

Annual Report 2018 | China



microcred
美兴小额贷款
BAOBAB GROUP



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BAOBAB GROUP

Leader in digital financial inclusion in Africa and China

OUR MISSION

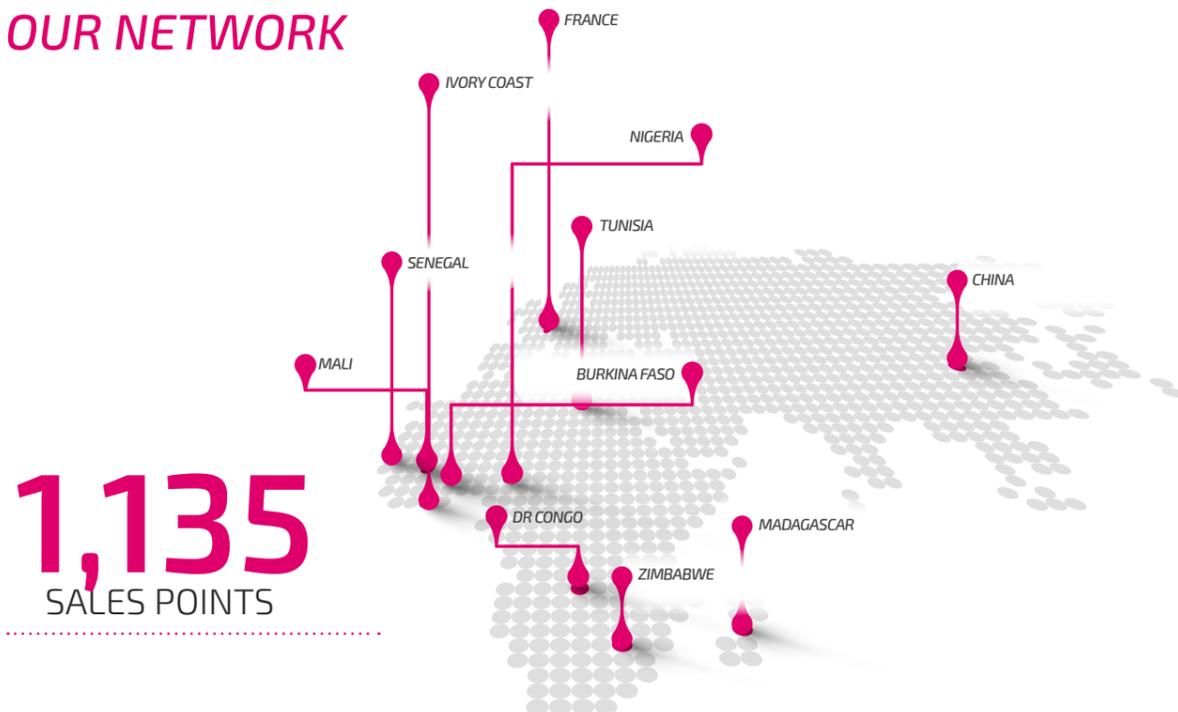
Our mission is to unleash the potential of our customers by offering them simple and easy-to-use financial services.

We offer a wide range of digital and mobile solutions enabling our customers to manage their finances simply, quickly and securely.

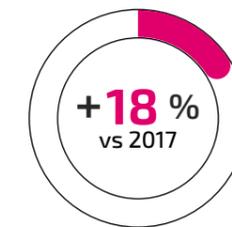


OUR CLIENTS **+880,000** OUR EMPLOYEES **+4,000** LOANS DISBURSED IN 2018 **+400,000**

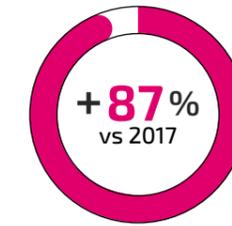
OUR NETWORK



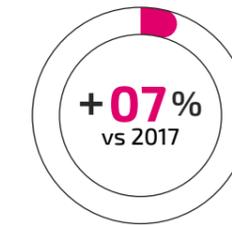
OUR KEY FIGURES



TOTAL ASSETS
752
M EUR



NET RESULT
17,8
M EUR



TOTAL EQUITY
140
M EUR



44% DIGITAL LOANS IN 2018
50% CLIENTS UNDER 35 YEARS OLD
45% EMPLOYEES ARE WOMEN

OUR SHAREHOLDERS



MEET MICROCRED CHINA



2018 KEY FIGURES

Microcred China provides financial products and services to micro, small and medium enterprises (MSMEs) excluded from the traditional financial system. As a result, Microcred China participates in the improvement of its clients' daily lives and in the economic development of China.

Microcred China is a Limited Liability Company created in early 2007 and based in Hong Kong to invest in the development of microfinance in China. Microcred China fully owns Microcred Nanchong and Microcred Sichuan, the Group's two Chinese institutions operating under two microcredit company (MCC) licenses in the province of Sichuan.

Since then, it has become a leader in the province's microfinance industry with, as of end of December 2018, close to 180,000 loans provided to hundreds of thousands of MSMEs. The total amount of loans granted stands at CNY 10.6 billion (EUR 1.3 billion).

As of December 2018, Microcred China has 44 branches and outlets throughout the Sichuan Province.



TOTAL ASSETS
1,7Bn
HKD

0,53% PORTFOLIO AT RISK 30 DAYS

OUR CLIENTS
23 397



NET RESULT
60,4M
HKD

OUR EMPLOYEES
574

44 POINTS OF PRESENCE



TOTAL EQUITY
0,8Bn
HKD

LOAN PORTFOLIO
HKD M





A word from
**BODO
LIEBERAM**
CHIEF EXECUTIVE
OFFICER'S STATEMENT

“ In 2019, we will continue the process of transforming Microcred China. ”

2018 was a good year in spite of looming economic and political uncertainty. The global economic outlook trended downwards in 2018 reflecting a combination of several factors including escalating trade tensions, macroeconomic and political tensions in many emerging markets and tightening financial conditions.

In China economic activities have been adversely affected by the ongoing trade conflict with the United States. It may have a negative impact on the Chinese market in general, but we believe that most of our clients should not be affected significantly since they have very strong ties with the local basic economy.

Despite these mixed developments, we see significant opportunities and expect continued growth for Microcred China. Providing innovative financial solutions to micro, small and medium enterprises and consumers to support real economic activity remains the key element of our activities in China.

In 2019, we will continue the process of transforming Microcred China. We will upgrade our talent pool with training to better position the Group for the many changes and challenges in our market. We will energise our strategy and business model to take greater advantage of the impact of digital technology and artificial intelligence. We will review our portfolio to focus on high growth markets and to improve profitability and efficiency. In brief, we will continue to work actively to position Microcred China to take advantage of the emerging opportunities in the Chinese market.

In conclusion, on behalf of the Board and Shareholders, I would like to extend our appreciation and gratitude to the management team, employees, customers and other stakeholders for their commitment and dedication to the continued success of Microcred China.

We look forward to the future with confidence, guided by our commitment to improve the lives of our customers and their businesses in the markets we serve. ●

A word from
**HE
LIANGGANG**
CHIEF OPERATING
OFFICER'S STATEMENT



“ Our loan portfolio reached HKD 1,653 million ”

Financial inclusion and access to credit for MSMEs is one of the key challenges for emerging countries and particularly for China. It is in this context that the Baobab Group became one of the leaders in the financial inclusion sectors in China and Africa.

As of December 2018, Microcred China has disbursed 181,244 loans for a total amount of HKD 12,611 million (1.4MEUR). With loans starting at a few hundred euros to 200,000 euros, Microcred China supports enterprises from micro to small and medium-sized (more than 23,000 clients). Our loan portfolio reached HKD 1,653 million (184.6 MEUR), representing a growth of almost 17% compared to 2017.

The consolidated Net Income After Tax reached HKD 60.4 million (6.5 MEUR) for a return on equity of 8%, which makes Microcred China one of the best performers among microfinance companies (financing MSMEs) in China.

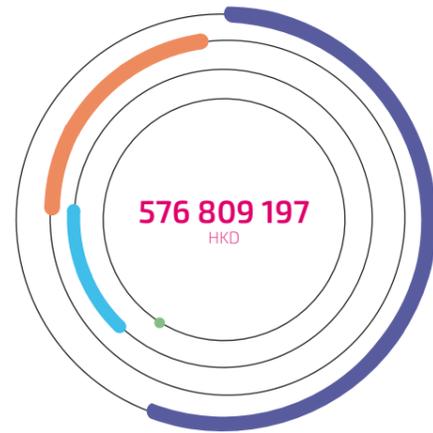
In recent years, Microcred China has focused on delivering digital solutions to provide seamless and secure financial transaction capabilities to our customers. In 2018, 100% of our disbursements and 30% of the repayments were done through third party payment systems.

Digital solutions enable Microcred to further improve the customer experience which is why it is at the core of our Group "Destination 2020" strategic transformation. In this context, 2018 was also the occasion to further develop the functionalities clients can use through Microcred's WeChat page. In addition, Microcred China introduced electronic loan contracts that can be signed digitally, without going to one of the branches.

With more than 550 employees and a network of 44 points of service, Microcred China is above all a group of committed employees with a strong corporate culture. Many of our current leaders have built their careers within the Group and have been able, thanks to training opportunities offered by the Group, to grow into management positions.

The year 2019 offers many opportunities for Baobab, its customers, shareholders and employees with new offers and products. ●

SHAREHOLDING STRUCTURE



- 71,10 % • BAOBAB SAS
- 14,30 % • IFC
- 9,80 % • KFW
- 4,80 % • DW Markets

BOARD OF DIRECTORS



▶ **Arnaud VENTURA**
CHAIRMAN
FOUNDER AND CEO BAOBAB GROUP



▶ **Hervé GUYON**
GENERAL SECRETARY
BAOBAB GROUP



▶ **Stephen HARNER**
DWM/KFW



▶ **Joel Lewis EPSTEIN**
INDEPENDENT

CHINA

AT A GLANCE



MACROECONOMIC CONTEXT

China's economy advanced 6.6% year-on-year in 2018. Gross domestic product totaled HKD 106.8 trillion (EUR 11.4 trillion) in 2018, more than half of which was from the service sector. Consumption remained the major economic growth driver, contributing 76.2% to GDP growth last year. Retail sales, a main gauge of consumption, rose 9% from a year earlier.¹

Southwest China's Sichuan Province reported GDP of HKD4,826 billion (EUR 538.7 billion) in 2018, rising 8% from the previous year. The service sector saw faster growth of 9.4%, contributing to over half of the GDP for the first time. Its industrial output grew 8.3% year on year, 2.1% points higher than the national average. Its foreign trade surged 29.2%

to 594.8 billion yuan. The per capita disposable income for Sichuan residents increased 7.3% in real terms to HKD 26,650 (EUR 2,975).²

China will intensify its support for the development of the private sector, and small and medium-sized enterprises (SMEs) to boost the vitality of market entities and enhance their confidence. The private sector in China, which is mainly composed of SMEs accounting for 90% of all businesses, now contributes more than 50% of tax revenues, over 60% of GDP, more than 70% of technological innovations and over 80% of urban employment. Private businesses have become a key driving force for economic growth and social progress.³

MICRO & SMALL BUSINESS FINANCE SECTOR

According to the People's Bank of China (PBOC), China's total social financing in 2018, namely the total credit issuance to domestic non-financial enterprises and households, was HKD 22.8 (EUR 2.4) trillion, for a decrease of HKD 3.72 trillion (EUR 0.42 trillion)⁴.

The micro & small business finance sector in China mainly consists of 8,133 operating Microcredit Companies (MCCs), with a combined registered capital of KHD 992 billion (EUR 107 billion), that is 418 MCCs

less and CNY 10.6 billion (EUR 1.1 billion) more than at the end of 2017. The loan balance amounted to HKD 1,133 billion (EUR 126 billion) in December 2018, decreasing by HKD 29 billion (EUR 3.2 billion) in 2017⁵.

In Sichuan Province alone, the number of operating MCCs went down from 322 to 293 and the loan balance from HKD 72 billion (EUR 8 billion) to HKD 65 billion (EUR 7.1 billion) between the end of 2017 and 2018⁶.

DIGITAL FINANCE IN CHINA

In 2018, China strengthened the regulation management of Peer-to-Peer (P2P) companies. Many P2P companies exited this niche market due to a series of compliance inspections. The market research firm, Yingcan Group, reported that the number of P2P lenders declined by 50% to 1,021 in 2018. What's more, no new companies have entered the market since August⁷.

In February, China Central Bank approved the establishment of Baihang Credit, which is China's only licensed market-based personal credit agency. Baihang Credit was launched in response to the rapid growth of the Internet and online personal finance in China, as well as the rapid accumulation of personal information by P2P platforms and other online lenders⁸.

On the other hand, China made extraordinary progress in the Fintech sector during the year. Financial providers seek solutions from fintech companies for efficiency gains, improved client experience and product & service innovation⁹.



1. China Daily, China's economy: Taking stock of 2018
2. GOCHENGDU.CN, Sichuan's GDP Reaches 598 bln USD in 2018
3. XINHUANET, State Council unveils policy support for SME growth
4. China Banking News, Total Social Financing in 2018 Hits 19.26T Yuan for YoY Decline of 3.14T
5. China Finance Net, 中国人民银行公布 2018 年小额贷款公司统计数据报告

6. China Finance Net, 中国人民银行公布 2018 年小额贷款公司统计数据报告
7. Bloomberg, China P2P Lending Crackdown May See 70% of Firms Close
8. China Banking News, Baihang Credit
9. PWC 2018 China Fintech survey

BUSINESS INSIGHT



2018 HIGHLIGHTS

BUSINESS DEVELOPMENT

In 2018, Microcred China was devoted to becoming a modern MCC in China, using technology to make operations more efficient. As a microfinance institution focusing on the underserved and unserved market, Microcred China remains dedicated to its mission of providing financial services to low-income groups.

In 2018, Microcred China established 1 new branch in Neijiang, increasing the network to a total of 44 branches that cover 13 prefecture cities in Sichuan province. In the same year, it disbursed 24,533 loans, corresponding to HKD 2,572 million (287 MEUR), up 19 % year on year.

By the end of 2018, Microcred China had 23,629 active clients with outstanding loans amounting to HKD 1,653 million (184.6 MEUR), representing an annual increase of 18%. The portfolio-at-risk (PAR) ratio over 30 days was 0.53 %.

CAPITAL INCREASE

In order to sustain the subsidiaries' growth, the Board approved capital increases for MC Nanchong and MC Sichuan of HKD 38.3 million (4.3 MEUR) and HKD 41.5 million (4.6 MEUR) respectively, during the September Board meeting. At present, all related documents are finished and confirmed. The registered capital of Microcred Nanchong was increased to HKD 394 million (44 MEUR) and Microcred Sichuan was increased to HKD 219 million (24.5 MEUR)

ADB AND MC CHINA PARTNERSHIP TO IMPROVE ACCESS TO FINANCE FOR MSMEs

In 2018, the Asian Development Bank (ADB) agreed to loan the equivalent of USD 20 million (17 MEUR) to provide much-needed micro and small loans to individual entrepreneurs

and micro, small, and medium-sized enterprises (MSMEs) in the western regions of the People's Republic of China (PRC).

ADB's Private Sector Operations Department Deputy Director General Mr. Christopher Thieme explained that micro, small, and medium-sized enterprises represent an important part of China's economy, and that Microcred China has the capacity to support entrepreneurs and MSMEs in the western region of China. The partnership has proved that Microcred China has attracted a large number of well-known investors by virtue of stable business development, excellent loan quality and continuous improvement of management structure.

EXTERNAL COMMUNICATIONS



Microcred China has become famous in the international and domestic microfinance

market after 11 years of steady development. Microcred China has maintained its goal to continually "share, encourage and improve together" and puts this into practice when communicating with local financial authorities, associations and microfinance companies.

In 2018, around 200 staff from 81 MCCs came to Microcred to exchange on microfinance topics. On June 20-21, under the organization of the China Micro-credit Companies Association, 50 executives from 35 MCCs of 16 provinces arrived in Nanchong to learn from Microcred's model. On September 5, Sichuan provincial FMO organized a total of 88 middle managers from 30 MCCs in the province to visit Microcred Nanchong. Through these activities, more and more MCCs have decided to follow Microcred's lead and shift their business to micro-loans.

Microcred China hopes to provide stronger support locally and to promote the development of inclusive finance throughout China.

ACHIEVEMENTS AND AWARDS

Year after year, numerous organizations give recognition to Microcred's business model, its positioning in the microfinance industry and its impact on local business development. In 2018 Microcred was awarded:

- 2018 National Excellent Microfinance Company by the China Micro-credit Companies Association
- 2018 Sichuan Excellent Microfinance Company by the Sichuan Microcredit

- Association
- 2018 Best Social Responsibility Award of Sichuan Province by the Sichuan Microcredit Association
 - Grade A rating of Sichuan province Microfinance Industry by the Sichuan Microcredit Association
 - 2018 Best Risk Control Company by the Chengdu Microcredit Association
 - 2018 Small and Micro Business Service Award by the Chengdu Microcredit Association

OUR CLIENTS

At the end of 2018, Microcred Zimbabwe had 3,069 clients, 98% being micro entrepreneurs and 2% SMEs. Microcred Zimbabwe finances working capital needs in various sectors and has a gross loan portfolio of \$5.3 million and an average loan outstanding of \$1,713. As at 31st December 2018, 43% of the clients in the gross loan portfolio outstanding were female and the sectoral distribution of the loan portfolio was 7% agriculture, 57% trade, 3% production, 31% service and the remaining 2% others.



Cui dengwei
(崔登位)

Hardware store owner

"I contacted Microcred Dazhou branch for the first time at the end of 2014. At that time, I had just started my business only 10 months earlier. My wife and I are not natives; we came here one year ago. During the operation period, I found more opportunities to expand my business but I did not have the necessary funding to develop my business. Coincidentally, Microcred opened the Dazhou branch in the same year, I was happy enough to get the news that the institution could provide unsecured loans. I decided to have a try and went to the

Out of our 3,069 clients 641 (21% live in rural areas and the rest in urban areas). Most of them (61%) are in the 35-55 years age category while 26% are less than 35 years old. The remaining 13% are above 55 years old.

Dazhou branch. Mr. Huang, a Microcred loan officer, informed me about the loan interest rate and procedures, and told me to prepare the necessary documents. I came back home and discussed it with my family members. With their support, I submitted the loan materials. It was very surprising that I received the loan of CNY 30,000 (HKD 35K or EUR 3.9K) the next day. I was very impressed by this efficiency! Thanks to the loan, I seized the business opportunity in time. From 2014 to 2018, I have borrowed 5 times from Microcred, and the amount has increased to CNY 150,000 (HKD 178K or EUR 19.8K). I repaid the money on time every month. I have the greatest respect for what Microcred did for me.



Zhou li
(周礼)

Cooking oil processing workshop

"Two years ago, my son discussed with me that he wanted to engage in a transportation business, and he needed CNY 10,000 (HKD 11K or EUR 1.3K) as investment capital. I wanted to support him but I had some financial problems. One of my neighbors told me he got a loan from Microcred and encouraged me to have a try. I contacted the loan officer, and he came to my workshop, which was far away from the Microcred branch. The next day, he called me and said that he found late repayments in my credit report. I remembered that 7 years ago I got a loan from a local rural bank and soon after I became seriously ill.

My family members were not able to make the repayments on time. I explained this to him, and I was worried that I would never get a loan from a financial institution ever again. However, the loan officer came to our town in the afternoon and visited some of my neighbors for more information. He came to me and told me he confirmed that I was seriously ill 7 years ago, and how important my personal credit record is. I didn't expect to get a second chance to have a loan, however, Microcred gave me this chance! So far, I have received loans from Microcred three times. I used the loan to purchase more quality rapeseed to process. This year, I renewed my Microcred loan via WeChat. I didn't need to go to the branch to sign the loan contract anymore as it can easily be done online and enables me to save time. I really appreciate Microcred for their flexibility and innovation.



Du yonghua
(杜永华)

wood floor store owner

In 2006, Du yonghua worked as a craftsmen installing rolling shutter doors. With his professional skills, he was widely recognized by the market. By 2009, Du yonghua realized that the rolling shutter door market was in a rapid decline, and decided to shift his business to wood floor retail and installation. He began to borrow money from Microcred in 2011 and received 6 loans since then. The loan amount has increased from CNY 50,000 (HKD 59K or EUR 6.6K) to CNY 170,000 (HKD 201K or EUR 22.5K).

"In 2011, I needed CNY 50,000 for my business expansion. I found a Microcred business card in my store, and I contacted the loan officer. The loan officer introduced the loan policies and services of Microcred to me in detail and invited me to visit the branch. Before, I never had a loan from the bank, so I decided to go for it. After visiting the branch, I submitted my application. I received a loan of CNY 50,000 from Microcred that I used to invest in some new products. I was very confident because I had engaged in this trade for five years and the new product became very popular that year! My family and I are very grateful to Microcred."

From then on, I decided to keep collaborating with Microcred. Not only for their speed and convenience, but also for the self-discipline of their loan officers. They never asked me to pay extra fees or to offer them any benefits. I like this professional and formal relationship. In the future, I will continue to support Microcred.



Xia gaorong
(夏高容)
cattle
breeding

Mrs. Xia and her husband worked in Jiangsu as

factory workers for more than ten years. In 2015, they came back to Sichuan and planned to start a cattle breeding business. Without any experience, it was difficult for her to start. How to choose good oxen to breed? How to feed the cattle? How to prevent disease? These problems put a lot of pressure on Mrs. Xia. She bought a batch of defective cattle seedlings with the help of acquaintances. The cattle died after two months which caused great losses. Mrs. Xia felt depressed.

By chance, a loan officer from the Microcred Pengzhou branch encountered Mrs. Xia and presented her the loan products and services. Mrs. Xia was unwilling to give up

and she went back home to discuss with her husband. Finally, she got CNY 10,000 (HKD 11K or EUR 1.3K) from Microcred. When she got the loan, she didn't rush to buy cattle but first decided to learn how to breed. Two months later, Mrs. Xia bought another batch of cattle seedlings. Thanks to training, she learned how to run this new business.

In December 2018, Mrs. Xia applied for her fourth loan from Microcred for CNY 100,000 (HKD 118K or EUR 13.2K). She had more than 40 cattle, and the quality was getting better and better. She was still confident that she could grow her business even more, and she was grateful to Microcred for the help.

"Cattle breeding is an industry with volatility in funding needs, which requires the money to be in place on time. My relationship with Microcred in recent years was very pleasant: their speed, simple and flexible service is very convenient." She hopes Microcred can continue to support her business in the future.

OUR PRODUCTS AND SERVICES

Microcred China provides loan solutions to farmers, private businesses and micro & small entrepreneurs for business and consumption purposes.

- **Business loan**: CNY 5,000 - 1,500,000 (EUR 662 - EUR 198.6K)
- **Consumption loan**: CNY 10,000 - 100,000 (EUR 1.3K - EUR 13.2K)

97% of the loans in the Outstanding Gross Loan Portfolio were disbursed to entrepreneurs and 3% disbursed to local citizens for daily consumption purposes.

In 2018 Q3, Microcred China developed an online loan product for its clients. Clients are able to renew their loans via WeChat. Instead of going to branches to sign physical loan contracts, repeat clients

can sign electronic loan contracts on their smartphones and get the renewal within one hour.

Unlike traditional financial institutions, Microcred China makes loan decisions relying on the business' cash flow and future development potential rather than a guarantor or collateral. 90% of loans disbursed by Microcred China were unsecured.

Although the competition is growing fierce, Microcred China is still one of the most trustworthy lending institutions in the market •

HUMAN RESOURCES

In 2018, the head office function was streamlined and most departments were centralized to the headquarters, which reinforced the unified support to all activities of Microcred China.

Overall, Microcred China recruited 122 new employees. By the end of 2018, the total number of employees was 569, with an average age of 32 years old. 43% of employees are women and 59% are commercial officers.

Microcred China's network expansion and business growth provided opportunities for the career development of its employees: 138 employees were promoted and 21 employees changed position. Consistently reviewing and improving the productivity and performance

of its employees, Microcred China offered improvement schemes to 45 employees.

The Training Department started to pursue a dual strategy. On the one hand, the initial training for new commercial officers was completed and the in-house training sessions were completed as planned. On the other hand, Microcred China also kicked off the Moodle online training program and formulated the schedule for online training and examinations. The program will be fully implemented in 2019 to improve training efficiency •

OUR EMPLOYEES
574



SOCIAL PERFORMANCE MANAGEMENT

The social mission of Microcred China is to provide qualitative financial services that are accessible and adapted to the needs of the individuals that are underserved and unserved by the financial sector, particularly micro, small and medium entrepreneurs. Its objective is to improve the living conditions of clients and their families and to contribute to the development of the local economy. Microcred China is also committed to implementing a fair human resources policy while respecting the environment it operates in. This mission is ingrained in the DNA of Microcred China.

Microcred China began to manage its social performance in 2011 as one of the pioneers in China and its subsidiaries endorsed the Smart Campaign in 2012. In 2014, Microcred Nanchong was the first microfinance institution in China to be certified by the Smart Campaign. Less than 80 microfinance institutions in the world have obtained this certification.

In 2018, Microcred China has continued to maintain the good practices of Social Performance Management (SPM) by updating related policies and procedures, namely:

Social Responsibility Charter (including Code of Conduct, Anti-harassment policy, SP strategy), Client Suggestion & Complaint Manual, Staff Suggestion & Complaint Manual, Client Information Protection Manual, and Environmental & Social Management Manual.

Using the industry-recognized E&S assessment tool, SPI4, Microcred China completed a self-assessment exercise, internally and with the help of an external party, for Social Performance impact of Microcred Nanchong and Microcred Sichuan. The two subsidiaries scored similar high results in all dimensions assessed, and subsequently a unified 2018 SPM action plan was implemented for both subsidiaries. One of the actions completed was a marketing study on green lending products. In 2018 Microcred Nanchong received a social impact assessment by Village Swaraj, a non-profit association partner of BNP Paribas, which is one of Microcred China's financing partners. One of the conclusions of this assessment was that "the increased income from access to credit enables customers to improve their standard of living and better withstand economic shocks".



FINANCIAL OVERVIEW

While several MCCs, especially those with exposure to the real estate and heavy industry sectors continued to see a decrease in their disbursements or have stopped operating, Microcred China remained a leader in the province's microfinance industry, thanks to its unique market positioning of supporting, on an uncollateralized basis, micro and small entrepreneurs.

Compared to 2017, Microcred China's total assets increased from HKD 1.55 Bn (EUR 166 million) to HKD 1.74 Bn (EUR 194 million) (+12%) and outstanding loans accounted for 95% of total assets.



TOTAL ASSETS
1,7Bn
HKD

Total liabilities reached HKD 988 million (EUR 110 million), an increase of 20% from the previous year. Portfolio growth in 2018 was mainly supported by funds from borrowing and borrowing increased by 30% (CNY 814 million, EUR 103 million) in 2018. The equity is HKD 751.4 million (EUR 83.9 million), including registered capital of HKD 576.8 million (EUR 64.4 million) in total.

Microcred China generated a total revenue of HKD 338.9 million (EUR 36.6 million). The net result reached HKD 60.4 million (EUR 6.52 million), an increase of 54% compared to 2017. Portfolio at risk over 30 days (PAR30) was 0.53% at the end of 2018.

2019 PERSPECTIVES

In 2018, Chinese leaders focused their attention on the compliance development of online lending institutions. At the same time, they encouraged the development of inclusive finance. For the first time, microcredit companies enjoyed a policy of tax-free agriculture loans below CNY 100,000, which previously only applied to banks. Microcred China is now also able to benefit from the new Foreign Debt Quota policy which provides a new space of overseas borrowings.

For the coming year, Microcred China will continuously improve its services to micro and SME clients. The digitalization of operational processes will be reinforced, to improve customer experience and working efficiency. Microcred China also plans to offer accessible and professional financial services to more underserved clients by further geographic expansion and diversifying client entrance channels.



FINANCIAL STATEMENTS



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICROCRED CHINA LIMITED

INCORPORATED IN HONG KONG WITH LIMITED LIABILITY

OPINION

We What we have audited

The consolidated financial statements of MicroCred China Limited ("the Company") and its subsidiaries (the "Group") set out on pages 6 to 86, which comprise:

- the consolidated and the Company's statements of financial position as at 31 December 2018;
- the consolidated and the Company's statements of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated and the Company's statements of cash flows for the year then ended; and
- the notes to the consolidated and the Company's financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated and the Company's financial statements give a true and fair view of the consolidated and the Company's financial position as at 31 December 2018, and of its consolidated and the Company's financial performance and its consolidated and the Company's cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of

our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the director's report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is

sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion. We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BALANCE SHEET IN HKD

	2018	2017
ASSETS	1 739 663 207	1 551 570 118
Short Term Assets	1 712 308 564	1 523 780 325
Cash on hand	106 894	12 230
Due from banks	38 279 565	15 379 674
Short Term Net Loan Portfolio	1 639 757 400	1 478 537 428
Short Term Gross Loan Portfolio (Loan Loss Reserve)	1 653 903 248 (-14 145 848)	1 483 374 263 (-4 836 835)
Interest Receivable On loan portfolio	23 071 839	20 486 946
Accounts receivable and other assets	11 092 866	9 364 047
Long Term Assets	27 354 643	27 789 793
Net Fixed Assets	2 498 548	1 694 389
Gross Fixed Assets (Depreciation and Amortization)	5 629 298 3 130 750	4 926 877 3 232 488
Other Long Term Assets	24 856 095	26 095 404
LIABILITIES AND EQUITY	1 739 663 207	1 551 570 118
Liabilities	988 234 819	825 792 770
Short Term Liabilities	327 262 952	333 412 086
Short Term Borrowing	266 186 670	251 615 251
Interests Payable	15 292 331	13 039 255
Accounts Payable / Other Short Term Liabilities	45 783 951	68 757 580
Long Term Liabilities	660 971 867	492 380 684
Long Term Borrowings	660 971 867	492 380 684
Equity	751 428 388	725 777 348
Paid-In Capital	576 809 197	576 809 197
Retained earnings without donations, and reserves	152 492 209	114 155 855
Income Current Year	60 434 261	39 292 118
Other Equity Accounts	(-38 307 279)	(-4 479 822)

PROFIT & LOSS STATEMENT IN HKD

IN HKD (NET INCOME IS SHOWN BEFORE TRANSLATION RESERVES)	2018	2017
Financial Revenue	338 920 718	268 670 195
Financial Revenue from Loan Portfolio	336 781 832	262 738 644
Interest on Loan Portfolio	316 938 818	244 172 725
Fees and Commissions on Loan Portfolio	19 843 014	18 565 920
Financial Revenue from Investments	1 380 083	3 080 281
Other Operating Revenue	758 803	2 851 270
Financial Expense	86 668 746	48 138 352
Interest paid on borrowings	76 368 558	52 332 927
Other Financial Expenses	10 300 188	-4 194 575
FINANCIAL INCOME	252 251 972	220 531 843
Net Loan loss provision expense	14 205 673	3 999 882
Loan loss provision expense and write-off	22 948 050	11 628 971
Recovery from Loans written off	8 742 377	7 629 089
NET FINANCIAL INCOME	238 046 299	216 531 961
Personnel Expense (includes fringe)	95 322 271	86 900 643
General Expenses	55 612 950	56 519 143
Depreciation & Amortization	2 534 040	2 092 824
Total operational expenses	153 469 261	145 512 610
NET OPERATING INCOME BEFORE TAXES AND DONATIONS	84 577 038	71 019 351
Income Taxes	24 015 632	29 212 190
NET OPERATING INCOME BEFORE DONATIONS	60 561 406	41 807 161
Non Operating Revenue	819	192 788
Non Operating Expense (including related taxes)	127 964	2 707 831
NET INCOME BEFORE DONATIONS	60 434 261	39 292 118
Donations		
NET INCOME AFTER TAXES AND DONATIONS	60 434 261	39 292 118

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