehensive income for the year	33,566	(4,740)	28,826
Net profit and total comprehensive income attributable to:			
Equity holders of the Company	26,853	(3,792)	23,061
Non-controlling interests	6,713	(948)	5,765
Net profit and total comprehensive income	33,566	(4,740)	28,826
Basic and diluted earnings per share for the profit attributable to the equity holders of the Company during the year (expressed in RMB per share) (note 5)	0.14	(0.04)	0.10
Weighted average number of shares outstanding in the year	236,180,071	-	236,180,071

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Thousands of Chinese Renminbi Yuan)

	As Previously reported 2017	Adjustments	As currently reported 2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	21,717	-	21,717
Interest receivables, net of credit impairment losses	39,628	-	39,628
Loans receivable, net of credit impairment losses	791,390	-	791,390
Prepaid expenses and others (note 6)	15,411	(14,928)	483
Total current assets	868,146	(14,928)	853,218
NON-CURRENT ASSETS			
Property and equipment, net	338	-	338
Prepayment for a property (note 6)	-	14,928	14,928
Deferred tax asset (note 5)	645	(645)	-
Total non-current assets	983	14,283	15,266
Total assets	869,129	(645)	868,484
CURRENT LIABILITIES			
Loans payable	226,370	-	226,370
Advance from customers	142	-	142
Salary and benefit payable	3,423	-	3,423
Income taxes payable (note 3)	14,851	269	15,120
Interest payable (note 1)	4,560	(731)	3,829
Other payable (notes 1 and 2)	15,730	10,986	26,716
Total current liabilities	265,076	10,524	275,600
SHAREHOLDERS' EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	325	-	325
Additional paid-in capital (note 2)	388,317	(5,143)	383,174
Statutory reserve (note 7)	7,751	5,614	13,365
General risk reserve (note 7)	5,891	3,926	9,817
Retained earnings	80,958	(13,332)	67,626
Non-controlling interests in equity	120,811	(2,234)	118,577
Total shareholders' equity	604,053	(11,169)	592,884
Total equity and liabilities	869,129	(645)	868,484

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Thousands of Chinese Renminbi Yuan)

	As Previously reported 2017	Adjustments	As currently reported 2017
Cash flow from operating activities			
Profit before income taxes (notes 1 and 2)	48,202	(3,826)	44,376
Adjustments for:			
Depreciation of property and equipment	441	-	441
Credit impairment losses	6,402	(2,822)	3,580
Operating profit before changes in working capital	55,045	(6,648)	48,397
Interest receivables	(22,309)	2,822	(19,487)
Loans receivable (note 8)	-	(121,040)	(121,040)
Prepayments and others	10,673	-	10,673
Advance from customers	(457)	-	(457)
Salary and benefit payable	1,254	-	1,254
Interest payable (note 1)	1,333	(731)	602
Other payable (notes 1 and 2)	13,046	10,986	24,032
Net cash generated/(used) by operating activities	58,585	(114,611)	(56,026)
Income tax paid	(14,393)	-	(14,393)
Net cash generated/(used) by operating activities	44,192	(114,611)	(70,419)
Cash flow from investing activities			
Original loan disbursements (note 8)	(397,190)	397,190	-
Repayment of loan from customers (note 8)	276,150	(276,150)	-
Prepayment for property	(14,928)	-	(14,928)
Net cash used in investing activities (note 8)	(135,968)	121,040	(14,928)
Cash flow from financing activities			
Share issuance expenses (note 2)	(9,198)	(6,429)	(15,627)
Proceeds received from shareholders loans (note 9)	14,000	38,600	52,600
Repayment of shareholders loans (note 9)	(4,000)	(38,600)	(42,600)
Proceeds received from loans payable (note 9)	402,300	(38,600)	363,700
Repayments of loans payable (note 9)	(386,400)	38,600	(347,800)
Net cash generated by financing activities	16,702	(6,429)	10,273
Net decrease in cash and cash equivalents	(75,074)	-	(75,074)
Cash and cash equivalents at beginning of year	96,791	-	96,791
Cash and cash equivalents at end of year	21,717	-	21,717

The following pertains to the classification error in the cash flow statement for the financial year ended 2016. The cash flow statement has been extracted to reflect the Company's proper classification of loans receivable from investing activities to operating activities. As this pertains to a matter of classification, we have presented the extract of the cash flow statement for which the items were being reclassified.

Cash flow Statement (extract)	December 31, 2016		
	As previously reported	Adjustments	As currently reported
	RMB'000	RMB'000	RMB'000
Cash flow from operating activities			
Loans receivable (note 8)	-	(213,138)	(213,138)
Net cash generated/(used) by operating activities	38,167	(213,138)	(174,971)
Net cash generated/(used) by operating activities	16,708	(213,138)	(196,430)
Cash flow from investing activities			
Originated loan disbursements (note 8)	(446,264)	446,264	-
Repayments of loans from customers (note 8)	233,126	(233,126)	-
Net cash used in investing activities (note 8)	(213,138)	213,138	-
Cash flow from financing activities			
Proceeds received from shareholders' loans (note 10)	2,000	48,000	50,000
Repayments of shareholders' loans (note 10)	(2,000)	(58,000)	(60,000)
Proceeds received from loans payable (note 10)	384,240	(48,000)	336,240
Repayments of loans payable (note 10)	(332,990)	58,000	(274,990)

敦信控股有限公司
Dunxin Holdings Co., Ltd.

To whom it may concern,

As a related party, I, Dunxin Holdings Co., Ltd. (敦信控股有限公司), hereby consent to provide financial support to Dunxin Financial Holdings Limited (the "Company") to meet its outstanding liabilities and obligations as and when they fall due and to carry on the Company's business without a significant curtailment of operations for a foreseeable future. May it be, this letter of financial support shall remain in force till September 30, 2021

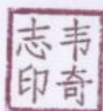
Notwithstanding the foregoing, nothing in this letter constitutes an undertaking to discharge any particular creditor of the Company.

Dunxin Holdings Co., Ltd.

Signature: _____

Legal representative

Date: _____



湖北新海天投资有限公司
Hubei New Nature Investment (Group) Co., Ltd.

To whom it may concern,

As a related party, I, Hubei New Nature Investment (Group) Co., Ltd.(湖北新海天投资有限公司), hereby consent to provide financial support to Dunxin Financial Holdings Limited (the "Company") to meet its outstanding liabilities and obligations as and when they fall due and to carry on the Company's business without a significant curtailment of operations for a foreseeable future. May it be, this letter of financial support shall remain in force till September 30, 2021.

Notwithstanding the foregoing, nothing in this letter constitutes an undertaking to discharge any particular creditor of the Company.

Hubei New Nature Investment (Group) Co., Ltd.



Signature: _____
Legal representative

Date:



Principal Subsidiaries of Dunxin Financial Holdings Limited

Subsidiaries:

- True Silver Limited, a British Virgin Islands company
- Chutian Financial Holdings (Hong Kong) Limited, a Hong Kong company
- Wuhan Chutian Investment Holdings Ltd, a PRC company

Variable Interest Entity:

- Hubei Chutian Microfinance Co., Ltd., a PRC company

CERTIFICATION

I, Qizhi Wei, certify that:

1. I have reviewed this annual report on Form 20-F of Dunxin Financial Holdings Limited (the "Company");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 9, 2020

By: /s/ Ricky Qizhi Wei
Name: Ricky Qizhi Wei
Title: Chief Executive Officer

CERTIFICATION

I, Chee Jiong Ng, certify that:

1. I have reviewed this annual report on Form 20-F of Dunxin Financial Holdings Limited (the "Company");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 9, 2020

By: /s/ Chee Jiong Ng

Name: Chee Jiong Ng

Title: Chief Financial Officer

CERTIFICATION

In connection with the annual report of Dunxin Financial Holdings Limited (the "Company") on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2020

By: /s/ Ricky Qizhi Wei

Name: Ricky Qizhi Wei

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

In connection with the annual report of Dunxin Financial Holdings Limited (the "Company") on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2020

By: /s/ Chee Jiong Ng

Name: Chee Jiong Ng

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.