
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, 2020

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
128 Xudong Road, Wuchang District
Wuhan City, Hubei Province 430063
People's Republic of China
(Address of Principal Executive Offices)

Mr. Ricky Qizhi Wei
Chief Executive Officer

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128 Xudong Road, Wuchang District
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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	NYSE American LLC *
American depositary shares, each representing 48 ordinary shares		NYSE American LLC

* Not for trading but only in connection with the listing on NYSE American LLC 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, 2020:
1,002,201,016 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

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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, each ADS representing the right to receive forty-eight (48) ordinary shares, par value \$0.00005 per share;
- “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 annual report 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 the Company;
- “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 are issued by the International Accounting Standards Board (“IASB”);
- “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.
- “MOFCOM” refers to the Ministry of Commerce of People’s Republic of China;
- “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.

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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 Xiniya (“Mr. Qiming Xu”), Honest Plus, and Perfect Lead. Ricky Qizhi Wei, 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, Xiniya entered into (1) a Share Transfer Agreement with Qiming Investment pursuant to which Xiniya sold Xiniya Holdings Limited, 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"), and (2) a Securities Purchase Agreement with True Silver, a British Virgin Islands company, and Honest Plus pursuant to which Xiniya acquired 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 Shares (the "Acquisition") at RMB1.00 (\$0.15) per share. True Silver, through a VIE structure, operates and consolidates eighty percent (80%) of the financial results of Chutian, a Chinese company that engages in the business of micro lending to customers in China. 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, the historical financial statement of True Silver are treated as the historical financial statements of the Company.

This annual report includes our audited consolidated statements of profit and other comprehensive income data for the years ended December 31, 2018, 2019 and 2020, and consolidated statements of financial position data as of December 31, 2019 and 2020.

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.

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 29 to Consolidated Financial Statements included elsewhere in this annual report. 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.

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 RMB6.5250 to \$1.00, the exchange rate in effect as of December 31, 2020 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.

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 collect loan principal and interest timely and effectively;
- 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 loan 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.

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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 table presents certain selected consolidated financial data. It is to be read in conjunction with “Item 4. Information on the Company—Business Overview,” “Item 5. Operating and Financial Review and Prospects,” and the Consolidated Financial Statements included elsewhere in this annual report. The consolidated statements of profit and other comprehensive income and the consolidated statements of cash flows data for the years ended December 31, 2018, 2019 and 2020 and the consolidated statements of financial position data as of December 31, 2019 and 2020 set forth below are derived from, and are qualified in their entirety by reference to the Consolidated Financial Statements.

Our Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

In accordance with IFRS

The tables below set forth selected consolidated financial data under IFRS for the Company for the years ended December 31, 2016, 2017, 2018, 2019 and 2020.

Selected Statement of Profit and Other Comprehensive Income data	For the Year Ended December 31					
	2016	2017 ⁽¹⁾	2018	2019	2020	2020
	RMB	RMB	RMB	RMB	RMB	\$
	(amounts in thousands, except for per share data)					
Interest income on loans	104,896	119,639	141,857	118,396	105,570	15,319
Interest expenses on loans	(22,151)	(33,791)	(26,451)	(19,846)	(21,909)	(3,179)
Business related taxes and surcharges	(1,152)	(674)	(590)	(435)	(304)	(44)
Total interest expense	(23,303)	(34,465)	(27,041)	(20,281)	(22,213)	(3,223)
Net interest income	81,593	85,174	114,816	98,115	83,357	12,096
Allowance for loan losses	(6,360)	(3,580)	(66,904)	(24,694)	(55,264)	(8,019)
Net interest income after provision for loan losses	75,233	81,594	47,912	73,421	28,093	4,077
Non-interest and other income	1,772	815	438	173	21	3
Operating costs and expenses						
Sales and marketing	(4,899)	(3,138)	(1,794)	(1,698)	(170)	(25)
General and administrative	(14,937)	(34,895)	(20,368)	(13,280)	(8,090)	(1,174)
Total operating costs and expenses	(19,836)	(38,033)	(22,162)	(14,978)	(8,260)	(1,199)
Profit before income taxes	57,169	44,376	26,188	58,616	19,854	2,881
Income tax expense	(15,221)	(15,550)	(18,033)	-	-	-
Net profit	41,948	28,826	8,155	58,616	19,854	2,881

(1) Information has been restated in order to correct certain accounting errors. See Note 29 of Notes to

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Selected Statement of Financial Position Data	As of December 31					
	2016	2017 ⁽¹⁾	2018	2019	2020	2020
	RMB	RMB	RMB	RMB	RMB	\$
	(amounts in thousands)					
Cash, cash equivalents and restricted cash	96,761	21,717	3,188	132	97	15
Total current assets	802,018	853,218	590,937	615,611	663,089	101,623
Total non-current assets	779	15,266	50,833	48,137	45,159	6,921
Total assets	802,797	868,484	641,770	663,748	708,248	108,544
Total current liabilities	223,112	275,600	274,704	237,587	261,944	40,145
Net assets	579,685	592,884	367,066	426,161	446,304	68,399
Total shareholders' equity	579,685	592,884	367,066	426,161	446,304	68,399

(1) Information has been restated in order to correct certain accounting errors. See Note 29 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**RISK FACTORS SUMMARY**

Our business is subject to numerous risks described in the section titled "Risk Factors" and elsewhere in this annual report. The main risks set forth below and others you should consider are discussed more fully in the section entitled "Risk Factors" beginning on page 7, which you should read in its entirety.

- Current ongoing litigation and future litigation, administrative proceedings or legal proceedings resulting from our lending business and liquidity issues have had, may continue to have, a material adverse effect on our lending business, financial conditions and operating results.
- We have experienced and continue to experience severe liquidity issues resulting from our inability to timely collect payments of loan principal and interest as well as assets and cash being frozen as a result of involvement in various litigation. Our liquidity issues have further severely affected our ability to pay taxes, service providers, employees and others. Due to non-payment of our obligations when due, multiple significant legal proceedings against us were initiated by our shareholders, service providers and others.
- COVID-19 outbreak has adversely affected, and may continue to adversely affect, our financial and

operating performance.

- We have experienced an increase in delinquency rates on loans from borrowers since 2019, which have materially and adversely affected our business and results of operations.

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- Our failure to pay taxes may result in penalties, which may materially and adversely affect our business, financial condition and results of operation.
- Our independent auditors have expressed substantial doubt about our ability to continue as a going concern.
- 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.
- Our limited operating history makes it difficult to evaluate our business and prospects.
- Our Chairman and Chief Executive Officer, Mr. Ricky Qizhi Wei, has been, and may continue to be, involved in litigation and legal proceedings involving his other companies and our main operating company.
- Potential dispute over ownership of our main operating company may adversely affect our business.
- We have very limited cash and we 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.
- Our microfinance business is subject to extensive regulation and supervision by state, provincial and local government authorities, and 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 be in compliance with the provincial local regulatory policies.
- Our current operations in China are territorially limited to the Hubei Province, and we lack product and business diversification.
- Our current corporate structure and business operations may be affected by the newly enacted PRC Foreign Investment Law which does not explicitly classify whether VIEs that are controlled through contractual arrangements would be deemed as foreign-invested enterprises if they are ultimately “controlled” by foreign investors.
- We rely on contractual arrangements with our consolidated VIE and its shareholders to operate our business, which may not be as effective as direct ownership in providing operational control and otherwise have a material adverse effect as to our business.
- Any failure by our consolidated VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.

- Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

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.

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Risk Factors Relating to Our Business

Current ongoing litigation and future litigation, administrative proceedings or legal proceedings resulting from our lending business and liquidity issues have had, may continue to 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, 2020, the aggregate maximum amount of claims we were potentially subject to was RMB98.1 million (\$14.1 million). During the course of ongoing legal proceedings, deposits in our bank accounts and properties have been frozen or seized during pre-litigation by court order. Such orders had a material adverse effect on our business, financial conditions and therefore may further affect our liquidity, which may lead to additional legal proceedings against us. Our failure to pay judgments could result in additional 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.

We have experienced and continue to experience severe liquidity issues resulting from our inability to timely collect payments of loan principal and interest as well as assets and cash being frozen as a result of involvement in various litigation. If we are unable to generate or raise additional working capital, we will be unable to fully fund our operations and to otherwise execute our business plan, leading to the further reduction or suspension of our operations and ultimately our going out of business.

In the beginning of 2019, we began to default in certain loans payable, even though certain loans payable were negotiated for revised repayment terms. With our loans receivables continuing to be further credit-impaired, we have defaulted on all of our outstanding loans. Our liquidity issues have further severely affected our ability to pay taxes, service providers, employees and others. Due to non-payment of our obligations when due, multiple significant legal proceedings against us were initiated by our shareholders, service providers and others. COVID-19 has further exacerbated our liquidity issues since we have experienced great difficulty in timely collecting payments of loan principal and interest. As a result of the severe financial restraint, we suspended our offering of loans in 2019 and do not expect to resume our loan offerings until most of existing our loan and interest receivable recovers and overall liquidity improves.

We have taken intensive measures to control and cut down costs and expenses and strengthened efforts on collection of loan payables and monetizing loan collaterals as well as secured financial support from related parties. We believe that our currently available working capital and source of funds will be sufficient to operate our business

for at least the next twelve months. However, should our efforts to collect loan payments turn out to be unsuccessful, our costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner that will increase or accelerate our anticipated costs and expenses, the depletion of our working capital would be accelerated.

To the extent it becomes necessary to raise additional cash in the future as our current cash and working capital resources are depleted, we will seek to raise it through the public or private sale of assets, debt or equity securities, funding from shareholders and related parties, debt financing or short-term loans, or a combination of the foregoing. We currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot guarantee that we will be able to secure the additional cash or working capital we may require to continue our operations. If we are unable to raise additional capital, we will be unable to fully fund our operations and to otherwise execute our business plan, leading to the further reduction or suspension of our operations and ultimately our going out of business.

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COVID-19 outbreak has adversely affected, and may continue to adversely affect, our financial and operating performance.

Since December 2019, COVID-19 has become widespread in China and many other countries. The epidemic has resulted in mandatory quarantines, travel restrictions, and the temporary closure of stores and facilities in China and other parts of the world for the past few months, and certain areas remain subject to such heightened measures. In March 2020, the World Health Organization declared the COVID-19 a pandemic. As a company headquartered in Wuhan, the epicenter of the pandemic, with substantially all operating activities, revenues and workforce in Wuhan, our results of operations and financial outlook were materially and adversely affected by the outbreak of COVID-19 including, but not limited to, delays in loan payments and collection of accounts receivable, decrease in business development. In response to intensifying efforts to contain the spread of COVID-19, we have implemented adjustments to work schedules to allow workers to work remotely from home, quarantined our employees or our offices, or imposed temporary office closure and travel restrictions.

The outbreak of COVID-19 and the resulting widespread health crisis has also adversely affected economies and financial markets globally, which could result in an economic downturn that could affect our operations and future revenue and operating results.

While we have been proactively working with our customers and renegotiating the repayment schedule, we cannot assure you that these initiatives and efforts will successfully mitigate the impact. In addition, our business operations could be disrupted if any of our employees is suspected of having these or any other epidemic disease, since it could require our employees to be quarantined and/or our offices to be closed for disinfection or other remedial measures.

The extent to which the COVID-19 outbreak might impact our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 outbreak and the actions to contain the COVID-19 outbreak or treat its impact, among others.

Although China has temporarily controlled the outbreak, there is still possibility of outbreak reoccurrence. For example, during the fourth quarter of 2020, numerous confirmed cases of COVID-19 were identified in several cities and provinces in mainland China. While vaccines for COVID-19 are being, and have been developed, there is no guarantee that any such vaccine will be effective, work as expected or be made available or will be accepted on a significant scale and in a timely manner. Furthermore, variations of virus were recently found on confirmed cases in Britain. The outlook for COVID-19 remains fluid and its long-term implications on our business and results of operations are uncertain. The extent to which this outbreak impacts our results of operations will depend on future

developments, which are highly uncertain and unpredictable, including new information that may emerge concerning the severity of this outbreak and future actions, if any, to contain this outbreak or treat its impact, among others. We are closely monitoring the pandemic and its impact on us.

We have experienced an increase in delinquency rates on loans from borrowers since 2019, which have materially and adversely affected our business and results of operations.

Starting in January 2020, the outbreak of COVID-19 has significantly impacted the Chinese economy. The government measures designed to control the spread of the virus have also resulted in a decline in economic activities in China, in particular in Wuhan, the epicenter of the pandemic as well as a city where substantially all our operating activities, workforce and borrowers are concentrated. The economic downturn and government lockdown, travel restrictions and quarantines have adversely impacted the ability of our borrowers to pay our loans, which led to a higher level of delinquency in our outstanding loans. Our borrowers' failure to timely and fully make payments of loan principal and interest further exacerbates our liquidity issues resulting from the freezing of our cash and assets by court orders and have materially and adversely affected our cash flows and results of operations.

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Our failure to pay taxes may result in penalties, which may materially and adversely affect our business, financial condition and results of operation.

In accordance with the Law of the PRC on the Administration of Tax Collection and its Implementation Regulations, where a taxpayer or a withholding agent fails to pay or underpays the amount of tax that should be paid or remitted within the specified time, the tax authorities shall order the taxpayer or withholding agent to pay or remit the tax within the specified time limit, and impose a penalty for late payment on a daily basis at the rate of 0.05% of the amount of tax in arrears from the date the tax payment is defaulted. If the taxpayer or withholding agent still fails to do so on the expiration of the time limit, the tax authorities may recover such unpaid taxes by adopting compulsory enforcement measures, and impose a fine of not less than 50 percent but not more than five times the amount of tax the taxpayer or withholding agent fails to pay or underpays or fails to remit.

As of December 31, 2020, our operating company, Chutian had failed to pay its income tax in the aggregate amount of RMB32.5 million payable to the China State Administration of Taxation due to liquidity issues. As of the date of this annual report, Chutian still owes taxes in the amount of RMB32.5 million. We are actively communicating with the local tax authorities, and making efforts to pay the balance as soon as possible.

As of the date of this annual report, we have not received any order or notice from the local tax authorities to set a specific time limit for us to pay the outstanding taxes referenced above, or impose any penalty for the late tax payment, but we cannot assure you that we will not be subject to any order to pay the taxes within a specific time limit. Despite our efforts to minimize the impact of this matter on us, there are uncertainties whether we will have enough funds to make the tax payment within the time limit set by the tax authorities. If we fail to do so, the tax authorities may recover such unpaid taxes and late payment fees by adopting compulsory enforcement measures such as withholding the taxes from our bank account, or sealing up, auctioning or disposing of our properties. In addition, the tax authorities may even impose a fine on us as prescribed by the laws. If any of the above were to occur, our business, operations and financial position would be materially and adversely affected.

Due to severe financial constraints, we have been unable to pay our employees on regularly scheduled payment dates. Non-compliance with labor-related laws and regulations of the PRC may have an adverse impact on our financial condition and results of operation.

We are subject to the PRC Labor Contract Law, which governs how and when wages are paid to our employees. Due to the severe financial constraints, we did not pay our employees on regularly scheduled payment dates. If we are found not to be in compliance with the Labor Contract Law and were to assess a penalty against us

for our failure to pay the wages we owe on a timely basis, our actual liability could be in excess of due amount. We also might be subject to claims from employees due to late payment of their wages.

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 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.

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Our management has concluded that our internal control over financial reporting was effective as of December 31, 2020. 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.

Historically, our management identified and evaluated the control deficiencies that gave rise to the accounting errors, and concluded that those deficiencies, collectively, represented material weaknesses in our internal control over financial reporting as of December 31, 2018. These deficiencies were remediated and we did not identify material weaknesses as of December 31, 2019 and 2020. 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 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, 2020, 2019 and 2018, the net

cash decreased during the year were RMB212,000, RMB3.5 million and RMB17.9 million for the years ended December 31, 2020, 2019 and 2018, 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.

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 revenue was RMB141.9 million, RMB118.4 million and RMB105.6 million (\$15.3 million) in 2018, 2019 and 2020, respectively. It is 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:

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- 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. In 2020, despite the fact that epidemic is under stable control in China, the Company's borrowers and operations still have been significantly disrupted. All of our customers are located in Wuhan, China, as a result of the COVID-19 outbreak, 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.

Our Chairman and Chief Executive Officer 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 Chief Executive Officer, Mr. Ricky Qizhi Wei, has been, and may continue to be, involved in litigation and legal proceedings involving other companies controlled by him in addition to Chutian. Mr. Wei and Hubei Daily Media Group, a 20% shareholder of our VIE Chutian, are also involved in multiple litigations and proceedings. 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, 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.

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We have very limited cash and we 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, 2020, we had cash balances totaled RMB97,000, compared to RMB132,000 as of December 31, 2019.

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 27 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.

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Credit loss allowances may not be sufficient to absorb future losses or prevent a material adverse affect 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, 2018, 2019 and 2020, credit loss allowance of RMB397.3 million, RMB423.8 million and RMB478.8 million (\$73.4 million) were provided, respectively, which represented 40.7%, 40.8% and 42.0% of our outstanding loans, respectively. As of December 31, 2018, 2019 and 2020, delinquent loans that were subject to 100% loan loss allowance, were RMB46.3 million, RMB47.4 million and RMB111.8 million (\$17.1 million), respectively. As of December 31, 2018, 2019 and 2020, loans that were written off were RMB1.2 million, nil and nil, respectively.

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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 used to heavily rely on obtaining our funding from creditors through various securities exchanges in China. Inability to obtain financing from these securities exchanges or creditors has 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 used to obtain substantially all of our funding from creditors through various securities exchanges in China.

However, we have 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 2020, 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 be 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.

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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. As a result of the COVID-19 pandemic, there has been a significant negative impact on our ability to collect payments for loan principal and interest, 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.

Our 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 100% of our revenue comes from Wuhan City in 2020. 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 intense 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. According to the PBOC published statistics, as of December 31, 2017 and 2018, September 30, 2019 and December 31, 2020, that a total of 283, 278, 275 and 273 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), RMB30.6 billion (\$4.5 billion) and RMB30.0 billion (\$4.6 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), RMB111.3 million (\$16.2 million) and RMB110.0 million (\$16.9 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), RMB107.7 million (\$15.5 million) and RMB104.4 million (\$16.0 million), whereas our outstanding loan portfolio was RMB662.2 million (\$101.5 million) as of December 31, 2020.

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We face intense 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 annual report. 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 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 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 has substantial influence over us and its interests may not be aligned with the interests of our other shareholders.

As of April 20, 2021, we had an aggregate of 1,002,201,016 issued and outstanding ordinary shares. Mr. Ricky Qizhi Wei, our Chairman and Chief Executive Officer, beneficially owns an aggregate of approximately 81.3% of our total issued and outstanding ordinary shares, through Honest Plus, Perfect Lead, Luxuriant Mount Limited ("Luxuriant Mount") and Hesperus Investments Limited ("Hesperus"), which are controlled by Mr. Wei. Honest Plus, Perfect Lead, Luxuriant Mount and Hesperus own approximately 31.4%, 2.3%, 42.5% and 5.1% of our outstanding ordinary shares, respectively. Mr. Wei is (i) the sole director of Honest Plus, Perfect Lead and Luxuriant Mount, (ii) the sole shareholder of Perfect Lead, (iii) an indirect controlling shareholder of Honest Plus and Luxuriant Mount, (iv) beneficial owner of Hesperus. As such, Mr. Wei, through Honest Plus, Perfect Lead, Luxuriant Mount and Hesperus, has 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 American LLC Company Guide 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 have decided to be treated as a “controlled company”, even though the members of our compensation committee and our nominating and governance committee consists solely of independent directors, you may not have the same protections afforded to shareholders of companies that are subject to all of the NYSE American corporate governance requirements.

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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 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. We may adopt 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.

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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. 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.

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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.

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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 2.3% in 2020. 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.

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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 polices 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 came 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) were replaced by the Foreign Investment Law on January 1, 2020.

The Foreign Investment 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."

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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.

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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.

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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.

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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.

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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.

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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:

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- 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.

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.

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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 April 20, 2021, we had 1,002,201,016 ordinary shares outstanding, including 185,660,752 ordinary shares represented by 3,867,932 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 second 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 second amended and restated memorandum and articles of association, the Companies Act of the Cayman Islands (As Revised) (the “Companies Act”) 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.

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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.

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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 depositary 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 depositary 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 depositary 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 depositary 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 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.

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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 depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository 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 depository 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. 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. Chutian 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 VIE Agreements, Chutian Holding is deemed to control 80% of Chutian and have rights to consolidate 80% of Chutian's financial results.

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The following is a brief description of the VIE Agreements entered into on August 10, 2017, among Chutian Holding, Chutian and certain shareholders of 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, Ricky 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.

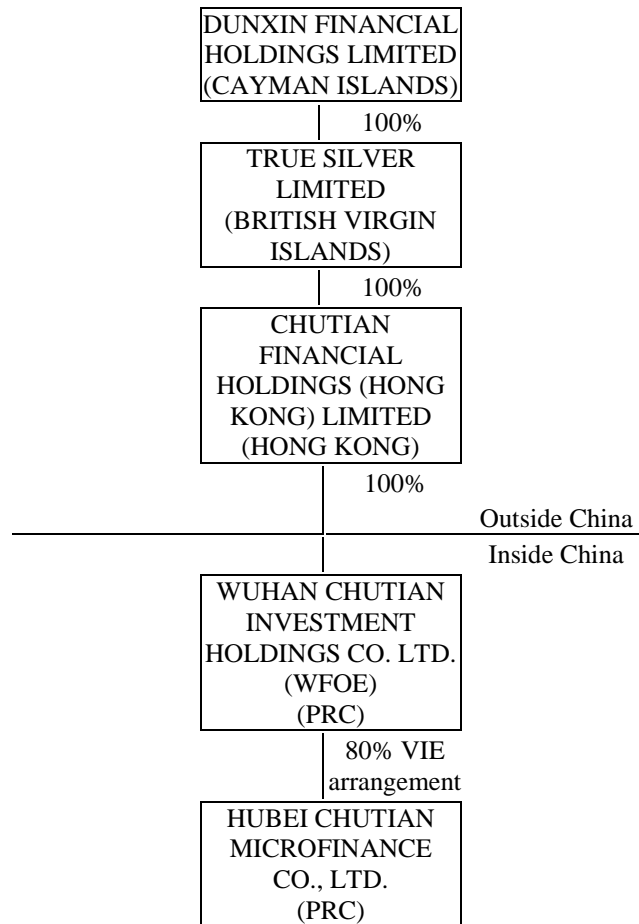
- Shareholders’ Voting Proxy Agreement. Under the Voting Proxy Agreement, the Shareholders holding 80% Equity Interests of Chutian irrevocably granted and entrusted Chutian Holding or their designee to be their exclusive proxy to exercise their voting rights that they would have at a shareholders’ meeting 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.

- 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.

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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. Our ADSs were traded under the symbol “XNY” from November 23, 2010 to March 4, 2018, and on March 5, 2018, our ADSs 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 Xudong 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 the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our current website is <http://hbctxed.com>. The information contained on our website does not constitute a part of this annual report. 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.

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B. Business Overview

Overview

We are a lending company primarily engaged in the business of providing loan facilities to micro sized enterprises, SMEs, sole proprietors and individuals 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, which holds all the certificates, business license and other requisite licenses for the microfinance lending businesses.

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 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.

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Our Business

We use our website <http://hbctxed.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 2019, we began to experience defaults on our loans. As of December 31, 2020, loans of an aggregate of principal amount of RMB763.0 million, or 100% of our outstanding loans, were in default. In addition, due to the severe financial restraint, we suspended offering loans to our customers in 2019 and expect to resume our micro-lending business when most of loan and interest receivables recover and overall liquidity improve.

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 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. Despite the

extremely limited capital resources and severe financial restraints, we intend to implement a three-pronged growth strategy to restore our operations and expand our Company:

- **Organic Growth:** We intend to improve our cash position by our continuous effort to recover existing loan and interest receivables and increase our lending capacity by using the cash generated from operations and by increasing our registered and paid-up capital for Chutian. 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 brand, established sales team, and increased working capital by actively promoting our company and our loan 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. According to the PBOC published statistics, as of December 31, 2017 and 2018, September 30, 2019 and December 31, 2020, that a total of 283, 278, 275 and 273 microfinance lending companies were registered in Hubei Province with a combined total registered and paid-up capital of RMB30.6 billion (\$4.5 billion), RMB30.7 billion (\$4.5 billion), RMB30.6 billion (\$4.5 billion) and RMB30.0 billion (\$4.6 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), RMB111.3 million (\$16.2 million) and RMB110.0 million (\$16.9 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), RMB107.7 million (\$15.5 million) and RMB104.4 million (\$16.0 million), whereas our outstanding loan portfolio was RMB662.2 million (\$101.5 million) as of December 31, 2020. Based on the data, we believe 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 Line:** Our study suggests that blockchain business may add to our traditional microfinance lending business. We believe there will be substantial potential opportunities in blockchain digital currency exchange, cloud computing power, blockchain data center, Bitcoin value-add business and derivatives trading services of digital currency. We plan to explore the business opportunities in the blockchain industry to establish new business models and products.

Employees

As of December 31, 2020, we have 11 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.

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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 34, 16 and 11 employees as of December 31, 2018, 2019 and 2020, respectively. The following table sets forth by function the number of our employees as of December 31, 2020:

<u>Function</u>	<u>As of December 31, 2020</u>
Operations	4
Loan Department	1
Risk Management	1
Finance and Administration	5
Total	11

Intellectual Property

As of December 31, 2020, we do not own or have any significant intellectual property rights other than our registered domain name (<http://hbctxed.com>). It was registered in December, 2020 and will be renewed upon expiration. The Company is not materially dependent on any intellectual property.

Competition

We 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. Chutian primarily competes with other microfinance companies in the Hubei Province. According to the PBOC published statistics, as of December 31, 2017 and 2018, September 30, 2019 and December 31, 2020, that a total of 283, 278, 275 and 273 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), RMB30.6 billion (\$4.5 billion) and RMB30.0 billion(\$4.6 billion) among these microfinance lending companies, respectively. We also compete with traditional financial institutions, 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.

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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.

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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.

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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 over 10% 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

forementioned 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.

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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.

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- 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.

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- 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.

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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》及其实施细则), 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.

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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.

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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, 128 Xudong 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 the Share Purchase Agreement, by and between Qiming Investment, Mr. Qiming Xu, Honest Plus, and Perfect Lead. Ricky Qizhi Wei, 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, Xiniya entered into (1) a Share Transfer Agreement with Qiming Investment pursuant to which Xiniya sold Xiniya Holdings Limited, Xiniya’s wholly-owned subsidiary in Hong Kong, to Mr. Qiming Xu in exchange for Divestiture, and (2) a Securities Purchase Agreement with True Silver, a British Virgin Islands company, and Honest Plus pursuant to which Xiniya acquired 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 Shares at RMB1.00 (\$0.15) per share. True Silver, through a VIE structure, operates and consolidates eighty percent (80%) of the financial results of Chutian, a Chinese company that engages in the business of micro lending to customers in China). 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 micro sized enterprises, SMEs, sole proprietors and individuals 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, which holds all the approval certificates, business license and other requisite licenses for the microfinance lending businesses.

Key factors that affect operating results

Our operations and assets are located in China. Accordingly, our results of operations, financial condition and prospects maybe affected by China's economic and regulation conditions in the following aspects: (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. Particularly, as a company headquartered in Wuhan with substantially all operating activities, revenues and workforce in China, our results of operations and financial outlook have been materially and adversely affected by the COVID-19 epidemic. For example, due to the lockdown, travel restrictions and quarantine measures mandated by the governments, our headquarters were forced to close and our employees were unable to return to office until April, 2020. Our collection activities were also significantly limited due to various temporary measures. Moreover, some micro sized enterprises, SMEs, sole proprietors and individuals, who are vulnerable in the face of economic downturn, encountered operational and financial difficulties, which led to the defaults of our loan receivables. Although the epidemic is generally under control in China, vaccines for COVID-19 have been developed and local government implemented the incentive policies to boost the economy, the outlook for COVID-19 remains fluid and its long-term implications on our business and results of operations are uncertain. Unfavorable changes could affect demand for services that we provide and could materially and adversely affect our 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.

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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.

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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.

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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.

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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.

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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, 2020, 2019 and 2018 and we do not believe that our unrecognized tax benefits will change over the next twelve months.

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RESULTS OF OPERATIONS

The following tables present our summary statements of operations for each of the years ended December 31, 2018, 2019 and 2020. Our historical results presented below are not necessarily indicative of the results for any future periods.

	For the Year Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	\$
	(amount in thousands)			
Interest income on loans	141,857	118,396	105,570	15,319
Interest expenses on loans	(26,451)	(19,846)	(21,909)	(3,179)
Business related taxes and surcharges	(590)	(435)	(304)	(44)
Total interest expense	(27,041)	(20,281)	(22,213)	(3,223)
Net interest income	114,816	98,115	83,357	12,096
Credit impairment losses	(66,904)	(24,694)	(55,264)	(8,019)
Net interest income after provision for loan losses	47,912	73,421	28,093	4,077
Other interest and other income	438	173	21	3
Operating costs and expenses				
Sales and marketing	(1,794)	(1,698)	(170)	(25)

General and administrative	(20,368)	(13,280)	(8,090)	(1,174)
Total operating costs and expenses	(22,162)	(14,978)	(8,260)	(1,199)
Profit before income taxes	26,188	58,616	19,854	2,881
Income tax expense	(18,033)	-	-	-
Net profit	8,155	58,616	19,854	2,881
Profit attributable to:				
Equity holders of the Company	6,524	46,893	15,883	2,305
Non-controlling interest	1,631	11,723	3,971	576
Net profit	8,155	58,616	19,854	2,881

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% interest held by Hubei Daily Media Group.

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Comparison of results of operations for the years ended December 31, 2020 and 2019

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 RMB12.8 million (\$1.9 million) or 10.8% from RMB118.4 million in 2019 to RMB105.6 million (\$15.3 million) in 2020. We have suspended offering new loans since the second half of 2019. The decrease was primarily attributable to the decrease of present value of interest receivable with time lapse.

Interest expenses on loans

Interest expenses on loans increased by RMB2.1 million (\$299,000) or 10.4%. The increase was primarily attributable to increase in guarantee fee provided for the party who provided guarantee for the loan of the Company.

Business related taxes and surcharges

Business related taxes and surcharges decreased by RMB0.1 million (\$19,000) or 30.1% from RMB0.4 million in 2019 to RMB0.3 million (\$44,000) in 2020. 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 RMB30.6 million (\$4.4 million) or 123.8% from RMB24.7 million in 2019 to RMB55.3 million (\$8.0 million) in 2020. The economic and business environment for SMEs remained very challenging. Most of our loan customers were experiencing financial difficulty, additional allowance for loan losses of RMB55.3 million (\$8.0 million) were provided in 2020. 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 RMB152,000 (\$22,000) or 87.9% from RMB173,000 in 2019 to RMB21,000 (\$3,000) in 2020. The decrease was primarily attributable to decrease of income from disposal of fixed assets.

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Sales and marketing expenses

Sales and marketing expenses decreased by RMB1.5 million (\$222,000) or 90.0% from RMB1.7 million in 2019 to RMB170,000 (\$25,000) in 2020. The decrease was primarily attributable to the cost control initiative which reduced sales and marketing expenses since we have suspended loan offering since the second half of 2019.

General and administrative expenses

General and administrative expenses decreased by RMB5.2 million (\$0.8 million) or 39.1% from RMB13.3 million in 2019 to RMB8.1 million (\$1.2 million) in 2020. The decrease was primarily attributable to the reduction of headcounts as part of our cost reduction initiatives.

Income tax expenses

Our income tax expense was nil in 2019 and 2020, primarily due to the fact that 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 decreased by RMB38.7 million (\$5.6 million) or 66.1% from RMB58.6 million in 2019 to RMB19.9 million (\$2.9 million) in 2020.

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

Interest income on loans

Our 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.

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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 SMEs 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.

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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, and cash flow from operations.

We had negative cash flows for the years ended December 31, 2020, 2019 and 2018, the net cash decreased during the year were RMB212,000 (\$31,000), RMB3.5 million and RMB17.9 million for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, we had cash balances totaled RMB97,000.

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. Ever since, securities exchanges have ceased offering any form of financing to us 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 on 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 27 of the Consolidated Financial Statements – Legal proceedings for detailed disclosure). COVID-19 discussed in Note 28 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 intensifying 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 plans to actively 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's 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.

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

	For the Years Ended December 31			
	2018	2019	2020	2020
	RMB	RMB	RMB	\$
	(amount in thousands)			
Total borrowings	200,417	172,891	171,569	26,294
Effective interest rate	11.8 %	10.9 %	12.7 %	
Average duration of borrowings	130 days	365 days	365 days	

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

	For the Years Ended December 31			
	2018	2019	2020	2020
	RMB	RMB	RMB	\$
	(amount in thousands)			
Net cash generated by/(used in) operating activities	27,266	15,077	(626)	(91)
Net cash (used in) investing activities	(18,385)	(76)	-	-
Net cash (used in) / generated by financing activities	(26,795)	(18,462)	414	60
Net decrease in cash, cash equivalents and restricted cash	(17,914)	(3,461)	(212)	(31)
Cash, cash equivalents and restricted cash at beginning of the year	21,717	3,188	132	19
Exchange losses on cash, cash equivalents and restricted cash	(615)	405	177	26
Cash, cash equivalents and restricted cash at end of the year	3,188	132	97	15

As of December 31, 2020, our cash, cash equivalents and restricted cash amounted to RMB97,000 (\$15,000). Our cash, cash equivalents and restricted cash consist of cash on hand, cash deposited in banks and restricted cash at bank.

Cash flow generated by/(used in) 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.

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Our net cash used in operating activities for the year ended December 31, 2020 was RMB626,000 (\$91,000), which mainly consisted of (i) profit before income tax of RMB19.9 million (\$2.9 million) adjusted by credit impairment losses for loans of RMB55.3 million (\$8.0 million), (ii) increase in interest payable of RMB18.4 million (\$2.7 million) due to non-payment, as mainly offset by decrease in loans receivables of RMB102.3 million (\$14.8 million).

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 income tax 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 income tax 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.

Cash flow used in investing activities

There was no cash generated/used in investing activities for the year ended December 31, 2020.

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.

Net cash (used in)/generated by financing activities

Our net cash of RMB414,000 (\$60,000) generated by financing activities for the year ended December 31, 2020 was mainly due to received from loan payable.

Our net cash of RMB18.5 million (\$2.7 million) used in financing activities for the year ended December 31, 2019, mainly consisted of cash outflows of RMB79.3 million (\$11.4 million) for 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 in financing activities for the year ended December 31, 2018, mainly consisted of cash outflows of RMB414.9 million in repayments of loans payable, partially offset by cash inflows of RMB308.6 million received from loans payable.

Capital Resources

Our capital expenditures, consisting of the purchase of motor vehicles, leasehold improvements, office equipment and furniture, were RMB18.4 million, RMB271,000 and nil in 2018, 2019 and 2020, 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.

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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 significant trends, uncertainties, demands, commitments or events for the year ended December 31, 2020 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, 2020. 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, 2020.

	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Debt Obligations	171,569	171,569	-	-	-

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 12.7% on loans payable.

G. Safe Harbor

See "Forward-Looking Statements."

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

On April 26, 2021, Michael Viotto tendered his resignation as a director, effectively immediately. On April 28, 2021, Duoguang Bei tendered his resignation as a director, effectively immediately. Neither Mr. Viotto's nor Mr. Bei's resignation was due to any disagreement with the Company. On April 29, 2021, our board of directors appointed Ms. Michelle Ye Li and Mr. Weitao Liang as directors of the Company to fill in the vacancies created by the resignation of Messrs. Viotto and Bei. Ms. Li will serve as a member of the Nominating and Corporate Governance Committee and chairwoman of the Audit Committee and the Compensation Committee. Mr. Liang will serve as a member of the Audit Committee and the Compensation Committee and chairman of the Nominating and Corporate Governance Committee.

Neither Ms. Li nor Mr. Liang has any family relationships with any director or executive officer of the Company. There are no transactions between the Company and Ms. Li or Mr. Liang that will be required to be reported pursuant to Item 404(a) of Regulation S-K.

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 Xudong Road, Wuchang District, Wuhan City, Hubei Province, the People's Republic of China.

Name	Age	Position
Ricky Qizhi Wei	53	Director (Chairman); Chief Executive Officer
Xiang (Johnny) Zhou	45	Chief Financial Officer
Weidong Xu	52	Director, Chief Operating Officer
Michelle Ye Li	51	Independent Director
Weitao Liang	38	Independent Director

Ricky 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 Chutian 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.

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Xiang (Johnny) Zhou, Chief Financial Officer. Mr. Zhou joined the Company as chief financial officer in March 2021. Mr. Zhou served as Vice General Manager of Neveen Assets Management Co., Ltd. from January to December 2020. From September 2017 to January 2020, Mr. Zhou served as Partner and CFO of Fengying Assets Management Co., Ltd., an assets management company. From July 2016 to August 2017, Mr. Zhou served as Secretary of the Board of Shandong Xinlv Food Corporation Limited, a food processing company. From October 2014 to June 2016, Mr. Zhou has served as CFO of American Lorain Corporation (NYSE American: PLAG), a food processing company. From March 2011 to February 2014, Mr. Zhou has served as Vice President of Halter Finance Group. From August 2002 to February 2011, Mr. Zhou has served as Audit Manager of Shu Lun Pan CPAs (BDO China). Mr. Zhou holds a Bachelor's degree in Finance from Shanghai University and a Master's degree in Accounting from University of Macquarie.

Weidong Xu, Director and 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.

Michelle Ye Li, Director. Ms. Li has served as an independent director of the Company since April 29, 2021. Prior to joining the Company, Ms. Li served as Financial Planning and Analysis Manager of the Citco Group Companies, a financial company in Toronto, Ontario, Canada, from 2016 to 2019, where she managed the production of the annual budget and quarterly forecasts for P&L of 10 legal entities, over 20 departments and about 500 customers. She served as Finance Manager of the Citco Group Companies from 2010 to 2015, where she prepared and completed financial statements and financial reporting and coordinated the provision of information to internal and external auditors for the annual audit, and Senior Corporate Accountant of the Citco Group Companies from 2005 to 2010, where she led day to day accounting and finance functions. She previously served as General Accountant of Downtown Chrysler, a financial company, from 2003 to 2005 and Banking Administrator of E*TRADE from 2001 to 2002. Ms. Li holds a Bachelor's degree in Finance from Wuhan University. She is a Certified Public Accountant (CPA) and Certified General Accountant (CGA) of Chartered Professional Accountants in Canada. She also completed Front Line Leadership Development from Canadian Association of Management Consultants in Canada (CMC) and Canadian Securities Course (CSC) from Canadian Securities Institute.

Weitao Liang, Director. Mr. Liang has served as an independent director of the Company since April 29, 2021. Mr. Liang has over 14 years' experience in corporate finance and investment banking. Mr. Liang serves as the head of Global Business Department in China Great Wall Securities Co. Ltd., an investment banking company, since March 2017, where he is responsible for forming its Hong Kong subsidiary, undertaking cross-border investment banking and financing business development and supervising a team of global asset management. Since Mr. Liang's joining China Great Wall Securities Co. Ltd. in July 2012, he consecutively served as Executive Director of Investment Bank Quality Control Department from July 2012 to September 2013, Deputy Managing Director of Investment Bank Quality Control Department from September 2013 to March 2014, Deputy Managing Director of Investment Bank Capital Markets Department from March 2014 to March 2015, head of The National Equities Exchange and Quotations (NEEQ) listing business from March 2015 to March 2017. Prior to that, he consecutively worked in the Investment Banking Department of China Merchants Securities Co. Ltd. from June 2007 to September 2008, Investment Banking Strategic Clients Department of China Merchants Securities Co. Ltd., an investment banking company, from September 2008 to August 2010 and NEEQ Department of China Merchants

Securities Co. Ltd. from August 2010 to June 2012. In addition, he has served as the financial advisor of Hainan Hotpot Media Blockchain Science & Tech Co., Ltd. since September 2019, where he provides financing and investment advice. He also served as the M & A advisor of Legend Blockchain & Mining Group Co., Ltd., a blockchain technology company, since November 2019, where he was involved in providing solutions for the acquisition and construction of new BTC mining facilities. Mr. Liang holds a Master's degree in Engineering Management from City University of Hong Kong, a Master's degree in Operations Research from Zhejiang University, and a Bachelor's degree in Mathematics with a minor in Finance from Tongji University.

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B. Compensation

Compensation of Directors and Executive Officers

For the fiscal year ended December 31, 2020, we incurred an aggregate of approximately RMB2.7 million (\$392,000) in compensation to our executive officers and our non-executive directors. For share incentive grants to our directors and executive officers, see “2010 Equity 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 our 2010 Equity Incentive Plan (“2010 Plan”) effective upon the completion of our initial public offering. Our 2010 Plan provided 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. Our 2020 Plan was automatically terminated on November 29, 2020.

As of December 31, 2020, we have granted 1,069,615 restricted stock units to independent directors and Chief Financial Officer under the 2010 Plan.

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C. Board Practices

Board of Directors

Mr. Wei beneficially owns indirectly approximately 81.3% of our outstanding ordinary shares and therefore 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, two (2) of whom are independent directors. We maintain a nominating and corporate governance committee and a compensation committee comprised solely of 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. 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 Act. 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.

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Audit Committee

Our audit committee consists of Ms. Li and Mr. Liang and is chaired by Ms. Li. Each of Ms. Li and Mr. Liang 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 Ms. Liang and Mr. Li and is chaired by Ms. Li. Each of Mr. Liang and Ms. Li 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.

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Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Ms. Li and Mr. Liang, and is chaired by Mr. Liang. Each of Ms. Li and Mr. Liang 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.

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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 or 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, 2020, we have 11 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 34, 16, and 11 employees as of December 31, 2018, 2019, and 2020, respectively. The following table sets forth by function the number of our employees as of December 31, 2020:

Function	As of December 31, 2020
Operations	4
Loan Department	1
Risk Management	1
Finance and Administration	5
Total	11

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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 1,002,201,016 of our ordinary shares outstanding as of April 20, 2021, 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		
Ricky Qizhi Wei	815,280,237 ⁽¹⁾	81.3 %
Michelle Ye Li	-	-
Weitao Liang	-	-
Xiang (Johnny) Zhou	-	-
Weidong Xu	-	-

Directors and Executive Officers as a Group (five persons)	<u>815,280,237</u>	<u>81.3%</u>
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- (1) Includes 22,999,386 ordinary shares held by Perfect Lead, 314,857,514 ordinary shares held by Honest Plus, 426,004,031 ordinary shares held by Luxuriant Mount and 51,419,306 ordinary shares held by Hesperus. Mr. Wei is (i) the sole director of Honest Plus, Perfect Lead and Luxuriant Mount, (ii) the sole shareholder of Perfect Lead, (iii) an indirect controlling shareholder of Honest Plus and Luxuriant Mount, (iv) the beneficial owner of Hesperus.

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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 April 20, 2021, we had 1,002,201,016 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 185,660,752 ordinary shares or 3,867,932 ADSs or approximately 18.5% 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 VIE, 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 RMB1.3 million, nil and nil were incurred for the years ended December 31, 2018, 2019 and 2020, respectively.

2. Loans payable to related parties

2.1 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, 2020, these loans payable and the related interest payable were overdue. The interest expenses were RMB4.7 million and RMB4.7 million in 2019 and 2020, respectively.

As of December 31, 2019 and 2020, loans payable were RMB50.0 million and RMB50.0 million and the related interest payable was RMB5.9 million and RMB10.3 million, respectively.

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2. Loans payable to related parties - continued

2.2 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 RMB17.3 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. In 2020, certain loans receivable were novated to Hubei New Nature to offset against loans payable of RMB1.7 million and interest payable of RMB0.5 million to Hubei New Nature. The interest expenses were RMB3.0 million and RMB1.4 million in 2019 and 2020, respectively.

As of December 31, 2019 and 2020, loans payable were RMB12.3 million and RMB11.0 million and the related interest payable was RMB127,000 and RMB1.0 million, respectively.

3. Loans payable to shareholders

3.1 In June 2017, a loan payable of RMB10.0 million was borrowed from Wang Hailin, a shareholder who owned 7.7% of the VIE, 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, 2020, the loan payable and interest payable were overdue.

As of December 31, 2019 and 2020, loans payable were RMB10.0 million and RMB10.0 million, respectively. As of December 31, 2019 and 2020, interest payable was RMB1.8 million and RMB4.2 million, respectively.

3.2 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 VIE, 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 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 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.

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3. Loans payable to shareholders – continued

On July 27, 2020, the court terminated the enforcement proceeding and will recommence the enforcement proceeding if enforceable assets are located and meet the enforcement requirements.

As a result of the court ruling mentioned above, the interest expense on these loans was RMB2.0 million in 2020. As of December 31, 2020, loan payable was RMB10.0 million and interest payable was RMB3.3 million.

4. 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 VIE, for the years ended December 31, 2018, 2019 and 2020, respectively.

As of December 31, 2018, 2019 and 2020, consulting expenses payable to these representatives were RMB0.5 million, RMB1.0 million and RMB1.5 million, respectively.

5. Reverse merger expenses and guarantee 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. In 2020, certain operating expenses of RMB2.8 million were paid by Hubei New Nature on behalf of the Company. Also, in 2020, certain loan receivables were novated to Hubei New Nature of RMB1.3 million (see Note 26 of Notes to Consolidated Financial Statements, Section 5).

In addition, guarantee expenses of RMB0.4 million and RMB2.8 million were incurred for Hubei New Nature for the years ended December 31, 2019 and 2020, respectively.

As of December 31, 2019 and 2020, payables to Hubei New Nature were RMB0.3 million and RMB4.5 million, respectively.

6. 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 (“Xin Heng Tai”) and fund of RMB412,000 was provided by Wuhan Zhong Ji Gold Co., Ltd (“Zhong Ji”) for payments to certain loans payable, interest payable and listing service fee. Xin Heng Tai is related to Ms. Wenting Xiao, a shareholder who owned 10.6% of the Group’s VIE, whom is a general manager of Xin Heng Tai. Zhong Ji is also related to Ms. Wenting Xiao whom is a member of the supervisory committee of Zhong Ji. These funds were provided without interest and with no fixed terms of repayment. In 2020, payable of RMB954,000 to Xin Heng Tai and RMB412,000 to Zhong Ji was novated to Hubei New Nature Investment Co., Ltd.

As of December 31, 2018, 2019 and 2020, payables to Xin Heng Tai and Zhong Ji were RMB1.4 million, RMB1.4 million and nil, respectively.

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7. Loans receivable from related parties

7.1 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 VIE. The interest received on the loan was nil, nil and nil for the years ended December 31, 2018, 2019 and 2020, respectively. As of December 31, 2019 and 2020, this loan was overdue.

7.2 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 VIE. The interest received on the loan was nil, nil and nil for the years ended December 31, 2018, 2019 and 2020, respectively. As of December 31, 2019 and 2020, this loan was overdue.

8. Loans receivable novated to a related party

In 2020, 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 RMB1.7 million and interest payable of RMB0.5 million.

C. Interests of Experts and Counsel

Not applicable.

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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, 2020, Chutian has been involved in multiple significant legal proceedings as claimants against various borrowers and guarantors, which are incidental to the lending business. During 2020, Chutian and our Chairman and Chief Executive Officer, 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 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. In August 2020, the secured real estate were auctioned for RMB2.56 million. However, as of the date of this annual report, the proceeds are still held by Wuhan Wuchang People's Court pending resolution of various ongoing legal proceedings.

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Property Preservation Proceedings

On July 16, 2019, Shenzhen Lihe Wantong Commerical Factoring Co., Ltd (深圳立合旺通商业保理有限公司)(“Shenzhen Lihe Wangtong”) 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. As of the date of this annual report, our cash deposits and properties have not been released from the preservation order.

On September 4, 2019, Hubei Changjiang Microcredit Co., Ltd (湖北长江小额贷款有限公司) (“Hubei Changjiang”) 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. In July 2020, Hubei Changjiang applied for court enforcement and execution, which was accepted.

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 contract disputes. 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. As of the date of this annual report, our cash deposits and properties have not been released from the preservation order.

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. In August 2020, the parties entered into a mediation agreement whereby Mr. Wei and Ms. Yan agreed to pay the loan principal with penalty interests and costs in connection with the legal proceeding while Chutian, as the third respondent, will be responsible for 50% of the liabilities of Mr. Wei and Ms. Yan under the mediation agreement, should they fail to make the payments. As of the date of this annual report, Mr. Wei and Ms. Yan are still making payments pursuant to the mediation agreement.

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 became effective immediately. On November 10, 2020, court issued a preservation order that froze the assets of Chutian in the maximum amount of RMB220,000 or to seize or attach property in the corresponding value. On December 18, 2020, the court terminated the enforcement proceeding and will recommence the enforcement proceeding if enforceable assets are located and meet the enforcement requirements within five years.

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In August, 2019, Xiamen Lianfa filed an action in the Wuhan Wuchang People's Court against Chutian in connection with a property service contract dispute. The case was decided and concluded on October 12, 2020. The court found that Chutian failed to pay the owed property services fees to Xiamen Lianfa from September 1, 2019 to April 30, 2020. The court rendered a judgment in favor of Xiamen Lianfa and ordered Chutian to pay property services fee in the amount of RMB310,311 for the period from September 1, 2019 to April 30, 2020 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 RMB310,311 and based on the People's Bank of China lending interest rate for the period from September 11, 2020 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. As of the date of this annual report, the judgment has not been enforced.

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. The 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 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 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.

On July 27, 2020, the court terminated the enforcement proceeding and will recommence the enforcement proceeding if enforceable assets are located and meet the enforcement requirements.

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.

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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.

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ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We are a Cayman Islands exempted company with limited liability and our corporate affairs are governed by our memorandum and articles of association, as amended from time to time and the Companies Act and the common law of the Cayman Islands.

The following are summaries of material provisions of our second amended and restated memorandum and articles of association and the Companies Act insofar as they relate to the material terms of our ordinary shares.

General.

Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their ordinary shares.

Dividends.

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Act. As a matter of Cayman Islands corporate law, we may declare and pay a dividend on its shares out of either profit or share premium account. No dividend may be declared and paid unless our directors determine that, immediately after the payment, we will be able to pay our debts as they become due in the ordinary course of business and we have funds lawfully available for such purpose.

Voting Rights.

Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of our board of directors or by any shareholder present in person or by proxy.

A quorum required for a meeting of shareholders consists of two shareholders who hold at least one-third of our issued and outstanding ordinary shares and entitled to vote, at the meeting present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least one-third of our issued and outstanding ordinary shares. Advance notice of at least seven days is required for the convening of our annual general meeting and other shareholders meetings.

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An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a general meeting, while a special resolution requires the affirmative vote of not less than two-thirds of the votes attaching to the ordinary shares cast at a general meeting. A special resolution will be required for important matters such as a change of name or making changes to the Memorandum and Articles of Association.

Transfer of Ordinary Shares.

Subject to the restrictions of the Memorandum and Articles of Association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share without reason. Our directors may also decline to register any transfer of any ordinary share unless

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;

- a fee of such maximum sum as the exchange on which the ordinary shares are listed may determine to be payable or such lesser sum as the directors may from time to time require is paid in respect thereof;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; or
- the ordinary shares transferred are free of any lien in favor of us.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

Liquidation.

Subject to any future shares which are issued with specific rights, (1) if we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the surplus shall be distributed amongst the shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise, and (2) if we are wound up and the assets available for distribution among the shareholders as such are insufficient to repay the whole of the share capital, those assets shall be distributed so that, as nearly as may be, the losses shall be borne by the shareholders in proportion to the par value of the shares held by them.

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Calls on Ordinary Shares and Forfeiture of Ordinary Shares.

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption and Repurchase of Ordinary Shares.

Subject to the provisions of the Companies Act, we may issue ordinary shares on terms that are subject to redemption, at our option or at the option of the holders, in such manner as the board may determine before the issue of such ordinary shares. Our company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders.

Under the Companies Act, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (1) unless it is fully paid up, (2) if such redemption or repurchase would result in there being no shares outstanding, or (3) if the company has commenced liquidation.

Variation of Rights of Shares.

Whenever the capital of the Company is divided into different classes, all or any of the special rights attached to any class of shares may, subject to any rights or restrictions for the time being attached to any relevant class and the provisions of the Companies Act, only be materially adversely varied or abrogated either with the written consent of a majority of the holders of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

Inspection of Books and Records.

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than copies of our memorandum and articles of association, our register of mortgages and charge, and any special resolution passed by our shareholders). However, we will provide our shareholders with annual audited financial statements.

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Changes in Capital.

We may from time to time by ordinary resolutions:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- convert all or any of our paid up shares into stock and reconvert that stock into paid up shares of any denomination;
- sub-divide our existing shares, or any of them into shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived;
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

We may by special resolution, and subject to the Companies Act, reduce our share capital and any capital redemption reserve in any manner authorized by law.

EXEMPTED COMPANY

We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company is not required to open its register of members for inspection;

- an exempted company does not have to hold an annual general meeting;
- an exempted company may in certain circumstances issue no par value, negotiable or bearer shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

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“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

DIFFERENCES IN CORPORATE LAW

The Companies Act is modeled after that of English law but does not follow many recent English law statutory enactments. In addition, the Companies Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the State of Delaware and their shareholders.

Mergers and Similar Arrangements

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a declaration as to the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and published in the Cayman Islands Gazette.

A merger between a Cayman Islands parent company and its Cayman Islands subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

Shareholders of a Cayman constituent company who dissent from the merger or consolidation have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures. In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the due majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

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The Companies Act also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of a dissenting minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares (within four months), the offerer may, within a two month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders’ Suits

In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company, and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge actions where:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and

- those who control the company are perpetrating a “fraud on the minority”.

Indemnification of Directors and Executive Officers and Limitation of Liability

Cayman Islands law does not limit the extent to which a company’s 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. The Memorandum and Articles of Association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty, fraud or default of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we intend to enter into indemnification agreements with our directors and senior executive officers that will provide such persons with additional indemnification beyond that provided in the Memorandum and Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

Anti-takeover Provisions in the Memorandum and Articles of Association

Some provisions of the Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

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However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under the Memorandum and Articles of Association, for what they believe in good faith to be in the best interests of our company.

Directors’ Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act *bona fide* in the best interests of the company, a duty not to make a profit based on his position as director

(unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Action by Written Consent

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and the Memorandum and Articles of Association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder Proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Act provide shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. The Memorandum and Articles of Association allow our shareholders holding in aggregate not less than one-third of all votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings to requisition an extraordinary general meeting of our shareholders, in which case our board is obliged to convene an extraordinary general meeting and to put the resolutions so requisitioned to a vote at such meeting. Other than this right to requisition a shareholders' meeting, our Memorandum and Articles do not provide our shareholders with any other right to put proposals before annual general meetings or extraordinary general meetings not called by such shareholders. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

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Cumulative Voting

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but the Memorandum and Articles of Association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under the Memorandum and Articles of Association, directors may be removed with or without cause, by an ordinary resolution of our shareholders. A director shall hold office until the expiration

of his or her term or his or her successor shall have been elected and qualified, or until his or her office is otherwise vacated. In addition, a director's office shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns his office by one month's notice in writing to the company; (iv) without special leave of absence from the board of directors, is absent from meetings of the board of directors for three consecutive meetings and the board of director resolves that his office be vacated; or (v) is removed from office pursuant to any other provision of the Memorandum and Articles of Association

Transactions with Interested Shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into *bona fide* in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Act and the Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

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Variation of Rights of Shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and the Memorandum and Articles of Association, if our share capital is divided into more than one class of shares, we may materially adversely vary or abrogate the rights attached to any class only with the written consent of a majority of the holders of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

Amendment of Governing Documents

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law and the Memorandum and Articles of Association, the Memorandum and Articles of Association may only be amended with the vote of holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders.

Rights of Non-resident or Foreign Shareholders

There are no limitations imposed by the Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in the Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

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.

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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.

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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.

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.

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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 American, 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.

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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 2021 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, 2021 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.

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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.

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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 American, which is a qualified exchange for this purpose. Consequently, if the ADSs are considered to be regularly traded on the NYSE American, 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 American for this purpose for the calendar year ending December 31, 2021. 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, or any reportable election (including a mark-to-market election) 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.

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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.”

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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.

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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.

[Table of Contents](#)**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.

[Table of Contents](#)**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 NYSE American, upon which the ADSs are listed:

Service	Fees
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • Distribution of ADSs upon the exercise of rights 	Up to \$0.05 per ADS issued
<ul style="list-style-type: none"> • 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 depositary 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 depositary in the conversion of foreign currency;
- such fees and expenses as are incurred by the depositary 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.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

As of December 31, 2020, loans payable to third parties raised through various securities exchanges and from shareholders, amounting to RMB140.6 million and RMB20 million, respectively, were overdue. Interests payable for those loans were RMB25.7 million and RMB7.5 million, respectively. Certain loans payable were negotiated for revised repayment terms.

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 SEC, our management, including our chief executive officer and chief financial officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2020 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). Our management has concluded that we had maintained effective internal control over financial reporting as of December 31, 2020.

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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, 2020.

Our management has concluded that we had maintained effective internal control over financial reporting as of December 31, 2020, 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

There were no other changes in our internal control over financial reporting during the year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Ms. Michelle Ye Li 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 803 of the NYSE American LLC Company Guide 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.

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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, 2019 and 2020, respectively.

	Year Ended December 31,		
	2019	2020	
	RMB	RMB	\$
	(in Thousands)		
Audit fees ⁽¹⁾	1,392	896	137
Audit-related fees ⁽²⁾	-	78	12

(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, 2020.

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.

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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 Act. 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.

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 Act with respect to these issues.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

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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 our financial statements filed as part of this annual report.

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ITEM 19. EXHIBITS

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

Number	Description of Exhibit
1.1	Second Amended and Restated Memorandum and Articles of Association of Dunxin Financial Holdings Limited Shares (incorporated herein by reference to Exhibit 1.1 to the Company’s Form 20-F filed on April 30, 2018).
2.1	Specimen Certificate for Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the

	<u>Company's Form F-1/A Registration Statement (File No. 333-170368) filed on November 10, 2010).</u>
<u>2.2</u>	<u>Form of Deposit Agreement, including form of American Depositary Receipts (incorporated herein by reference to Exhibit (a) to the Company's Form F-6 Registration Statement (File No. 333-170368) filed on November 22, 2010).</u>
<u>2.3</u>	<u>Form of Amendment to Deposit Agreement including form of American Depositary Receipts (incorporated herein by reference to Exhibit (a)(2) to the Company's Form F-6/A Registration Statement (File No. 333-170489) filed on November 25, 2014).</u>
<u>2.4</u>	<u>Form of Second Amendment to Deposit Agreement including form of American Depositary Receipts (incorporated herein by reference to Exhibit (a)(3) to the Company's Form F-6/A Registration Statement (File No. 333-170489) filed on December 15, 2017).</u>
<u>2.5</u>	<u>Form of Third Amendment to Deposit Agreement including form of American Depositary Receipts (incorporated herein by reference to Exhibit (a)(4) to our Form F-6 Registration Statement (File No. 333-223442) filed on March 5, 2018).</u>
<u>2.6</u>	<u>Description of Securities*</u>
<u>4.1</u>	<u>Share Transfer Agreement, dated December 10, 2017, between China Xiniya Fashion Limited and Qiming Investment Limited (incorporated herein by reference to Exhibit 99.4 to the Company's Form 6-K furnished on December 11, 2017).</u>
<u>4.2</u>	<u>Securities Purchase Agreement, dated December 10, 2017, by and among China Xiniya Fashion Limited, True Silver Limited, and Honest Plus Investments Limited (incorporated herein by reference to Exhibit 99.5 to the Company's Form 6-K furnished on December 11, 2017).</u>
<u>4.3</u>	<u>Exclusive Cosigned Management Service Agreement, dated August 10, 2017, by Hubei Chutian Microfinance Co., Ltd. and Wuhan Chutian Investment Holding Co., Ltd (incorporated herein by reference to Exhibit 99.6 to the Company's Form 6-K furnished on December 11, 2017).</u>
<u>4.4</u>	<u>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) (incorporated herein by reference to Exhibit 99.7 to the Company's Form 6-K furnished on December 11, 2017).</u>
<u>4.5</u>	<u>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) (incorporated herein by reference to Exhibit 99.8 to the Company's Form 6-K furnished on December 11, 2017).</u>
<u>4.6</u>	<u>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) (incorporated herein by reference to Exhibit 99.9 to the Company's Form 6-K furnished on December 11, 2017).</u>
<u>4.7</u>	<u>Financial Support Commitment, dated May 8, 2019, from Dunxin Holdings Co., Ltd. (incorporated herein by reference to Exhibit 4.8 to the Company's Annual Report on Form 20-F filed with the SEC</u>

	on November 9, 2020).
4.8	Financial Support Commitment, dated May 8, 2019, from Hubei New Nature Investment (Group) Co., Ltd. (incorporated herein by reference to Exhibit 4.9 to the Company’s Annual Report on Form 20-F filed with the SEC on November 9, 2020).
4.9	Employment Agreement, dated March 30, 2021, by and between the Company and Xiang (Johnny) Zhou*
8.1	Principal subsidiaries and VIE of Dunxin Financial Holdings Limited. (incorporated herein by reference to Exhibit 8.1 to the Company’s Annual Report on Form 20-F filed with the SEC on November 9, 2020).
11.1	Code of Business Conduct and Ethics of China Xiniya Fashion Limited (incorporated herein by reference to Exhibit 99.1 to the Company’s Form F-1 Registration Statement (File No. 333-170368) filed on November 22, 2010).
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.*
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.*
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.

** Furnished herewith.

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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.

Date: April 29, 2021

DUNXIN FINANCIAL HOLDINGS
LIMITED

By: /s/ Ricky Qizhi Wei

Name: Ricky Qizhi Wei

Title: Chairman and Chief Executive Officer

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**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, 2020, the related consolidated statements of profit and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2020, 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, 2020, and the related consolidated statements of profit and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2020, 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, 2020, 2019 and 2018, the net cash decreased during the year were RMB212,000, RMB3.5 million and RMB17.9 million for the years ended December 31, 2020, 2019 and 2018, respectively. We also draw attention to Note 27 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 28, 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.

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Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Credit Impairment Losses Assessment

As described in Notes 14 to the consolidated financial statements, the Company's consolidated credit impairment losses on loans receivable balances were RMB 478.8 million at December 31, 2020 arising from business combinations completed in the countries in which the Company operates. Management conducts impairment tests for credit impairment losses at least annually or more frequently, if events or circumstances indicate the carrying amount may not be fully recoverable. Management calculates the recoverable amount of each loan given under a range of scenarios, including the realization of any collateral held where appropriate. In determining value in use, the recoverable cash flows are based on the strategic plans approved by the Board of Directors. Management's recoverable cash flows included significant judgements when considering key assumptions which would be significantly affected by the future trends in the economic, competitive, regulatory and technological environment in each of the countries in which the Company operates. This judgement is accentuated due to the uncertainty of the evolution of the businesses caused by COVID-19 crisis and the estimation of its effects in Management's cash flow projections. As described in Notes 14, increased credit impairment losses on the loans receivable by RMB 55.3

million as a result of the worsening of macroeconomic conditions in that country and changes in the regulatory environment which affect to the estimation of the margin.

The principal considerations for our determination that performing procedures relating to credit impairment losses assessment is a critical audit matter are there were significant judgments made by management when developing the assessment of the recoverable amount of loans. This in turn led to a high degree of auditor judgement and effort in evaluating management's key assumptions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's credit impairment losses assessment, including controls over the determination of the recoverable amount of the Company's loans receivable. These procedures also included, among others, testing management's process for testing the completeness, accuracy, and relevance of underlying data used in the model and evaluating the significant assumptions used by management. Evaluating whether the significant assumptions used by management were reasonable involved evaluating (1) the degree of fulfilment at the year end of the latest 2020 forecast (2) the consistency with external market and industry data, (3) performing sensitivity analysis, (4) the allocation of the credit impairment losses to the loans receivable and (5) the sufficiency of the Company's credit impairment losses disclosures. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's discounted cash flow model and certain significant assumptions.

Audit Alliance LLP
Public Accountants and
Chartered Accountants

Singapore
April 29, 2021

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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, 2018, 2019 and 2020

	Notes	2018	2019	2020
Interest income on loans		141,857	118,396	105,570
Interest expense				
Interest expenses on loans		(26,451)	(19,846)	(21,909)
Business related taxes and surcharges		(590)	(435)	(304)
Total interest expense		(27,041)	(20,281)	(22,213)
Net interest income		114,816	98,115	83,357
Credit impairment losses		(66,904)	(24,694)	(55,264)
Net interest income after credit impairment losses		47,912	73,421	28,093
Non-interest and other income		438	173	21

Operating costs and expenses

Sales and marketing		(1,794)	(1,698)	(170)
General and administrative		(20,368)	(13,280)	(8,090)
Total operating costs and expenses		(22,162)	(14,978)	(8,260)

Profit before income taxes	10	26,188	58,616	19,854
Income tax expense	11	(18,033)	-	-
Net profit		8,155	58,616	19,854

Net profit attributable to:

Equity holders of the Company	12	6,524	46,893	15,883
Non-controlling interest		1,631	11,723	3,971
Net profit		8,155	58,616	19,854

Other comprehensive income for the year

Net profit		8,155	58,616	19,854
Exchange differences on translation of financial statements of entities outside the mainland of the People's Republic of China		616	(405)	(177)
Total comprehensive income for the year		8,771	58,211	19,677

Total comprehensive income attributable to:

Equity holders of the Company		7,017	46,569	15,742
Non-controlling interests		1,754	11,642	3,935
Total comprehensive income		8,771	58,211	19,677

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	0.01	0.05	0.02
Weighted average number of shares outstanding in the year	12	1,000,171,839	1,001,046,568	1,001,575,455

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

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DUNXIN FINANCIAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Thousands of Chinese Renminbi Yuan)
As at December 31, 2019 and 2020

	<u>Note</u>	<u>2019</u>	<u>2020</u>
ASSETS			
CURRENT ASSETS			
Cash, cash equivalents and restricted cash	13	132	97

Loans receivable, net of credit impairment losses	14	615,184	662,183
Prepaid expenses and others	15	295	809
Total current assets		615,611	663,089
NON-CURRENT ASSETS			
Property and equipment, net	16	48,130	45,153
Intangible asset	17	7	6
Total non-current assets		48,137	45,159
Total assets		663,748	708,248
CURRENT LIABILITIES			
Loans payable	18	172,891	171,569
Salary and benefit payable	19	5,261	7,660
Income taxes payable	20	32,477	32,477
Interest payable	21	17,723	36,122
Other payable	22	9,234	14,116
Total current liabilities		237,586	261,944
SHAREHOLDERS' EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	23	326	326
Additional paid-in capital		383,174	383,174
Statutory reserve	24	18,706	18,706
General risk reserve	25	9,180	9,180
Currency translation reserve		(169)	(27)
Accumulated losses		(70,288)	(54,316)
Non-controlling interests in equity		85,233	89,261
Total shareholders' equity		426,162	446,304
Total equity and liabilities		663,748	708,248

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

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DUNXIN FINANCIAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Thousands of Chinese Renminbi Yuan)
For the Years Ended December 31, 2018, 2019 and 2020

<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Statutory reserve</u>	<u>General risk reserve</u>	<u>Currency translation reserve</u>	<u>Retained earnings/ accumulated loss</u>	<u>Total</u>	<u>Non-controlling interests</u>	<u>Total Equity</u>
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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
Share-based compensation	-	-	-	-	-	89	89	22	111
Other comprehensive income for the year – currency translation differences	-	-	-	-	142	-	142	35	177
Appropriation to reserve	-	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	15,883	15,883	3,971	19,854
Balance at December 31, 2020	326	383,174	18,706	9,180	(27)	(54,316)	357,043	89,261	446,304

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

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DUNXIN FINANCIAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Thousands of Chinese Renminbi Yuan)
For the Years Ended December 31, 2018, 2019 and 2020

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash flow from operating activities			
Profit before income taxes	26,188	58,616	19,854
Adjustments for:			
Depreciation of property and equipment	818	2,944	2,977
Amortization of intangible assets	-	2	1
Gain on disposal of property and equipment	-	(174)	-
Share-based compensation	689	75	111
Credit impairment losses	66,904	24,694	55,264
Operating profit before changes in working capital	94,599	86,157	78,207
Interest receivables	4,933	7,057	-
Loan receivables	(79,577)	(70,131)	(102,263)
Prepaid expenses and others	(555)	743	(2,250)
Advance from customers	(142)	-	-
Salary and benefit payable	(2,012)	3,850	2,399
Interest payable	1,310	12,584	18,399
Other payable	9,386	(25,183)	4,882
Net cash generated by/(used in) operating activities	27,942	15,077	(626)
Income tax paid	(676)	-	-
Net cash generated by/(used in) operating activities	27,266	15,077	(626)
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)	-
Net cash used in investing activities	(18,385)	(76)	-
Cash flow from financing activities			
Proceeds received from related party loans	88,000	17,434	414
Repayments of related party loans	(8,500)	(14,693)	-
Proceeds received from shareholders' loans	5,000	13,000	-
Repayments of shareholders' loans	(5,000)	(3,000)	-
Proceeds received from loans payable	308,629	48,142	-
Repayments of loans payable	(414,924)	(79,345)	-
Net cash (used in)/generated by financing activities	(26,795)	(18,462)	414
Net decrease in cash, cash equivalents and restricted cash	(17,914)	(3,461)	(212)
Cash and cash equivalents at beginning of year	21,717	3,188	132

Exchange losses on cash, cash equivalents and restricted cash	(615)	405	177
Cash, cash equivalents and restricted cash at end of year	3,188	132	97
Net cash generated by/(used in) operating activities include			
Interest received	98,185	3,307	100
Interest paid	(25,769)	(3,709)	(200)
Foreclosure of a pledged property	(18,000)	-	-
Net cash (used in)/generated by financing activities			
Loans receivable novated to a related party to offset its related party loans to the Company	-	40,216	1,305

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

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**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020**

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 sized enterprises, SMEs, sole proprietors and individuals 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;

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**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020**

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 23rd Floor, Lianfa International Building, 128 Xudong Road, Wuchang District, Wuhan City, Hubei Province, People's Republic of China 430063.

The Company is listed on the NYSE 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, 2018, 2019 and 2020 were authorized for issue by resolution of the board of directors on April 25, 2021.

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 sized enterprises, SMEs, sole proprietors and individuals 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, which holds all the approval certificates, business license and other requisite licenses for the microfinance lending businesses.

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**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020**

1. Organization and principal activities – continued

The following is a brief description of each of the Company’s subsidiaries and variable interest entity:

- 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.

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DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

1. Organization and principal activities – continued

As of December 31, 2020, 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	RMB450,000,000	80 %	-	80 %	Microfinance lender

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, 2020.

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DUNXIN FINANCIAL HOLDINGS LIMITED
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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.

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**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020**

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 VIE, has the right to receive all dividends declared and paid by the VIE and may receive substantially all of the net income of the VIE through the technical support and service fees as determined by Chutian Holdings at its sole discretion. Accordingly, the Group has consolidated the VIE because the Group believes, through the contractual arrangements, (1) Chutian Holdings could direct the activities of the VIE 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 VIE.

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DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 VIE 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 VIE 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 VIE not to pay the service fees when required to do so.

The Group's ability to control the VIE also depends on the Voting Proxy Agreement pursuant to which Chutian Holdings has the right to vote on all matters requiring shareholder approval in the VIE. As noted above, the Group believes the rights granted by the Voting Proxy Agreement 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 VIE and its subsidiaries or the right to receive their economic benefits, the Group would no longer be able to consolidate the VIE. 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 VIE.

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**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. Organization and principal activities – continued

Risks in relation to the VIE structure - continued

Certain shareholders of the VIE 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 the VIE. Their interests as beneficial owners of the VIE 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 the VIE, on the one hand, and as beneficial owners of the Company, on the other hand. The Company believes the shareholders of the VIE 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 the VIE should they act to the detriment of the Company. If any conflict of interest or dispute between the Company and the shareholders of the VIE 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 VIE was included in the accompanying consolidated financial statements, presented net of intercompany eliminations, as of and for the years ended December 31, 2019 and 2020:

	As of December 31,	
	2019	2020
	RMB'000	RMB'000
Total current assets	615,611	663,089
Total non-current assets	48,137	45,159
Total assets	<u>663,748</u>	<u>708,248</u>
Total current liabilities	<u>237,587</u>	<u>261,944</u>
Total liabilities	<u>237,587</u>	<u>261,944</u>

	For the year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Interest income on loans	141,857	118,396	105,570
Net profit	8,155	58,616	19,854

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DUNXIN FINANCIAL HOLDINGS LIMITED
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1. Organization and principal activities – continued

Risks in relation to the VIE structure – continued

The VIE contributed an aggregate of 100.0%, 100.0% and 100.0% of the consolidated interest income on loans for the years ended December 31, 2018, 2019 and 2020, respectively. As of December 31, 2019 and 2020, the VIE accounted for an aggregate of 100.0% and 99.9%, respectively, of the consolidated total assets, and 99.3% and 98.7%, respectively, of the consolidated total liabilities.

There are no consolidated VIE's assets that are collateral for the VIE's obligations and can only be used to settle the VIE's obligations. There are no creditors (or beneficial interest holders) of the VIE 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 VIE. However, if the VIE 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 VIE through loans to the shareholder of the VIE or entrustment loans to the VIE.

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.

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DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

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.

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, 2020, the Company had negative cash flows for the years ended December 31, 2020, 2019 and 2018, the net cash decreased during the year were RMB212,000, RMB3.5 million and RMB17.9 million for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, the Company had cash balances totaled RMB97,000.

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 27 – Legal proceedings for detailed disclosure).

The Company has taken an intensive review of operations and expenditures, including intensifying 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 plans to actively 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.

[Table of Contents](#)**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020****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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**DUNXIN FINANCIAL HOLDINGS LIMITED
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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.

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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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

2.6 Interest

Interest (IFRS 9 – 2018, 2019 and 2020)

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 (i.e., the adjustment to interest income is made on a cumulative catch-up basis).

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**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

2.8 Financial assets and financial liabilities (IFRS 9 – 2018, 2019 and 2020only)

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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**DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020**

2.8 Financial assets and financial liabilities (IFRS 9 – 2018, 2019 and 2020 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 it 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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DUNXIN FINANCIAL HOLDINGS LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.8 Financial assets and financial liabilities (IFRS 9 –2018, 2019 and 2020 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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**DUNXIN FINANCIAL HOLDINGS LIMITED
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2.8 Financial assets and financial liabilities (IFRS 9 – 2018, 2019 and 2020 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, 2019 and 2020 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, 2019 and 2020 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, 2019 and 2020 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.

2.9 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.

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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

2.10 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

2.11 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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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

2.12 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.

2.13 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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DUNXIN FINANCIAL HOLDINGS LIMITED
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2.14 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 years ended December 31, 2019 and 2020, a total of 269,252 and 1,069,615 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.

2.15 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, 2018, 2019 and 2020, are discussed in Note 10.

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2.16 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.

2.17 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.

2.18 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, 2020 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
Amendments to IFRS 4 <i>Deferral of IFRS 9</i>	January 1, 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 <i>Interest Rate Benchmark Reform – Phase 2</i>	January 1, 2021

Amendments to IAS 37 <i>Cost of Fulfilling a Contract</i>	January 1, 2022
Amendments to IFRS 3 <i>Reference to the Conceptual Framework</i>	January 1, 2022
Annual Improvement 2018-2020 Cycle	January 1, 2022
Amendments to IAS 16 <i>Proceeds before Intended Use</i>	January 1, 2022
Amendments to IAS 1 <i>Classification of Liabilities as Current or Non-Current</i>	January 1, 2022
IFRS 17 <i>Insurance Contracts</i>	January 1, 2023

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.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. 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 Group's current approach is consistent with these requirements, so the application of these amendments did not have a significant impact on the Group's financial position or results in the period.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. This amendment did not have a significant impact on the Group's financial position or results in the period.

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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

3. Standards issued but not yet effective - continued

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide 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: (i) 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 (ii) 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.

The Group's current practices are in line with these criteria, so the application of these amendments did not have an impact on the Group's financial position or results in the period, nor are they expected to do so in the future.

Conceptual Framework for Financial Reporting

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts, such as removing the probability threshold for recognition and adding guidance on derecognition, or adding guidance on different measurement basis. No changes were made to any of the current accounting standards.

The Group's accounting policies are still appropriate under the revised Framework, so these amendments had no impact on the Group's financial position or results in the period.

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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

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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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

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, 2020 and 2019 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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**DUNXIN FINANCIAL HOLDINGS LIMITED
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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.

	2020			
	ECL staging			Total
	Stage 1	Stage 2	Stage 3	
	Lifetime ECL	Lifetime ECL	Lifetime ECL	
RMB'000	RMB'000	RMB'000	RMB'000	
Loan receivables	-	-	762,992	762,992
Accrued interest	-	-	377,983	377,983
Gross loan receivables	-	-	1,140,975	1,140,975
Loss allowance	-	-	(478,792)	(478,792)
Carrying amount	-	-	662,183	662,183

	2019			
	ECL staging			Total
	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

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DUNXIN FINANCIAL HOLDINGS LIMITED
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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, 2020, 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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**DUNXIN FINANCIAL HOLDINGS LIMITED
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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 sets out the carrying amount of assets and liabilities subject to market risk:

	As of December 31,	
	2019	2020
	RMB'000	RMB'000
Assets subject to market risk		
Loans receivable	615,184	662,183
Liabilities subject to market risk		
Loans payable	172,891	171,569

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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DUNXIN FINANCIAL HOLDINGS LIMITED
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8. Capital risk

As of December 31, 2020, 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, 2020, 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, 2020

	Fair value RMB'000	Carrying Amount RMB'000
Financial assets		
Cash, cash equivalents and restricted cash	97	97
Loan receivables	662,183	662,183
	<u>662,280</u>	<u>662,280</u>
Financial liabilities		
Loans payable	<u>171,569</u>	<u>171,569</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, 2020.

	As of December 31, 2019	
	Fair value RMB'000	Carrying amount RMB'000
Financial assets		
Cash and cash equivalents	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>

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**DUNXIN FINANCIAL HOLDINGS LIMITED
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10. Profit before income taxes

Expenses by nature

	Year Ended December 31,		
	2018 RMB'000	2019 RMB'000	2020 RMB'000
Depreciation of property and equipment	818	2,944	2,977
Amortization of intangible assets	-	2	1
Directors			
- salaries and related costs	1,815	1,704	1,051
- social benefits contribution	130	44	5
- share based compensation	589	50	37
Key management personnel (other than directors)			
- salaries and related costs	3,501	2,079	1,563

- social benefits contribution	150	51	5
- share based compensation	100	25	74
Other than directors and key management personnel			
- salaries and related costs	1,863	2,653	707
- social benefits contribution	452	456	10

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DUNXIN FINANCIAL HOLDINGS LIMITED
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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, 2018, 2019 and 2020. 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, 2018, 2019 and 2020.

The Company's income taxes consist of:

	Year Ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Current income tax expenses	18,033	-	-
Deferred income tax expenses	-	-	-
Income tax expense	<u>18,033</u>	<u>-</u>	<u>-</u>

The reconciliation between tax expense and accounting profit at applicable PRC tax rates of 25% is as follows:

	Year Ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Profit before income tax	26,188	58,616	19,854
Computed expected income tax expense	6,547	14,654	4,963
Tax effect of non-deductible expenses	17,173	6,260	13,817
Tax effect of tax-exempt entities	1,884	716	804
Tax effect of non-taxable income	(7,571)	(21,630)	(19,584)
Income tax expense	<u>18,033</u>	<u>-</u>	<u>-</u>

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DUNXIN FINANCIAL HOLDINGS LIMITED
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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 1,000,171,839, 1,001,046,568 and 1,001,575,455 for 2018, 2019 and 2020, 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:

	<u>2018</u> <u>RMB'000</u>	<u>2019</u> <u>RMB'000</u>	<u>2020</u> <u>RMB'000</u>
Net profit attributable to the equity holders of the Company – numerator for basic and diluted earnings per share	6,524	46,893	15,883
Number of shares in thousands			
Weighted average share outstanding – denominator for basic and diluted earnings per share	1,000,172	1,001,047	1,001,575
Basic and diluted earnings per share	0.01	0.05	0.02

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DUNXIN FINANCIAL HOLDINGS LIMITED
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13. Cash, cash equivalents and restricted cash

	<u>As at December 31,</u>	
	<u>2019</u> <u>RMB'000</u>	<u>2020</u> <u>RMB'000</u>
Cash on hand	-	20
Cash at bank	67	11
Restricted cash at bank ⁽¹⁾	65	66
Cash, cash equivalents and restricted cash per consolidated statements of cash flow	<u>132</u>	<u>97</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. Loans receivable, net of credit impairment losses

The total loans receivable are comprised of the following:

	<u>As at December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Loans receivable at amortized cost ⁽¹⁾	765,034	762,992
Accrued interest	273,923	377,983
Gross loans receivable	<u>1,038,957</u>	<u>1,140,975</u>
Less: Credit impairment losses	(423,773)	(478,792)
Loans receivable, net of credit impairment losses	<u>615,184</u>	<u>662,183</u>

⁽¹⁾ See Note 26 of Notes to the Consolidated Financial Statements, Section 8 for detailed disclosure.

The following table provides the changes in credit impairment losses between the beginning and the end of the annual period:

	<u>As at December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Credit impairment losses as at January 1	397,297	423,773
Transfer from interest receivable credit impairment losses	1,782	-
Charge to statement of profit	24,694	55,264
Novated to a related party	-	(245)
Credit impairment losses as at December 31	<u>423,773</u>	<u>478,792</u>

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14. Loans receivable, net of credit impairment losses - continued

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.

15. Prepaid expenses and others

Prepaid expenses and others consist of the following:

	<u>As at December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Prepaid expenses	295	809
Total	<u>295</u>	<u>809</u>

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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

16. 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>&</u>	<u>RMB'000</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>	<u>RMB'000</u>
Cost					
At January 1, 2019	47,908	995	1,039	3,923	53,865
Additions	232	-	39	-	271
Disposal	-	(416)	-	-	(416)
At December 31, 2019	48,140	579	1,078	3,923	53,720
Addition	-	-	-	-	-
At December 31, 2020	<u>48,140</u>	<u>579</u>	<u>1,078</u>	<u>3,923</u>	<u>53,720</u>
Accumulated depreciation					
At January 1, 2019	470	976	391	1,204	3,041
Depreciation	2,286	-	136	553	2,975
Adjustment	-	(31)	-	-	(31)
Disposal	-	(395)	-	-	(395)
At December 31, 2019	2,756	550	527	1,757	5,590
Depreciation	2,286	-	138	553	2,977
At December 31, 2020	<u>5,042</u>	<u>550</u>	<u>665</u>	<u>2,310</u>	<u>8,567</u>

Net book value					
At December 31, 2019	45,384	29	551	2,166	48,130
At December 31, 2020	43,098	29	413	1,613	45,153

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**DUNXIN FINANCIAL HOLDINGS LIMITED
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17. Intangible asset

	Acquired computer software RMB'000
Cost	
At January 1, 2019	-
Additions	9
At December 31, 2019 and 2020	9
Accumulated amortization	
At January 1, 2019	-
Amortization	2
At December 31, 2019	2
Amortization	1
At December 31, 2020	3
	7
At December 31, 2019	7
At December 31, 2020	6

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**DUNXIN FINANCIAL HOLDINGS LIMITED
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18. 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 10.9% and 12.7% at December 31, 2019 and 2020, respectively.

	<u>As at December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Loans payable to third parties	140,558	140,558
Loans payable to related parties ⁽¹⁾	12,333	11,011
Loans payable to shareholders ⁽²⁾	20,000	20,000
Total	<u>172,891</u>	<u>171,569</u>

As of December 31, 2020, 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 26 of Notes to the Consolidated Financial Statements, sub-sections 2.2 of Section 2. Loans payable to related parties for detailed disclosure.

⁽²⁾ See Note 26 of Notes to the Consolidated Financial Statements, sub-sections 3.1 and 3.2 of Section 3. Loans payable to shareholders for detailed disclosure.

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19. Salary and benefit payable

	<u>As at December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Salary and benefit payable to employees	4,229	6,112
Consulting expenses payable to a shareholder's representatives ⁽¹⁾	1,032	1,548
Total	<u>5,261</u>	<u>7,660</u>

As of December 31, 2020, due to liquidity issue faced by the Company, the Company is unable to pay its employees on monthly basis.

⁽¹⁾ See Note 26 of Notes to the Consolidated Financial Statements, Section 4. Consulting expenses for representatives from a shareholder for detailed disclosure.

20. Income taxes payable

As of December 31, 2020, Chutian has not been paying its corporate income tax of RMB32.5 million to the China State Administration of Taxation since 2018 due to liquidity issue.

21. Interest payable

As at December 31,

	2019	2020
	RMB'000	RMB'000
Interest payable to third parties	14,510	27,647
Interest payable to related parties ⁽¹⁾	127	1,009
Interest payable to shareholders ⁽²⁾	3,086	7,466
Total	<u>17,723</u>	<u>36,122</u>

⁽¹⁾ See Note 26 of Notes to the Consolidated Financial Statements, sub-sections 2.2 of Section 2. Loans payable to related parties for detailed disclosure.

⁽²⁾ See Note 26 of Notes to the Consolidated Financial Statements, sub-section 3.1 and 3.2 of Section 3 Loans payable to shareholders for detailed disclosure.

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DUNXIN FINANCIAL HOLDINGS LIMITED
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22. Other payable

	As at December 31,	
	2019	2020
	RMB'000	RMB'000
Other payable to related parties ⁽¹⁾	1,735	4,610
Accrued expenses	5,515	7,147
Other taxes payable ⁽²⁾	1,984	2,359
Total	<u>9,234</u>	<u>14,116</u>

⁽¹⁾ See Note 26 of Notes to the Consolidated Financial Statements, Section 5. Reverse merger expenses and operating expenses payable to a related party, and Section 6. 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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DUNXIN FINANCIAL HOLDINGS LIMITED
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23. 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, 2018	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
Shares issued during the year	1,070	*	-	*	-	-
At December 31, 2020	1,002,201	326	383,174	383,500	95,875	479,375

* Less than 1,000.

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DUNXIN FINANCIAL HOLDINGS LIMITED
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24. 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, 2019 and 2020, total statutory reserves were RMB18.7 million and RMB18.7 million, respectively, which did not reach 50% of the variable interest entity's registered capital.

25. 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, 2019 and 2020, total statutory reserves were RMB9.2 million and RMB9.2 million, respectively.

26. 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 VIE, 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 RMB1.3 million, nil and nil were incurred for the years ended December 31, 2018, 2019 and 2020, respectively.

2. Loans payable to related parties

2.1 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, 2020, these loans payable and the related interest payable were overdue. The interest expenses were RMB4.7 million and RMB4.7 million in 2019 and 2020, respectively.

As of December 31, 2019 and 2020, loans payable were RMB50.0 million and RMB50.0 million and the related interest payable was RMB5.9 million and RMB10.3 million, respectively.

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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

26. Related party transactions - continued

2.2 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 RMB17.3 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. In 2020, certain loans receivable were novated to Hubei New Nature to offset against loans payable of RMB1.7 million and interest payable of RMB0.5 million to Hubei New Nature. The interest expenses were RMB3.0 million and RMB1.4 million in 2019 and 2020, respectively.

As of December 31, 2019 and 2020, loans payable were RMB12.3 million and RMB11.0 million and the related interest payable was RMB127,000 and RMB1.0 million, respectively.

3. Loans payable to shareholders

3.1 In June 2017, a loan payable of RMB10.0 million was borrowed from Wang Hailin, a shareholder who owned 7.7% of the VIE, 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, 2020, the loan payable and interest payable were overdue.

As of December 31, 2019 and 2020, loans payable were RMB10.0 million and RMB10.0 million, respectively. As of December 31, 2019 and 2020, interest payable was RMB1.8 million and RMB4.2 million, respectively.

3.2 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 VIE, 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 Mr. Ricky Qizhi Wei in the amount of RMB12.0 million, or to seize or attach property in the corresponding value.

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26. Related party transactions – continued

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.

On July 27, 2020, the court terminated the enforcement proceeding and will recommence the enforcement proceeding if enforceable assets are located and meet the enforcement requirements.

As a result of the court ruling mentioned above, the interest expense on these loans was RMB2.0 million in 2020. As of December 31, 2020, loan payable was RMB10.0 million and interest payable was RMB3.3 million.

4. 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 VIE, for the years ended December 31, 2018, 2019 and 2020, respectively.

As of December 31, 2018, 2019 and 2020, consulting expenses payable to these representatives were RMB 0.5 million, RMB1.0 million and RMB1.5 million, respectively.

5. Reverse merger expenses and guarantee 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. In 2020, certain operating expenses of RMB2.8 million were paid by Hubei New Nature on behalf of the Company. Also, in 2020, certain loan receivables were novated to Hubei New Nature of RMB1.3 million.

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26. Related party transactions - continued

In addition, guarantee expenses of RMB0.4 million and RMB2.8 million were incurred for Hubei New Nature for the years ended December 31, 2019 and 2020, respectively.

As of December 31, 2019 and 2020, payable to a related party was RMB0.3 million and RMB4.5 million, respectively.

6. 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 (“Xin Heng Tai”) and fund of RMB412,000 was provided by Wuhan Zhong Ji Gold Co., Ltd (“Zhong Ji”) 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 VIE, 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. In 2020, payable of RMB954,000 to Xin Heng Tai and RMB412,000 to Zhongji was novated to Hubei New Nature Investment Co., Ltd.

As of December 31, 2018, 2019 and 2020, payables to Xin Heng Tai and Zhong Ji were RMB1.4 million, RMB1.4 million and nil, respectively.

7. Loans receivable from related parties

7.1 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 VIE. The interest received on the loan was nil, nil and nil for the years ended December 31, 2018, 2019 and 2020, respectively. As of December 31, 2019 and 2020, this loan was overdue.

7.2 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 VIE. The interest received on the loan was nil, nil and nil for the years ended December 31, 2018, 2019 and 2020, respectively. As of December 31, 2019 and 2020, this loan was overdue.

8. Loans receivable novated to a related party

In 2020, 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 RMB1.7 million and interest payable of RMB0.5 million.

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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

27. Legal proceedings

Proceedings incidental to our lending business

27.1 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. In August 2020, the secured real estate has been auctioned for RMB2.56 million. However, as of the date of this annual report, the proceeds are still held by Wuhan Wuchang People’s Court pending resolution of various ongoing legal proceedings.

Property Preservation Proceedings

27.2 On July 16, 2019, Shenzhen Lihe Wantong Commerical Factoring Co., Ltd (深圳立合旺通商业保理有限公司) (“Shenzhen Lihe Wangtong”) 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. As of the date of this annual report, our cash deposits and properties have not been released from the preservation order.

27.3 On September 4, 2019, Hubei Changjiang Microcredit Co., Ltd (湖北长江小额贷款有限公司) (“Hubei Changjiang”) 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. In July 2020, Hubei Changjiang applied for court enforcement and execution.

27.4 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 contract disputes. 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. As of the date of this annual report, our cash deposits and properties have not been released from the preservation order.

27.5 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. In August 2020, the parties entered into a mediation agreement whereby Mr. Wei and Ms. Yan agreed to pay the loan principal with penalty interests and costs in connection with the legal proceeding while Chutian, as the third respondent, will be responsible for 50% of the liabilities of Mr. Wei and Ms. Yan under the mediation agreement, should they fail to make the payments. As of the date of this annual report, Mr. Wei and Ms. Yan are still making payments pursuant to the mediation agreement.

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DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

27. Legal proceedings - continued

Property Services Contract Proceeding

27.6 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 became effective immediately. On November 10, 2020, court issued a preservation order that froze the assets of Chutian in the maximum amount of RMB220,000 or to seize or attach property in the corresponding value. On December 18, 2020, the court terminated the enforcement proceeding and will recommence the enforcement proceeding if enforceable assets are located and meet the enforcement requirements within five years.

In August, 2019, Xiamen Lianfa filed an action in the Wuhan Wuchang People’s Court against Chutian in connection with a property service contract dispute. The case was decided and concluded on October 12, 2020. The court found that Chutian failed to pay the owed property services fees to Xiamen Lianfa from September 1, 2019 to April 30, 2020. The court rendered a judgment in favor of Xiamen Lianfa and ordered Chutian to pay

property services fee in the amount of RMB310,311 for the period from September 1, 2019 to April 30, 2020 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 RMB310,311 and based on the People's Bank of China lending interest rate for the period from September 11, 2020 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. As of the date of this annual report, the judgment has not be enforced.

Li Ling Loan Dispute Proceeding

27.7 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. The 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.

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DUNXIN FINANCIAL HOLDINGS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

27. Legal proceedings - continued

Li Ling Loan Dispute Proceeding

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 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.

On July 27, 2020, the court terminated the enforcement proceeding and will recommence the enforcement proceeding if enforceable assets are located and meet the enforcement requirements.

28. Subsequent events

The Company performed a review of events subsequent to the balance sheet date through the date the financial statements were issued and determined that there were no such events requiring recognition or disclosure in the financial statements.

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DUNXIN FINANCIAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018, 2019 AND 2020

29. 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

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

29. 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:

	December 31, 2017		
	As previously reported	Adjustments	As currently reported
Statement of profit and other comprehensive income (extract)	RMB'000	RMB'000	RMB'000
Interest expense (note 29.1)	(38,140)	4,349	(33,791)
Total interest expense	(38,814)	4,349	(34,465)
General and administrative (note 29.2)	(26,720)	(8,175)	(34,895)
Total operating costs and expenses	(29,858)	(8,175)	(38,033)
Profit before income taxes (notes 29.1 and 29.2)	48,202	(3,826)	44,376
Income tax expense (notes 29.3 and 29.4)	(14,636)	(914)	(15,550)
Net profit	33,566	(4,740)	28,826
Basic and diluted earnings per share (note 29.5)	0.14	(0.04)	0.10

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

29. Correction of errors – continued

Balance sheet (extract)

As of December 31, 2017

	Restatement Adjustments			As currently reported RMB'000
	As previously reported RMB'000	Adjustments RMB'000	Other impacts RMB'000	
Current assets				
Prepaid expenses and others (note 29.6)	15,411	-	(14,928)	483
Total current assets	868,146	-	(14,928)	853,218
Non-current assets				
Prepayment for a property (note 29.6)	-	-	14,928	14,928
Deferred tax asset (note 29.5)	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 29.3)	14,851	269	-	15,120
Interest payable (note 29.1)	4,560	(731)	-	3,829
Other payable (notes 29.1 and 29.2)	15,730	10,986	-	26,716
Total current liabilities	265,076	10,524	-	275,600
Shareholders' equity				
Additional paid-in capital (note 29.2)	388,317	(5,143)	-	383,174
Statutory reserve (note 29.7)	7,751	-	5,614	13,365
General risk reserve (note 29.7)	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

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

29. Correction of errors – continued

	December 31, 2017			As currently reported RMB'000
	As previously reported RMB'000	Adjustments RMB'000	Other impacts RMB'000	
Cash flow Statement (extract)				

Cash flow from operating activities

Profit before income taxes (notes 29.1 and 29.2)	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 29.8)	-	-	(121,040)	(121,040)
Interest payable (note 29.1)	1,333	(731)	-	602
Other payable (notes 29.1 and 29.2)	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 29.8)	(397,190)	-	397,190	-
Repayments of loans from customers (note 29.8)	276,150	-	(276,150)	-
Net cash used in investing activities (note 29.8)	(135,968)	-	121,040	(14,928)
Cash flow from financing activities				
Share issuance expenses (note 29.2)	(9,198)	(6,429)	-	(15,627)
Proceeds received from shareholders' loans (note 29.9)	14,000	-	38,600	52,600
Repayment of shareholders' loans (note 29.9)	(4,000)	-	(38,600)	(42,600)
Proceeds received from loans payable (note 29.9)	402,300	-	(38,600)	363,700
Repayment of loans payable (note 29.9)	(386,400)	-	38,600	(347,800)
Net cash generated by financing activities	16,702	(6,429)	-	10,273

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

29. Correction of errors – continued

	December 31, 2016		
	As previously reported	Other impacts	As currently reported
Cash flow Statement (extract)	RMB'000	RMB'000	RMB'000
Cash flow from operating activities			
Loans receivable (note 29.8)	-	(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 29.8)	(446,264)	446,264	-
Repayments of loans from customers (note 29.8)	233,126	(233,126)	-
Net cash used in investing activities (note 29.8)	(213,138)	213,138	-

Cash flow from financing activities

Proceeds received from shareholders' loans (note 29.10)	2,000	48,000	50,000
Repayments of shareholders' loans (note 29.10)	(2,000)	(58,000)	(60,000)
Proceeds received from loans payable (note 29.10)	384,240	(48,000)	336,240
Repayments of loans payable (note 29.10)	(332,990)	58,000	(274,990)

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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.

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[Appendix 1 \(Cont'd\)](#)

Correction Of Errors – Year Ended 31 December 2017 (Cont'd)

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:

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[Appendix 1 \(Cont'd\)](#)

CONSOLIDATED STATEMENTS OF PROFIT AND OTHER COMPREHENSIVE INCOME
(Expressed in Thousands of Chinese Renminbi Yuan, except share and per share amounts)

	<u>As previously reported</u> 2017	<u>Adjustments</u>	<u>As currently reported</u> 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

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Appendix 1 (Cont'd)

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

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[Appendix 1 \(Cont'd\)](#)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Thousands of Chinese Renminbi Yuan)

	<u>As</u> <u>Previously</u> <u>reported</u> <u>2017</u>	<u>Adjustments</u>	<u>As</u> <u>currently</u> <u>reported</u> <u>2017</u>
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	<u>44,192</u>	<u>(114,611)</u>	<u>(70,419)</u>
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)	<u>(135,968)</u>	<u>121,040</u>	<u>(14,928)</u>
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	<u>16,702</u>	<u>(6,429)</u>	<u>10,273</u>
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	<u>21,717</u>	<u>-</u>	<u>21,717</u>

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[Appendix 1 \(Cont'd\)](#)

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.

	December 31, 2016		
	As previously reported	Adjustments	As currently reported
Cash flow Statement (extract)	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	<u>38,167</u>	<u>(213,138)</u>	<u>(174,971)</u>
Net cash generated/(used) by operating activities	<u>16,708</u>	<u>(213,138)</u>	<u>(196,430)</u>
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)	<u>(213,138)</u>	<u>213,138</u>	<u>-</u>

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)

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EXHIBIT 2.6**Description of Rights of Securities
Registered under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act")**

American Depositary Shares ("ADSs"), each representing the right to receive forty-eight (48) ordinary shares of Dunxin Financial Holdings Limited ("we," "our," "our company," or "us"), are listed and traded on the NYSE American LLC and, in connection with this listing (but not for trading), the ordinary shares are registered under Section 12(b) of the Exchange Act. This exhibit contains a description of the rights of (i) the holders of ordinary shares and (ii) the holders of ADSs. Ordinary shares underlying the ADSs are held by Deutsche Bank Trust Company Americas, as depositary, and holders of ADSs will not be treated as holders of the ordinary shares.

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and the Companies Act (As Revised) of the Cayman Islands, which is referred to as the Companies Act below.

As provided in our currently effective second amended and restated memorandum and articles of association (the "Memorandum and Articles of Association"), subject to the Companies Act, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction, and, for such purposes, full rights, powers and privileges. Our registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The following is a summary of material provisions of the Memorandum and Articles of Association, as well as the Companies Act insofar as they relate to the material terms of our ordinary shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Memorandum and Articles of Association, which has been filed with the SEC as an exhibit to our annual report on Form 20-F for the year ended December 31, 2019 filed on November 9, 2020.

We have adopted the Memorandum and Articles of Association authorizing the issuance of 2,000,000,000 ordinary shares, with a par value of \$0.00005 each. The number of ordinary shares that have been issued as of the last day of the financial year ended December 31, 2020 is provided on the cover of the annual report on Form 20-F filed on April [●], 2021. Certificates representing our ordinary shares are issued in registered form.

RIGHTS OF ORDINARY SHARES***General.***

Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their ordinary shares.

Dividends.

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Act. As a matter of Cayman Islands corporate law, we may declare and pay a dividend on its shares out of either profit or share premium account. No dividend may be declared and paid unless our directors determine that, immediately after the payment, we will be able to pay our debts as they become due in the ordinary course of business and we have funds lawfully available for such purpose.

Voting Rights.

Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of our board of directors or by any shareholder present in person or by proxy.

A quorum required for a meeting of shareholders consists of two shareholders who hold at least one-third of our issued and outstanding ordinary shares and entitled to vote, at the meeting present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least one-third of our issued and outstanding ordinary shares. Advance notice of at least seven days is required for the convening of our annual general meeting and other shareholders meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a general meeting, while a special resolution requires the affirmative vote of not less than two-thirds of the votes attaching to the ordinary shares cast at a general meeting. A special resolution will be required for important matters such as a change of name or making changes to the Memorandum and Articles of Association.

Transfer of Ordinary Shares.

Subject to the restrictions of the Memorandum and Articles of Association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share without reason. Our directors may also decline to register any transfer of any ordinary share unless

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- a fee of such maximum sum as the exchange on which the ordinary shares are listed may determine to be payable or such lesser sum as the directors may from time to time require is paid in respect thereof;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; or

- the ordinary shares transferred are free of any lien in favor of us.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

Liquidation.

Subject to any future shares which are issued with specific rights, (1) if we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the surplus shall be distributed amongst the shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise, and (2) if we are wound up and the assets available for distribution among the shareholders as such are insufficient to repay the whole of the share capital, those assets shall be distributed so that, as nearly as may be, the losses shall be borne by the shareholders in proportion to the par value of the shares held by them.

Calls on Ordinary Shares and Forfeiture of Ordinary Shares.

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption and Repurchase of Ordinary Shares.

Subject to the provisions of the Companies Act, we may issue ordinary shares on terms that are subject to redemption, at our option or at the option of the holders, in such manner as the board may determine before the issue of such ordinary shares. Our company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders.

Under the Companies Act, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (1) unless it is fully paid up, (2) if such redemption or repurchase would result in there being no shares outstanding, or (3) if the company has commenced liquidation.

Variation of Rights of Shares.

Whenever the capital of the Company is divided into different classes, all or any of the special rights attached to any class of shares may, subject to any rights or restrictions for the time being attached to any relevant class and the provisions of the Companies Act, only be materially adversely varied or abrogated either with the written consent of a majority of the holders of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

Inspection of Books and Records.

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than copies of our memorandum and articles of association, our register of mortgages and charge, and any special resolution passed by our shareholders). However, we will provide our shareholders with annual audited financial statements.

Changes in Capital.

We may from time to time by ordinary resolutions:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- convert all or any of our paid up shares into stock and reconvert that stock into paid up shares of any denomination;
- sub-divide our existing shares, or any of them into shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived;
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

We may by special resolution, and subject to the Companies Act, reduce our share capital and any capital redemption reserve in any manner authorized by law.

EXEMPTED COMPANY

We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company is not required to open its register of members for inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may in certain circumstances issue no par value, negotiable or bearer shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;

- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

DIFFERENCES IN CORPORATE LAW

The Companies Act is modeled after that of English law but does not follow many recent English law statutory enactments. In addition, the Companies Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the State of Delaware and their shareholders.

Mergers and Similar Arrangements

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a declaration as to the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and published in the Cayman Islands Gazette.

A merger between a Cayman Islands parent company and its Cayman Islands subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

Shareholders of a Cayman constituent company who dissent from the merger or consolidation have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures. In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court

of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the due majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

The Companies Act also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of a dissenting minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares (within four months), the offerer may, within a two month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders’ Suits

In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company, and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge actions where:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority”.

Indemnification of Directors and Executive Officers and Limitation of Liability

Cayman Islands law does not limit the extent to which a company’s 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. The Memorandum and Articles of Association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from

dishonesty, fraud or default of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we intend to enter into indemnification agreements with our directors and senior executive officers that will provide such persons with additional indemnification beyond that provided in the Memorandum and Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

Anti-takeover Provisions in the Memorandum and Articles of Association

Some provisions of the Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under the Memorandum and Articles of Association, for what they believe in good faith to be in the best interests of our company.

Directors' Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act *bona fide* in the best interests of the company, a duty not to make a profit based on his position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Action by Written Consent

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and the Memorandum and Articles of Association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder Proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Act provide shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. The Memorandum and Articles of Association allow our shareholders holding in aggregate not less than one-third of all votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings to requisition an extraordinary general meeting of our shareholders, in which case our board is obliged to convene an extraordinary general meeting and to put the resolutions so requisitioned to a vote at such meeting. Other than this right to requisition a shareholders' meeting, our Memorandum and Articles do not provide our shareholders with any other right to put proposals before annual general meetings or extraordinary general meetings not called by such shareholders. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

Cumulative Voting

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but the Memorandum and Articles of Association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under the Memorandum and Articles of Association, directors may be removed with or without cause, by an ordinary resolution of our shareholders. A director shall hold office until the expiration of his or her term or his or her successor shall have been elected and qualified, or until his or her office is otherwise vacated. In addition, a director's office shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns his office by one month's notice in writing to the company; (iv) without special leave of absence from the board of directors, is absent from meetings of the board of directors for three consecutive meetings and the board of director resolves that his office be vacated; or (v) is removed from office pursuant to any other provision of the Memorandum and Articles of Association

Transactions with Interested Shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's

outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into *bona fide* in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Act and the Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

Variation of Rights of Shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and the Memorandum and Articles of Association, if our share capital is divided into more than one class of shares, we may materially adversely vary or abrogate the rights attached to any class only with the written consent of a majority of the holders of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

Amendment of Governing Documents

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law and the Memorandum and Articles of Association, the Memorandum and Articles of Association may only be amended with the vote of holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders.

Rights of Non-resident or Foreign Shareholders

There are no limitations imposed by the Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in the Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

Deutsche Bank Trust Company Americas, as depositary, will register and deliver the ADSs. Each ADS will represent ownership of forty-eight (48) ordinary shares deposited with the office in Hong Kong of Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS will also represent ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

We will not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, will not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary will be the holder of the ordinary shares underlying your ADSs. As a holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary and you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. The laws of the State of New York govern the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement.

Holding the ADSs

How will you hold your ADSs?

You may hold ADSs either (1) directly (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (b) by holding ADSs in the DRS, or (2) indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on 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 as of the record date (which will be as close as practicable to the record date for our ordinary shares) set by the depositary with respect to the ADSs.

- **Cash.** The depositary will convert any cash dividend or other cash distribution we pay on the ordinary shares or any net proceeds from the sale of any ordinary shares, rights, securities or other entitlements into U.S. dollars if it can do so on a reasonable basis, and can transfer the U.S. dollars to the United States. If that is not possible or lawful or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

- Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, that must be paid, will be deducted. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.
- **Shares.** The depositary may, upon our timely instruction, distribute additional ADSs representing any ordinary shares we distribute as a dividend or free distribution to the extent reasonably practicable and permissible under law. The depositary will only distribute whole ADSs. It will try to sell ordinary shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new ordinary shares. The depositary may sell a portion of the distributed ordinary shares sufficient to pay its fees and expenses in connection with that distribution.

- **Elective Distributions in Cash or Shares.** If we offer holders of our ordinary shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice of such elective distribution by us, has discretion to determine to what extent such elective distribution will be made available to you as a holder of the ADSs. We must first instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practical to make such elective distribution available to you, or it could decide that it is only legal or reasonably practical to make such elective distribution available to some but not all holders of the ADSs. In such case, the depositary shall, on the basis of the same determination as is made in respect of the ordinary shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing ordinary shares in the same way as it does in a share distribution. The depositary is not obligated to make available to you a method to receive the elective dividend in shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of ordinary shares.
- **Rights to Purchase Additional Shares.** If we offer holders of our ordinary shares any rights to subscribe for additional shares or any other rights, the depositary may after consultation with us and having received timely notice of such distribution by us, make these rights available to you. We must first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is legal to do so. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary will use reasonable efforts to sell the rights and distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay. U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place. However, (i) no restricted ADSs will be delivered by the depositary unless an exemption from registration is available for such rights offering to the ADS holders and the receipt of the restricted ordinary shares by the depositary on behalf of

such holders, (ii) such restricted ordinary shares would be deposited into a separate restricted ADS facility that would be established specifically for the purpose of ensuring that the restricted ADSs are clearly segregated from the freely tradable ADSs and (iii) restricted ordinary shares would only be permitted to be deposited into the main depositary facility based on an opinion of counsel that such shares are no longer restricted.

- **Other Distributions.** Subject to receipt of timely notice from us with the request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and feasible and in accordance with the terms of the deposit agreement, the depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice: it may decide to sell what we distributed and distribute the net proceeds in the same way as it does with cash; or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to you unless it receives satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposit ordinary shares or evidence of rights to receive ordinary shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto.

Except for ordinary shares deposited by us in connection with our ADSs offering, no shares will be accepted for deposit during a period of 180 days after the date of the ADSs offering. The 180-day lock-up period is subject to adjustment under certain circumstances as described in the section entitled “Shares Eligible for Future Sale — Lock-up Agreements.”

How do ADS holders cancel an American Depositary Share?

You may turn in your ADSs at the depositary’s corporate trust office or by providing appropriate instructions to your broker. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the ordinary shares and any other deposited securities underlying the ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, if feasible.

How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of

uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

You may instruct the depositary to vote the ordinary shares or other deposited securities underlying your ADSs. You could exercise your right to vote directly if you withdraw the ordinary shares. However, you may not know about the meeting sufficiently in advance to withdraw the ordinary shares.

Upon receipt of timely notice from us, as described in the deposit agreement, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will describe the matters to be voted on and explain how you may instruct the depositary to vote the ordinary shares or other deposited securities underlying your ADSs as you direct, including an express indication that instructions may be given (or deemed given in accordance with the second to last sentence of this paragraph if no instruction is received) to the depositary to give a discretionary proxy to a person designated by us. For instructions to be valid, the depositary must receive them on or before the date specified. The depositary will try, as far as practical, subject to the laws of the Cayman Islands and the provisions of the Memorandum and Articles of Association, as amended and restated, to vote or to have its agents vote the ordinary shares or other deposited securities as you instruct. The depositary will only vote or attempt to vote as you instruct. If we timely requested the depositary to solicit your instructions but no instructions are received by the depositary from an owner with respect to any of the deposited securities represented by the ADSs of that owner on or before the date established by the depositary for such purpose, the depositary shall deem that owner to have instructed the depositary to give a discretionary proxy to a person designated by us with respect to such deposited securities, and the depositary shall give a discretionary proxy to a person designated by us to vote such deposited securities. However, no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter if we inform the depositary we do not wish such proxy given, substantial opposition exists or the matter materially and adversely affects the rights of holders of the ordinary shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the ordinary shares underlying your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and you may have no recourse if the ordinary shares underlying your ADSs are not voted as you requested.

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to deposited securities, if we request the depositary to act, we will try to give the depositary notice of any such meeting and details concerning the matters to be voted upon sufficiently in advance of the meeting date.

Fees and Charges

As an ADS holder, you will be required to pay the following service fees to the depositary bank:

Service	Fees
• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property	Up to US 5 ¢ per ADS issued
• Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US 5 ¢ per ADS canceled

• Distribution of cash dividends or other cash distributions	Up to US 5 ¢ per ADS held
• Distribution of ADSs pursuant to share dividends, free share distributions or exercise of rights	Up to US 5 ¢ per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs	A fee equivalent to the fee that would be payable if securities distributed to you had been ordinary shares and the ordinary shares had been deposited for issuance of ADSs
• Depository services	Up to US 5 ¢ per ADS held on the applicable record date(s) established by the depository bank
• Transfer of ADRs	US\$1.50 per certificate presented for transfer

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depository bank and certain taxes and governmental charges such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

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 depositary banks.

In the event of refusal to pay the depositary fees, the depositary 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 depositary fees from any distribution to be made to the ADS holder.

The depositary 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 depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. Further, the depositary has agreed to reimburse us certain fees payable to the depositary by holders of ADSs. Neither the depositary nor we can determine the exact amount to be made available to us because (i) the number of ADSs that will be issued and outstanding, (ii) the level of service fees to be charged to holders of ADSs and (iii) our reimbursable expenses related to the program are not known at this time.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any net proceeds, or send to you any property, remaining after it has paid the taxes. You agree to indemnify us, the depositary, the custodian and each of our and their respective agents, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you.

Reclassifications, Recapitalizations and Mergers

If we:

Change the nominal or par value of our ordinary shares
Reclassify, split up or consolidate any of the deposited securities
Distribute securities on the ordinary shares that are not distributed to you
or
Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action

Then:

The cash, shares or other securities received by the depositary will become deposited securities.
Each ADS will automatically represent its equal share of the new deposited securities.
The depositary may distribute some or all of the cash, shares or other securities it received. It may also deliver new ADSs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or

expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so, in which case the depositary will give notice to you at least 60 days prior to termination. The depositary may also terminate the deposit agreement if the depositary has told us that it would like to resign and we have not appointed a new depositary within 90 days. In such case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver ordinary shares and other deposited securities upon cancellation of ADSs after payment of any fees, charges, taxes or other governmental charges. Six months or more after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the *pro rata* benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The depositary's only obligations will be to account for the money and other cash. After termination, our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we agreed to pay.

Books of Depositary

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary will maintain facilities in New York to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed from time to time, to the extent not prohibited by law or if any such action is deemed necessary or advisable by the depositary or us, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the ADRs or ADSs are listed, or under any provision of the deposit agreement or provisions of, or governing, the deposited securities, or any meeting of our shareholders or for any other reason.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without gross negligence or willful misconduct;

- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement, including, without limitation, requirements of any present or future law, regulation, governmental or regulatory authority or share exchange of any applicable jurisdiction, any present or future provisions of our memorandum and articles of association, on account of possible civil or criminal penalties or restraint, any provisions of or governing the deposited securities or any act of God, war or other circumstances beyond our control as set forth in the deposit agreement;
- are not liable if either of us exercises, or fails to exercise, discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement, or for any indirect, special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other party;
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;
- disclaim any liability for any action/inaction in reliance on the advice or information of legal counsel, accountants, any person presenting ordinary shares for deposit, holders and beneficial owners (or authorized representatives) of ADSs, or any person believed in good faith to be competent to give such advice or information;
- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADSs; and
- disclaim any liability for any indirect, special, punitive or consequential damages.

The depositary and any of its agents also disclaim any liability for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the creditworthiness of any third party, or for any tax consequences that may result from ownership of ADSs, ordinary shares or deposited securities.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the depositary will issue, deliver or register a transfer of an ADS, make a distribution on an ADS, or permit withdrawal of ordinary shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any ordinary shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;
- satisfactory proof of the identity and genuineness of any signature or other information it deems

necessary; and

- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depositary or our transfer books are closed or at any time if the depositary or we think it is necessary or advisable to do so.

Your Right to Receive the Shares Underlying Your ADSs

You have the right to cancel your ADSs and withdraw the underlying ordinary shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of ordinary shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our ordinary shares;
- when you owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of ordinary shares or other deposited securities. This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADSs

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying ordinary shares. This is called a pre-release of the ADSs. The depositary may also deliver ordinary shares upon cancellation of pre-released ADSs (even if the ADSs are cancelled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying ordinary shares are delivered to the depositary. The depositary may receive ADSs instead of ordinary shares to close out a pre-release. The depositary may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depositary in writing that it or its customer (a) owns the ordinary shares or ADSs to be deposited, (b) assigns all beneficial rights, title and interest in such ordinary shares or ADSs to the depositary for the benefit of the owners, (c) will not take any action with respect to such ordinary shares or ADSs that is inconsistent with the transfer of beneficial ownership, (d) indicates the depositary as owner of such ordinary shares or ADSs in its records, and (e) unconditionally guarantees to deliver such ordinary shares or ADSs to the depositary or the custodian, as the case may be; (2) the pre-release is fully collateralized with cash or other collateral that the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days' notice. Each pre-release is subject to further indemnities and credit regulations as the depositary considers appropriate. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so, including (1) due to a decrease in the aggregate number of ADSs outstanding that causes existing pre-release transactions to temporarily exceed the limit stated above or (2) where otherwise required by market conditions.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the depositary may register the ownership of uncertificated ADSs, which

ownership shall be evidenced by periodic statements issued by the depository to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depository to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depository of prior authorization from the ADS holder to register such transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depository will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the depository's reliance on, and compliance with, instructions received by the depository through the DRS/Profile System and in accordance with the deposit agreement, shall not constitute negligence or bad faith on the part of the depository.

The Depository

The depository is Deutsche Bank Trust Company Americas. The depository is a state chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The depository was incorporated as a limited liability bank on March 5, 1903 in the State of New York. The registered office of the depository is located at 60 Wall Street, New York, NY 10005 and the registered number is BR1026. The principal executive office of the depository is located at 60 Wall Street, New York NY 10005. The depository operates under the laws and jurisdiction of the State of New York.

EXHIBIT 4.9

Employment Agreement

Name: Zhou Xiang
Address: Room 201, No.26,88 Jinyu Road, Minhang District, Shanghai
ID No.:310109197511095230

Dear Mr. Zhou Xiang:

I have the honour, on behalf of Dunxin Financial Holdings Limited, a limited company incorporated under the laws of Cayman Islands ("Cayman") (hereinafter referred to as "the Company", together with its parent and subsidiary companies collectively known as the "Group"), to extend to you the following invitation to serve in accordance with the following terms and conditions:

I. Duration of Employment

Your employment relationship with us commences on March 30, 2021, with an initial term of one year, provided, however, the term of your employment is subject to successive, automatic one-year extensions unless either party gives notice of non-extension to the other party at least 30 days prior to the end of the applicable term.

II. Position and Responsibilities

1. The position you will hold is Chief Financial Officer. In this position, you will report directly to the CEO and Board of Directors of the Company. Your duties are related to the position you hold. We reserve the right to adjust your responsibilities and transfer your duties within the Group.

2. Except with the prior approval of the Board of Directors of the Company and other than the period of leave and reasonable absence due to illness, injury or other obstacles, you shall, within the term of this Agreement, use all working hours for the services specified in this Agreement. During the term of this Agreement, you shall only serve the Company and shall do your best to promote the business and interests of the Company in a manner consistent with your position.

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3. Whether or not this Agreement provides otherwise, during the period of this Agreement, (i) you shall not work for other companies or units directly or indirectly competing with the Company in independent, non-independent positions or any other position, and (ii) you shall not create, purchase or obtain direct or indirect benefits in any other company or unit directly or indirectly competing with the Company.

III. Working Hours

Normal working hours are eight (8) hours a day (excluding meals and rest time) and work at Wuhan headquarters for at least 4 days a month. With mutual agreement, your salary standard (defined below) has taken into account the work you may undertake outside normal working hours to ensure that you properly complete the work assigned to you under this Agreement.

IV. Salary and Assessment

1. A total annual salary of RMB 480,000, is as follows:

Salary standard = (cash salary RMB 360,000 on a monthly basis)

Cash wage = fixed wage (position wage + skill wage)+ floating wage (performance wage)+ welfare allowance (lunch allowance, transportation allowance + communication allowance + accommodation allowance)

2. Cash payroll: on the 15th day of a month in cash to your personal account.

3. Stock and other benefits: You are entitled to participate in the Company's equity incentive plans and other Company benefits, each as determined by the Board from time to time.

V. Confidentiality / Intellectual Property

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Any time during the period of employment with the Company after termination for whatever reason (no time limit), unless authorized by the Company or authorized by a court of administration, or in accordance with the relevant laws, otherwise you shall not relate (i) to the Company or any of its affiliates (as defined below) or any of its consumers, customers, suppliers or business partners (of the Company or any of its affiliates), (ii) any research, method, technology, process flow, design or invention carried out or used by the Company, any associated party of the Company or any of its consumers, customers, suppliers or business partners, or (iii) in connection with its obligation of confidentiality to any third party, any trade secrets, technical secrets or financial, trade or other

information (“confidential information”), divulge to any person, or communicate with any person, or use for their own purposes or for any purpose other than the Company, or cause any unauthorized disclosure or publication. The above restrictions do not apply to any information or knowledge that may be available to the general public (except in the case of public knowledge due to your unauthorized disclosure or negligence). In this Agreement, “Related party” means a person who is directly or indirectly controlled or controlled by one or more intermediate parties, or jointly controlled with the subject in other parties. The term “control” used in the preceding sentence (including interrelated “control”, “controlled” and “jointly controlled”) means the right to direct or induce others to direct the administration and system of the subject, whether directly or indirectly through the possession of voting securities, contracts or other means, or through other relationships that in fact constitute actual control. “Subject” means any natural person, company, limited liability company, unincorporated organization, partnership, association, joint-stock company, joint venture, trust or government, or any institution or political branch of government or any other entity.

As a condition of employment with the Company, you further agree that all intellectual property rights (including, but not limited to, copyright, design rights, trademark rights, technical secrets and patents, whether registered or applied) existing in all drawings, plans, designs, designs and other documents prepared or created at any time during your employment with the Company shall be exclusively the property of the Company; And at the request of the Company, you shall sign or perform as soon as possible the documents or other acts or matters that the Company may require to grant such rights to the Palace, at your own expense. You agree to inform us of any potential intellectual property created during your re-employment period.

If the Company is suffered from damages by your breach of the above confidentiality / intellectual property obligations, you shall pay damages equal to 12 times your average monthly salary of 12 months before the actual termination of employment. If the aforesaid amount does not fully compensate for the loss of the Company, the Company shall have the right to claim damages by filing a civil action.

VI. Termination of Employment

1. Termination without cause

Generally, the Company has the right to terminate your employment relationship for any reason permitted by the relevant law. If we terminate your employment without “reason” (as defined below) before the expiration of this Agreement, After you sign a general waiver in the form or content to the satisfaction of the Company (which shall not be revoked) (if applicable), we shall pay you a separation indemnity equal to (1) times your current monthly salary. With the exception of the current basic salary and separation indemnity as of and including the date of termination, you have no further right to receive any other remuneration from the Company after the termination of the employment relationship. For the purposes of this Article 5(1) and the termination indemnity under this Agreement, resignation for reasonable reasons (as defined below) shall be deemed to have been terminated by the Company for no reason.

Termination date, in the absence of “reason” to terminate the employment relationship, the termination date shall be the date specified in the written termination notice issued to you by the Company (usually the date of the notice).

2. Termination for reasons: resignation

It is generally stipulated that if the Company terminates your employment relationship for “reasons” (as defined below) before the expiration of this Agreement, or if you resign, you will only receive the current basic salary as of and including the date of termination or the date of resignation. You have no further right to receive any other remuneration from the Company after the termination or resignation of the employment relationship. For the

purposes of this Article 6(2), if the Company proposes to renew the term of employment and you do not accept it, the end of the term of employment specified in Article 2 shall be deemed to be your resignation from the Company.

Termination date: the date of termination for “reason” shall be the date specified in the written termination notice issued to you by our company. When you resign, the date of termination shall be the following date : (a) the date specified in your written notice to the Company (which shall not be less than thirty days from the date of the written notice) when you resign for no “reasonable reason” (as defined below), or, if not specified in the written notice, the date of termination shall be the thirtieth day after the Company receives your written notice of resignation and (b) the date of termination shall be the date of your actual resignation after the period of compensation specified in Article 6(4) upon resignation for “reasonable reasons”.

1. Reasons

For the purposes of this Agreement, termination of “reason” shall mean termination of your employment relationship on the following grounds:

- (1) any act or omission constituting your breach of your obligations under this Agreement;
 - (2) you are investigated for criminal responsibility according to relevant laws and regulations;
 - (3) any intentional violation or breach of the Company's major corporate governance rules or regulations;
- and
- (4) there are any intentional misconduct, gross negligence or dishonesty or fraud in the performance of your duties which have caused great damage to our company

3. Return of property

All documents, designs, plans, information, data, records or other property (whether tangible or intangible), including all electronic storage information (including all copies), and all “confidential” information, including all copies of all such confidential information, which you own or control, that belong to or are related to the Company or its business, services, consumers, customers, potential customers and suppliers, shall be the exclusive property of the Company and shall be returned immediately at the request of the Company, and you shall return any of the above information no later than the termination date of your employment.

VII. Other Articles

You shall provide to our company certificate or information such as identity card, passport, work experience and job skills. You shall guarantee the authenticity of the above certificate or information, and you shall guarantee (i) that there is no employment relationship with any other company or entity, and (ii) that there is no non-competition obligation or any other obligation affecting employment, that (iii) there is no dispute with the former employer, that (iv) all property of the former employer has been returned, and that (v) you will not use any information from the former employer for your work in the company. Any false statement made by you in respect of the above matters will constitute a material breach of our policy, and we shall have the right to terminate this Agreement without any additional remuneration to you.

You agree to strictly abide by all the provisions of this Agreement and all other systems of the Company (including the version revised from time to time by our own decision).

VIII. Dispute Resolutions

Any dispute, objection, dispute or claim of any kind arising or arising between the parties in connection with any matter or matter arising out of or in connection with this Agreement shall first be settled by negotiation. If consultation fails, both parties may file a lawsuit with the Wuchang District People's Court of Wuhan City.

I hereby

(No text below)

Name: /s/ Ricky Qizhi Wei Name: /s/ Xiang Zhou

Title: CEO

Address: Lianfa International Building,
Wuchang District, Wuhan City
March 30, 2021

EXHIBIT 12.1

CERTIFICATION

I, Ricky 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: April 29, 2021

/s/ Ricky Qizhi Wei

Name: Ricky Qizhi Wei

Title: Chief Executive Officer

EXHIBIT 12.2

CERTIFICATION

I, Xiang Zhou, 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: April 29, 2021

/s/ Xiang Zhou

Name: Xiang Zhou

Title: Chief Financial Officer

EXHIBIT 13.1

CERTIFICATION

In connection with the annual report of Dunxin Financial Holdings Limited (the "Company") on Form 20-F for the year ended December 31, 2020 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: April 29, 2021

/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.

EXHIBIT 13.2

CERTIFICATION

In connection with the annual report of Dunxin Financial Holdings Limited (the “Company”) on Form 20-F for the year ended December 31, 2020 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: April 29, 2021

/s/ Xiang Zhou

Name: Xiang Zhou

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.

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