The Following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

February 28, 2014

The Directors
Hanhua Financial Holding Co., Ltd.

China International Capital Corporation Hong Kong Securities Limited
China Galaxy International Securities (Hong Kong) Co., Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Hanhua Financial Holding Co., Ltd. (formerly known as "Hanhua Guarantee Co., Ltd.") (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of financial position of the Group and the statement of financial position of the Company as at December 31, 2010, 2011 and 2012 and October 31, 2013 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated cash flow statements of the Group for each of the years ended December 31, 2010, 2011 and 2012 and for the ten months ended October 31, 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated February 28, 2014 (the "Prospectus").

The Company was established in Chongqing, the People's Republic of China (the "PRC") on July 28, 2004 as a limited liability company. In connection with a group reorganization, as detailed in the section headed "History, Reorganization and Corporate Structure" in the Prospectus, the Company was converted into a joint stock limited liability company on March 13, 2013.

All subsidiaries of the Company have adopted December 31 as their financial year end date. Details of the Company's subsidiaries that were subject to audit during the Relevant Periods and the names of the respective auditors are set out in Section B Note 34. The statutory financial statements of these companies were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended December 31, 2010, 2011 and 2012 and for the ten months ended October 31, 2013 were audited by us under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any periods subsequent to October 31, 2013.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report and on the basis of preparation set out in Section B Note 1(b) below, a true and fair view of the state of affairs of the Group and the Company as at December 31, 2010, 2011 and 2012 and October 31, 2013 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the ten months ended October 31, 2012, together with the explanatory notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

1 Consolidated income statements

(Expressed in Renminbi "RMB")

	Section B Note	Years ended December 31,			Ten months ended October 31,	
		2010	2011	2012	2012	2013
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Guarantee and consulting fee income		123,374	455,131	786,685	616,377	741,301
Re-guarantee expenses		(179)	(2,474)	(2,209)	(1,263)	(603)
Net guarantee and consulting fee income		123,195	452,657	784,476	615,114	740,698
Interest and handling fee income		211,893	472,081	437,867	370,147	591,495
Interest and commission expenses		(13,166)	(54,444)	(79,091)	(59,426)	(85,390)
Net interest and handling fee income		198,727	417,637	358,776	310,721	506,105
Net fee and interest income	2	321,922	870,294	1,143,252	925,835	1,246,803
Other revenue	3	15,144	123,125	29,616	7,437	12,612
Provisions for guarantee losses	23	(77,600)	(123,946)	(51,669)	(31,832)	(102,956)
Impairment losses	4	(25,090)	(43,531)	(130,068)	(105,938)	(224,365)
Administrative expenses		(124,014)	(249,392)	(356,370)	(289,232)	(561,691)
Other net losses	5(c)	(558)	(363)	(798)	(467)	(795)
Profit before taxation	5	109,804	576,187	633,963	505,803	369,608
Income tax	6	(19,841)	(99,997)	(116,116)	(93,358)	(95,694)
Profit for the year/period		89,963	476,190	517,847	412,445	273,914
Attributable to:						
Equity holders/shareholders of the Company		39,660	185,198	199,275	173,462	210,689
Non-controlling interests		50,303	290,992	318,572	238,983	63,225
Profit for the year/period		89,963	476,190	517,847	412,445	273,914
Earnings per share Basic and diluted (RMB)	11	0.14	0.49	0.51	0.44	0.08

The accompanying notes form part of the Financial Information.

2 Consolidated statements of comprehensive income

(Expressed in RMB)

	Section B Note	Years ended December 31, 2010	2011	2012	Ten months ended October 31, 2012	2013
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit for the year/period		89,963	476,190	517,847	412,445	273,914
Other comprehensive income for the year/period (after tax and reclassification adjustments)						
Item that may be reclassified subsequently to profit or loss						
Available-for-sale financial assets: net movement in the fair value reserve	10	35,525	(57,800)	–	–	(305)
Total comprehensive income for the year/period		125,488	418,390	517,847	412,445	273,609
Attributable to:						
Equity holders/shareholders of the Company		43,395	159,188	199,275	173,462	210,384
Non-controlling interests		82,093	259,202	318,572	238,983	63,225
Total comprehensive income for the year/period		125,488	418,390	517,847	412,445	273,609

The accompanying notes form part of the Financial Information.

3 Consolidated statements of financial position

(Expressed in RMB)

	Section B Note	At December 31, 2010	At December 31, 2011	At December 31, 2012	At October 31, 2013
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Cash and cash equivalents	12	562,872	528,532	254,355	810,174
Restricted bank deposits	13	865,767	2,233,066	2,207,229	2,276,434
Trade and other receivables	14	34,078	71,889	310,339	308,845
Loans and advances to customers	16	922,384	1,616,934	1,961,599	3,730,021
Available-for-sale financial assets	17	170,500	–	10,000	9,593
Fixed assets	19	60,840	75,116	81,444	297,251
Intangible assets	20	578	891	631	3,403
Deferred tax assets	26(b)	29,198	90,746	142,336	215,438
Total assets		2,646,217	4,617,174	4,967,933	7,651,159
Liabilities					
Interest-bearing borrowings	21	280,000	735,362	880,550	702,590
Financial assets sold under repurchase agreement	22	81,500	51,352	222,304	465,985
Liabilities from guarantees	23	249,219	488,192	626,750	790,973
Customer pledged deposits	24(a)	680,505	1,070,051	446,929	86,581
Accruals and other payables	24(b)	68,982	151,556	169,545	265,497
Current tax liabilities	26(a)	33,701	116,131	113,816	94,953
Total liabilities		1,393,907	2,612,644	2,459,894	2,406,579
NET ASSETS		1,252,310	2,004,530	2,508,039	5,244,580
CAPITAL AND RESERVES	27				
Paid-in/share capital		300,000	300,000	300,000	3,430,000
Reserves		139,194	314,494	489,499	1,334,113
Total equity attributable to equity holders/shareholders of the Company		439,194	614,494	789,499	4,764,113
Non-controlling interests		813,116	1,390,036	1,718,540	480,467
TOTAL EQUITY		1,252,310	2,004,530	2,508,039	5,244,580

The accompanying notes form part of the Financial Information.

4 Statement of financial position

(Expressed in RMB)

	Section B Note	At December 31, 2010	At December 31, 2011	At December 31, 2012	At October 31, 2013
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Cash and cash equivalents	12	1,121	602	227	29,833
Restricted bank deposits	13	7,764	2,400	1,000	20,000
Trade and other receivables	14	10,791	17,112	31,064	189,847
Loans and advances to customers	16	59,900	27,280	–	–
Investment in Hanhua Guarantee	18	450,000	909,000	818,100	3,075,592
Investment in other subsidiaries	18	30,004	30,004	–	1,172,397
Fixed assets	19	461	351	263	583
Intangible assets	20	–	–	–	1,501
Total assets		560,041	986,749	850,654	4,489,753
Liabilities					
Interest-bearing borrowings	21	130,000	535,362	362,350	–
Liabilities from guarantees	23	2,632	278	4,166	850
Customer pledged deposits	24(a)	15,720	930	130	130
Accruals and other payables	24(b)	34,156	52,647	7,648	255,397
Current tax liabilities	26(a)	4,820	–	–	–
Total liabilities		187,328	589,217	374,294	256,377
NET ASSETS		372,713	397,532	476,360	4,233,376
CAPITAL AND RESERVES	27				
Paid-in/share capital		300,000	300,000	300,000	3,430,000
Reserves		72,713	97,532	176,360	803,376
TOTAL EQUITY		372,713	397,532	476,360	4,233,376

The accompanying notes form part of the Financial Information.

5 Consolidated statements of changes in equity

(Expressed in RMB)

	Attributable to equity holders of the Company							
	Paid-in capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Section B Note 27(c)	Section B Note 27(d)(ii)	Section B Note 27(d)(iii)	Section B Note 27(d)(iv)				
Balance at January 1, 2010	250,000	22,275	7,320	8,067	58,573	346,235	403,498	749,733
Changes in equity for 2010:								
Profit for the year	–	–	–	–	39,660	39,660	50,303	89,963
Other comprehensive income	–	3,735	–	–	–	3,735	31,790	35,525
Total comprehensive income	–	3,735	–	–	39,660	43,395	82,093	125,488
Capital injection	50,000	–	–	–	–	50,000	–	50,000
Purchase of equity interests of subsidiaries from non-controlling interests	–	–	–	–	(436)	(436)	(26,935)	(27,371)
Capital injection in subsidiaries from non-controlling interests	–	–	–	–	–	–	362,000	362,000
Appropriation to surplus reserve	–	–	3,892	–	(3,892)	–	–	–
Appropriation to general reserve	–	–	–	7,297	(7,297)	–	–	–
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	(7,540)	(7,540)
Balance at December 31, 2010	300,000	26,010	11,212	15,364	86,608	439,194	813,116	1,252,310
Balance at January 1, 2011	300,000	26,010	11,212	15,364	86,608	439,194	813,116	1,252,310
Changes in equity for 2011:								
Profit for the year	–	–	–	–	185,198	185,198	290,992	476,190
Other comprehensive income	–	(26,010)	–	–	–	(26,010)	(31,790)	(57,800)
Total comprehensive income	–	(26,010)	–	–	185,198	159,188	259,202	418,390
Purchase of equity interest of subsidiary from non-controlling interests	–	–	–	–	16,112	16,112	(100,112)	(84,000)
Capital injection in subsidiaries from non-controlling interests	–	–	–	–	–	–	498,220	498,220
Appropriation to surplus reserve	–	–	20,576	–	(20,576)	–	–	–
Appropriation to general reserve	–	–	–	47,908	(47,908)	–	–	–
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	(80,390)	(80,390)
Balance at December 31, 2011	300,000	–	31,788	63,272	219,434	614,494	1,390,036	2,004,530

The accompanying notes form part of the Financial Information.

5 Consolidated statements of changes in equity (continued)

(Expressed in RMB)

	Attributable to equity holders/shareholders of the Company								
	Paid-in/ share capital	Capital/ share premium	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000 Section B Note 27(c)	*RMB'000* Section B Note 27(d)(i)	*RMB'000* Section B Note 27(d)(ii)	*RMB'000* Section B Note 27(d)(iii)	*RMB'000* Section B Note 27(d)(iv)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2012	300,000	–	–	31,788	63,272	219,434	614,494	1,390,036	2,004,530
Changes in equity for 2012:									
Profit for the year and total comprehensive income	–	–	–	–	–	199,275	199,275	318,572	517,847
Purchase/disposal of shares/equity interests in subsidiaries from/to non-controlling interests	–	–	–	–	–	(24,270)	(24,270)	85,170	60,900
Capital injection in subsidiaries from non-controlling interests	–	–	–	–	–	–	–	60,000	60,000
Appropriation to surplus reserve	–	–	–	18,334	–	(18,334)	–	–	–
Appropriation to general reserve	–	–	–	–	58,680	(58,680)	–	–	–
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	(135,238)	(135,238)
Balance at December 31, 2012	300,000	–	–	50,122	121,952	317,425	789,499	1,718,540	2,508,039
Balance at January 1, 2013	300,000	–	–	50,122	121,952	317,425	789,499	1,718,540	2,508,039
Changes in equity for the ten months ended October 31, 2013									
Profit for the period	–	–	–	–	–	210,689	210,689	63,225	273,914
Other comprehensive income	–	–	(305)	–	–	–	(305)	–	(305)
Total comprehensive income	–	–	(305)	–	–	210,689	210,384	63,225	273,609
Capital injection	1,276,128	909,973	–	–	–	(870)	2,185,231	(20,191)	2,165,040
Equity-settled share-based payment	–	–	117,258	–	–	–	117,258	–	117,258
Purchase equity interest from non-controlling interests	–	–	–	–	–	15,233	15,233	(89,781)	(74,548)
Business combination under common control	935,480	383,943	–	44,328	–	79,517	1,443,268	(1,443,268)	–
Capital injection in subsidiaries from non-controlling interests	–	–	3,240	–	–	–	3,240	394,750	397,990
Share capital increased by retained earnings transfer	125,549	–	–	–	–	(125,549)	–	–	–
Conversion into joint stock company	792,843	(657,201)	–	(50,122)	(50,122)	(35,398)	–	–	–
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	(142,808)	(142,808)
Balance at October 31, 2013	3,430,000	636,715	120,193	44,328	71,830	461,047	4,764,113	480,467	5,244,580

The accompanying notes form part of the Financial Information.

5 Consolidated statements of changes in equity (continued)

(Expressed in RMB)

	Attributable to equity holders of the Company							
	Paid-in capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000 Section B Note 27(c)	*RMB'000* Section B Note 27(d)(ii)	*RMB'000* Section B Note 27(d)(iii)	*RMB'000* Section B Note 27(d)(iv)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unaudited								
Balance at January 1, 2012	300,000	–	31,788	63,272	219,434	614,494	1,390,036	2,004,530
Changes in equity for the ten months ended October 31, 2012:								
Profit for the period and total comprehensive income	–	–	–	–	173,462	173,462	238,983	412,445
Purchase equity interests in subsidiaries from non-controlling interests	–	–	–	–	(10,749)	(10,749)	(19,251)	(30,000)
Capital injection in subsidiaries from non-controlling interests	–	–	–	–	–	–	60,000	60,000
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	(135,238)	(135,238)
Balance at October 31, 2012	300,000	–	31,788	63,272	382,147	777,207	1,534,530	2,311,737

6 Consolidated cash flow statements

(Expressed in RMB)

	Section B Note	Years ended December 31,			Ten months ended October 31,	
		2010	2011	2012	2012	2013
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Operating activities						
Cash (used in)/generated from operations	12(b)	(229,654)	(857,584)	(207,747)	21,799	(1,475,621)
PRC income tax paid		(29,034)	(68,915)	(170,021)	(168,608)	(187,557)
Net cash used in operating activities		(258,688)	(926,499)	(377,768)	(146,809)	(1,663,178)
Investing activities						
Proceeds from disposal of investments		13,180	193,807	–	–	–
Dividends received		5,500	–	–	–	–
Proceeds from sale of fixed assets and other non-current assets		143	35	503	440	541
Payments for the purchase of fixed assets		(13,663)	(25,466)	(131,052)	(130,982)	(125,932)
Payments on acquisition of investments		–	–	(10,000)	(10,000)	–
Net cash generated from/(used in) investing activities		5,160	168,376	(140,549)	(140,542)	(125,391)
Financing activities						
Proceeds from capital injection		412,000	498,220	60,000	60,000	2,296,583
Proceeds from new borrowings		569,580	911,362	1,140,708	558,500	658,610
Proceeds from financial assets sold under repurchase agreement		81,500	189,859	369,713	248,003	472,147
Purchase of equity interests of subsidiaries from non-controlling interests		(27,371)	(84,000)	(30,000)	(30,000)	(74,548)
Repayment of borrowings		(439,750)	(456,000)	(878,641)	(289,612)	(570,119)
Interest paid		(11,918)	(30,059)	(72,830)	(61,414)	(62,509)
Dividends paid to non-controlling interests		(7,540)	(85,592)	(146,049)	(146,049)	(142,808)
Repurchase of assets with repurchase agreement		–	(220,007)	(198,761)	(178,761)	(228,466)
Cash paid for other financing activities		–	–	–	–	(4,502)
Net cash generated from financing activities		576,501	723,783	244,140	160,667	2,344,388
Net increase/(decrease) in cash and cash equivalents		322,973	(34,340)	(274,177)	(126,684)	555,819
Cash and cash equivalents at January 1		239,899	562,872	528,532	528,532	254,355
Cash and cash equivalents at December 31/October 31	12(a)	562,872	528,532	254,355	401,848	810,174

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in RMB'000 unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all applicable new and revised HKFRSs to the years ended December 31, 2010, 2011, 2012 and ten months ended October 31, 2013 (the "Relevant Periods"), except for any new standards or interpretations that are not yet effective for the accounting period beginning January 1, 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning January 1, 2013 are set out in Note 33.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the ten months ended October 31, 2012 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation

The Financial Information comprises the Company and its subsidiaries (together referred to as the "Group").

The Company, which was previously known as Chongqing Hanhua Credit Guarantee Co., Ltd., was established as a limited liability company in Chongqing, PRC, in 2004. Since its establishment, a series of equity transfers and capital injections in the Company were conducted. Prior to the reorganisation as further described below, the Company was 100% owned by Loncin Holdings Co., Ltd. ("Loncin Holdings"), a company controlled by Mr. Tu Jianhua ("Mr. Tu"). On March 13, 2013, the Company was converted into a joint stock limited liability company and was renamed to Hanhua Financial Holding Co., Ltd.

The Group is principally engaged in the provision of credit guarantees and lending to small and medium-sized and micro enterprises ("SME lending"), and related consulting services across the PRC. During the Relevant Periods, the Group's businesses were conducted mainly through Hanhua Guarantee Corporation Limited ("Hanhua Guarantee") and its subsidiaries. Hanhua Guarantee was established as a joint stock limited liability company in the PRC on August 19, 2009 by the Company, Chongqing Huitai Investment Co., Ltd. ("Huitai") and certain corporate and individual investors (the shareholders of Hanhua Guarantee other than the Company and Huitai are collectively referred to hereinafter as the "Other Shareholders"). Upon establishment, Hanhua Guarantee was legally owned as to 40.5% by the Company, 10.0% by Huitai and 49.5% by the Other Shareholders.

Huitai was established on July 15, 2009 as an investment holding company for the purpose of providing share incentive to the senior management of the Group. Upon establishment, Huitai was legally owned as to 50% each by two senior management members of the Group and would hold the equity interest (i.e. 10% at inception) in Hanhua Guarantee on behalf the Company and the Other Shareholders based on their respective equity interests in Hanhua Guarantee until the details of the share incentive scheme (see Note 25) had been worked out and the implementation of the scheme. The Company and the Other Shareholders provided Huitai the funding for subscribing the ordinary shares of Hanhua Guarantee and agreed to give Mr. Tu the right to determine all significant matters related to Huitai including Huitai's voting rights in respect of its equity interest in Hanhua Guarantee from the establishment of Hanhua Guarantee until the share incentive scheme was implemented. As a result, Hanhua Guarantee was controlled by Mr. Tu by virtue of his control over the Company through Loncin Holdings and Huitai, which collectively owned a majority equity interest in Hanhua Guarantee.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation (continued)

As detailed in the section headed "History, Reorganization and Corporate Structure" in the Prospectus, the Group underwent a reorganisation (the "Reorganisation") in February 2013 to rationalize its structure in preparation for the listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Immediately prior to the Reorganisation, Hanhua Guarantee was legally owned (directly and indirectly) as to 42.52% by the Company, 9.56% by Huitai and 47.92% by Other Shareholders. As part of the Reorganisation, each of the then existing shareholders of Hanhua Guarantee, other than the Company and Chongqing Huiwei Investment Co., Ltd. ("Chongqing Huiwei", a wholly owned subsidiary of the Company that held a 0.1% equity interest in Hanhua Guarantee), entered into an equity swap agreement under which the then existing shareholders, other than the Company and Chongqing Huiwei, exchanged their equity interests in Hanhua Guarantee for ordinary shares of the Company. Upon the completion of the share transfers as of February 25, 2013, the Company has 100% direct and indirect equity interests in Hanhua Guarantee. Immediately after the Reorganisation, Loncin Holdings and Huitai respectively held 43.40% and 9.76% equity interest in the Company. Accordingly, the Company continued to be under the control of Mr. Tu through Loncin Holdings and Huitai, which collectively owned a majority equity interest in the Company.

Since the Company and Hanhua Guarantee were controlled by Mr. Tu both before and after the Reorganisation, the increase in the Company's direct and indirect equity interests in Hanhua Guarantee from 42.52% to 100% is considered as a business combination of entities under common control as defined in Accounting Guideline 5, *Merger Accounting for Common Control Combinations,* issued by the HKICPA. Accordingly, the Financial Information has been prepared under the merger basis of accounting as if the common control combination had occurred before the beginning of the Relevant Periods notwithstanding that the Company did not obtain a controlling interest in Hanhua Guarantee until the completion of the Reorganization in February 2013. The assets and liabilities of Hanhua Guarantee are consolidated using the historical book values from the perspective of Mr. Tu, the ultimate controlling shareholder. The equity interests in Hanhua Guarantee directly and indirectly attributable to the other corporate and individual shareholders for periods prior to the Reorganisation have been presented as non-controlling interests in the Group's Financial Information.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of the Group include the consolidated results of operations of the Company and Hanhua Guarantee, and their respective subsidiaries, for the Relevant Periods. The consolidated statements of financial position of the Group as at December 31, 2010, 2011 and 2012 and October 31, 2013 have been prepared to present the consolidated assets and liabilities of the Company and Hanhua Guarantee, and their respective subsidiaries, as at the respective dates. All material intra-group transactions and balances have been eliminated in consolidation.

(c) Basis of measurement

The Financial Information is presented in RMB, rounded to the nearest thousand. It is prepared on the historical cost basis except for available-for-sale financial assets (see Note 1(j)) that are stated at their fair value and liabilities from guarantees (see Note 1(q)(i)).

(d) Use of estimates and judgments

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 32.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Subsidiaries and non-controlling interests (continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity holders/shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statements and the consolidated statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity/shareholders holders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statements of financial position in accordance with Notes 1(j) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the consolidated income statements. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(j)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(m)(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(f) Associates and joint ventures

An associate is an entity in which the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see Note 1(m)(i)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

In all other cases, when the Company ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in income statement. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(j)).

(g) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses (see Note 1(m)(ii)).

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour and borrowing costs (see Note 1(s)).

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Fixed assets (continued)

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Buildings held for use	30-35 years
Motor vehicles	5 years
Office and other equipments	5 years
Leasehold improvements	1-5 years

Where parts of an item of fixed assets have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 1(m)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful lives
Software	2-10 years

Both the period and method of amortisation are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

Financial assets and financial liabilities are measured initially at fair value, plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs.

Financial assets and financial liabilities are categorised as follows:

- Loans and receivables

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

(a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;

(b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

(c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity assets.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is reclassified to income statement.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Objective evidence includes the following loss event:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– disappearance of an active market for financial assets because of financial difficulties;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

• Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

– *Individual assessment*

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The impairment losses are recognised in the income statement.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

– *Collective assessment*

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provisions for impairment losses.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provisions for impairment losses upon necessary approval.

- Available-for-sale financial assets

For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(iii) Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (continued)

(iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

– the contractual rights to the cash flows from the financial asset expire; or

– the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in the income statement.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(vi) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the income statement, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of borrowings, together with any interest and fees payable, using the effective interest method.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of non-financial assets

(i) Impairment of investments in subsidiaries, associates and joint venture

Investments in subsidiaries, associates and joint venture are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the loss events in Note 1(j)(ii). When any such evidence exists, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 1(e) and Note 1(f). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(m)(ii).

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– Fixed assets; and
– Intangible assets

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(n) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave and defined contribution the Group makes pursuant to the relevant laws and regulations of the PRC are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations of the PRC, the Group's subsidiaries in the PRC have joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to the income statement on an accrual basis.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credit, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Financial guarantees issued (continued)

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within liabilities from guarantees. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(q)(i) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in liabilities from guarantees in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(q) Provisions and contingent liabilities

(i) Provisions for guarantee losses

When determining the amounts to be recognised in respect of liabilities arising from the guarantee business, management estimates the provisions based on prior experience and default history of the business. It is possible that the prior experience and default history is not indicative of future loss on the guarantees issued. Any increase or decrease in the provisions would affect the income statement in future years.

(ii) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Guarantee and consulting fee income

Guarantee income is recognised when guarantee contracts have been made whereby the related guarantee obligation has been accepted, the economic benefits associated with the guarantee contracts will probably flow in, and the amount of revenue associated with guarantee contracts can be measured reliably. Guarantee income is determined based on the total agreed fee in the guarantee contracts and is recognised in the income statement over the period of guarantee. The Group receives consulting fee income in relation to guarantee services in full at inception and records it as unearned income before amortising it throughout the period of guarantee.

(ii) Interest and handling fee income

Interest income is recognised as it accrues using the effective interest method. The Group receives handling fee income from loan services in full at inception and records it as unearned income before amortising it throughout the contractual period of the loan.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue recognition (continued)

(iii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for providing guarantee services to SMEs under certain criteria are recognised as revenue in the income statement upon receiving such grants. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the assets and consequently are effectively recognised in the income statement over the useful life of the asset by way of reduced depreciation expense.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Share-based payments

The fair value of share awards granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Cox-Ross-Rubinstein Binomial Pricing model, taking into account the terms and conditions upon which the awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the awards, the total estimated fair value of the awards is spread over the vesting period, taking into account the probability that the awards will vest.

During the vesting period, the number of share awards that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged /credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of awards that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares.

(u) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The initial cost of repossessed assets is measured at the lower of the net carrying amount of loans and advances and the fair value of the assets less costs to sell on the acquisition date. Repossessed assets are not depreciated or amortized. The impairment losses of initial measurement and subsequent revaluation are charged to the profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

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

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

2 NET FEE AND INTEREST INCOME

The principal activities of the Group are the provision of credit guarantee and related consulting services, loans to customers and agency services in the PRC. Net fee and interest income represents net guarantee and consulting fee income and net interest and handling fee income. The amount of each significant category of net fee and interest income recognised is as follows:

	Years ended December 31,			Ten months ended October 31,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Guarantee and consulting fee income					
Financing guarantee and consulting fee income	118,170	441,073	774,178	609,097	736,829
Performance guarantee and consulting fee income	2,049	8,824	10,453	6,722	3,842
Litigation guarantee and consulting fee income	3,155	5,234	2,054	558	630
	123,374	455,131	786,685	616,377	741,301
Less: Re-guarantee expenses	(179)	(2,474)	(2,209)	(1,263)	(603)
Net guarantee and consulting fee income	123,195	452,657	784,476	615,114	740,698
Interest and handling fee income arising from:					
– Loans and advances to customers	207,050	447,135	384,725	327,938	545,231
– Cash at banks	2,976	10,104	29,988	23,013	19,136
– Restricted bank deposits	1,867	14,842	23,154	19,196	27,128
	211,893	472,081	437,867	370,147	591,495
Interest and commission expenses arising from:					
– Borrowings from banks	(4,748)	(11,056)	(18,723)	(14,050)	(31,182)
– Borrowings from non-bank institutions	(5,859)	(26,629)	(32,876)	(30,765)	(14,390)
– Financial assets sold under repurchase agreements	(1,500)	(9,170)	(9,498)	(5,224)	(18,179)
– Commission paid to agents	(1,059)	(7,589)	(17,994)	(9,387)	(21,639)
	(13,166)	(54,444)	(79,091)	(59,426)	(85,390)
Net interest and handling fee income	198,727	417,637	358,776	310,721	506,105
	321,922	870,294	1,143,252	925,835	1,246,803

The Group's customer base is diversified and has no customer with whom transactions exceeded 10% of the Group's net fee and interest income during the Relevant Periods. Details of concentrations of credit risk are set out in Note 29(a).

Further details regarding the Group's principal activities are disclosed in Note 28.

3 OTHER REVENUE

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Investment income from available-for-sale financial assets	1,180	91,307	–	–	–
Dividend income from an unlisted security	5,500	–	–	–	–
Government grants	7,642	31,534	26,210	7,105	12,323
Others	822	284	3,406	332	289
	15,144	123,125	29,616	7,437	12,612

4 IMPAIRMENT LOSSES

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Trade and other receivables *(Note 14(b))*	8,000	16,529	90,241	74,585	147,576
Loans and advances to customers *(Note 16(f))*	17,090	27,002	39,827	31,353	76,789
	25,090	43,531	130,068	105,938	224,365

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries, wages, bonuses and other benefits	45,434	82,304	127,528	105,419	165,331
Contributions to retirement schemes	5,779	11,492	19,644	15,728	24,150
Equity-settled share-based payment expenses	–	–	–	–	117,258
	51,213	93,796	147,172	121,147	306,739

The Group is required to participate in pension schemes organised by the respective municipal governments of the People's Republic of China (the "PRC") whereby the Group is required to pay annual contributions for PRC based employees at certain rate of the standard wages determined by the relevant authorities in the PRC during the year/period. The Group has no other material obligation for payment of retirement benefits to the PRC based employees beyond the annual contributions described above.

5 PROFIT BEFORE TAXATION (CONTINUED)

(b) Other items

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Operating lease charges in respect of buildings	7,805	23,546	36,466	29,998	38,703
Depreciation expenses *(Note 19)*	4,130	10,597	14,789	14,053	16,018
Amortisation expenses *(Note 20)*	164	178	266	223	364
Auditors' remuneration	328	529	799	–	4,042

(c) Other net losses

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net (gain)/losses on disposal of fixed assets	(17)	67	(228)	(51)	84
Others	575	296	1,026	518	711
	558	363	798	467	795

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS

(a) Taxation in the consolidated income statements:

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current tax *(Note 26(a))*					
Provision for PRC income tax for the year	55,493	151,345	167,706	142,300	168,694
Deferred tax *(Note 26(b))*					
Origination and reversal of temporary differences	(35,652)	(51,348)	(51,590)	(48,942)	(73,000)
	19,841	99,997	116,116	93,358	95,694

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS (CONTINUED)

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

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before taxation	109,804	576,187	633,963	505,803	369,608
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned *(Note)*	19,201	93,021	105,205	84,359	56,505
Effect of PRC tax concessions	(1,746)	(2,169)	(3,329)	–	–
Effect of non-deductible expenses	2,386	3,402	13,638	8,397	4,250
Effect of unused tax losses not recognised	–	5,743	602	602	34,939
Actual income tax expense	19,841	99,997	116,116	93,358	95,694

Note:

Except for Hanhua Guarantee, Chongqing Hanhua Assets Management Co., Ltd., Chongqing Yuzhong Hanhua Micro-credit Co., Ltd. and Sichuan Hanhua Financing Guarantee Co., Ltd., the Company and its subsidiaries are subject to PRC income tax rate of 25%.

Hanhua Guarantee, Chongqing Hanhua Assets Management Co., Ltd., and Chongqing Yuzhong Hanhua Micro-credit Co., Ltd. are qualified enterprises located in the Western Region and are therefore entitled to preferential tax rate of 15% during the Relevant Periods. Sichuan Hanhua Financing Guarantee Co., Ltd. is a qualified enterprise located in the Western Region and is entitled to preferential tax rate of 15% for the years ended December 31, 2010 and 2012 and the ten months ended October 31, 2013.

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Company Ordinance is as follows:

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Year ended December 31, 2010 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chairman				
Liu Jiaoyang	–	104	–	104
Executive directors				
Zhang Guoxiang	–	384	210	594
Li Ruping	–	210	58	268
Supervisor				
Li Changjin	–	138	32	170
	–	836	300	1,136

7 DIRECTORS' REMUNERATION (CONTINUED)

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Year ended December 31, 2011 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chairman				
Liu Jiaoyang (Resigned on August 17, 2011)	–	171	113	284
Tu Minghai (Appointed on August 17, 2011)	–	–	–	–
Executive directors				
Zhang Guoxiang	–	606	270	876
Li Ruping	–	210	53	263
Supervisor				
Li Changjin	–	152	45	197
	–	1,139	481	1,620

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Year ended December 31, 2012 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chairman				
Tu Minghai	–	–	–	–
Executive directors				
Zhang Guoxiang	–	654	360	1,014
Li Ruping	–	210	80	290
Supervisor				
Li Changjin	–	179	57	236
	–	1,043	497	1,540

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Ten months ended October 31, 2012 Total
	RMB'000 (Unaudited)	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Chairman				
Tu Minghai	–	–	–	–
Executive directors				
Zhang Guoxiang	–	540	300	840
Li Ruping	–	118	67	185
Supervisor				
Li Changjin	–	148	–	148
	–	806	367	1,173

7 DIRECTORS' REMUNERATION (CONTINUED)

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Subtotal	Share-based payments	Ten months ended October 31, 2013 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman						
Tu Minghai (Resigned on February 6, 2013)	–	–	–	–	–	–
Tu Jianhua (Appointed on February 6, 2013 and resigned on March 13, 2013)	–	–	–	–	–	–
Zhang Guoxiang (Appointed on March 13, 2013)	–	1,154	330	1,484	72,806	74,290
Executive directors						
Li Ruping (Resigned on March 13, 2013)	–	82	20	102	950	1,052
Lin Feng (Appointed on March 13, 2013)	–	800	280	1,080	6,578	7,658
Non-executive directors						
Tu Jianhua (Appointed on March 13, 2013)	–	–	–	–	–	–
Duan Xiaohua (Appointed on June 17, 2013)	–	–	–	–	–	–
Liu Jiaoyang (Appointed on March 13, 2013)	–	91	45	136	–	136
Liu Tingrong (Appointed on March 13, 2013)	–	–	–	–	–	–
Wang Fangfei (Appointed on March 13, 2013)	–	49	8	57	–	57
Feng Yongxiang (Appointed on March 13, 2013)	–	–	–	–	–	–
Zhou Xinyu (Appointed on June 17, 2013)	–	–	–	–	–	–
Liu Bolin (Appointed on June 17, 2013)	–	–	–	–	–	–
Independent non-executive directors						
Bai Qinxian (Appointed on March 13, 2013)	–	83	–	83	–	83
Deng Zhaoyu (Appointed on March 13, 2013)	–	83	–	83	–	83
Qian Shizheng (Appointed on June 17, 2013)	–	–	–	–	–	–
Ng Leung Sing (Appointed on June 17, 2013)	–	–	–	–	–	–
Yuan Xiaobin (Appointed on June 17, 2013)	–	–	–	–	–	–
Supervisor						
Li Changjin (Resigned on March 13, 2013)	–	168	40	208	–	208
Zhou Daoxue (Appointed on March 13, 2013)	–	–	–	–	–	–
Chen Zhonghua (Appointed on March 13, 2013)	–	130	250	380	–	380
Li Ruping (Appointed on March 13, 2013)	–	328	80	408	3,799	4,207
	–	2,968	1,053	4,021	84,133	88,154

7 DIRECTORS' REMUNERATION (CONTINUED)

There were no amounts paid during the Relevant Periods to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one is director of the Company for the years ended December 31, 2010, 2011, and 2012 and for the ten months ended October 31, 2012, and two are directors of the Company for the ten months ended October 31, 2013, whose emoluments are disclosed in Note 7.

The aggregate of the emoluments in respect of the remaining four individuals for the years ended December 31, 2010, 2011 and 2012, and the ten months ended October 31, 2012, and the remaining three individuals for the ten months ended October 31, 2013, respectively, are as follows:

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries, allowance and benefits in kind	1,172	1,803	1,895	1,540	2,304
Discretionary bonuses	600	780	1,040	1,033	840
Equity settled share-based payment expenses	–	–	–	–	13,836
	1,772	2,583	2,935	2,573	16,980

No emoluments are paid or payable to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods.

9 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS/SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders/shareholders of the Company includes a profit of RMB6.4 million, RMB24.8 million, RMB78.8 million and a loss of RMB52.0 million for each of the years ended December 31, 2010, 2011, 2012 and for the ten months ended October 31, 2013, respectively, which has been dealt with in the financial statements of the Company (see Note 27(a)).

10 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	Years ended December 31,									Ten months ended October 31,					
	2010			2011			2012			2012			2013		
	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale financial assets: net movement in fair value reserve	38,300	(2,775)	35,525	(68,000)	10,200	(57,800)	–	–	–	–	–	–	(407)	102	(305)

10 OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Components of other comprehensive income, including reclassification adjustments

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Available-for-sale financial assets:					
Changes in fair value recognised during the year	36,410	19,811	–	–	(305)
Reclassification adjustments for amounts transferred to the consolidated income statement – gains on disposal	(885)	(77,611)	–	–	–
Net movement in the fair value reserve during the year recognised in other comprehensive income	35,525	(57,800)	–	–	(305)

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders/shareholders of the Company and the weighted average of ordinary shares in issue for the Relevant Periods as follows:

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Profit attributable to the equity holders/shareholders of the Company (RMB'000)	39,660	185,198	199,275	173,462	210,689
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share ('000)	283,945	378,164	389,753	390,000	2,677,743
Basic earnings per share (RMB)	0.14	0.49	0.51	0.44	0.08

11 EARNINGS PER SHARE (CONTINUED)

(i) Weighted average number of ordinary shares

	Years ended December 31,			Ten months ended October 31,	
	2010	**2011**	**2012**	**2012**	**2013**
	'000	*'000*	*'000*	*'000* (Unaudited)	*'000*
Issued ordinary shares at January 1	250,000	300,000	300,000	300,000	300,000
Effect of new issues	7,808	–	–	–	2,377,743
Effect of issue of shares to Huitai in exchange of interest in Hanhua Guarantee *(Note)*	26,137	78,164	89,753	90,000	–
Weighted average number of ordinary shares at December 31/October 31	283,945	378,164	389,753	390,000	2,677,743

Note: This represents 90 million ordinary shares issued to Huitai in exchange of equity interest in Hanhua Guarantee held by Huitai on the Company's behalf as part of the Group's reorganisation in February 2013, which has been described in Note 1(b). For the purpose of calculation of earnings per share, such ordinary shares were included in the calculation of the weighted average number of ordinary shares for all periods presented, adjusted to reflect the changes in ownership interest in Hanhua Guarantee held by Huitai on behalf of the Company during the Relevant Periods.

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

12 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash in hand	631	236	246	246
Cash at banks	562,241	528,296	254,109	809,928
Cash and cash equivalents in the consolidated cash flow statements	562,872	528,532	254,355	810,174

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash in hand	–	82	20	7
Cash at banks	1,121	520	207	29,826
Cash and cash equivalents in the statement of financial position	1,121	602	227	29,833

The Group's operation of guarantees and loans to customers services in the PRC are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

12 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of profit before taxation to cash (used in)/generated from operating activities:

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before taxation	109,804	576,187	633,963	505,803	369,608
Adjustments for:					
Impairment losses	25,090	43,531	130,068	105,938	224,365
Provisions for guarantee losses	77,600	123,946	51,669	31,832	102,956
Depreciation and amortisation	4,294	10,775	15,055	14,276	16,382
(Gain)/losses on disposal of fixed assets	(17)	67	(228)	(51)	84
Interest expenses	12,107	46,855	61,097	50,039	63,751
Investment income	(6,680)	(91,307)	–	–	–
Equity-settled share-based payment	–	–	–	–	117,258
Change in working capitals:					
(Increase)/decrease in restricted bank deposits	(519,509)	(1,367,299)	25,837	(51,451)	(69,205)
Increase in loans and advances to customers	(528,666)	(721,552)	(422,448)	(51,592)	(1,845,211)
Decrease/(increase) in trade and other receivables	54,587	(49,138)	(196,250)	(170,647)	(243,171)
Increase/(decrease) in customer pledged deposits	471,396	389,546	(623,122)	(478,497)	(360,348)
Increase in accruals and other payables	70,340	180,805	116,612	66,149	147,910
Cash (used in)/generated from operations	(229,654)	(857,584)	(207,747)	21,799	(1,475,621)

13 RESTRICTED BANK DEPOSITS

Except for the prepaid capital for establishing a new subsidiary, Kunming Panlong District Hanhua Micro-credit Co., Ltd., of RMB140.0 million as at October 31, 2013, which cannot be used before the inception of the new subsidiary, all the other restricted bank deposits represent the deposits at banks according to the requirements from banks or related government regulations for the credit guarantees that the Group provides to third parties for their borrowing from banks.

14 TRADE AND OTHER RECEIVABLES

The Group

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables and receivables for default payments *(Note 14(a))*	16,896	48,259	205,601	356,565
Less: allowance for doubtful debts *(Note 14(b))*	(8,000)	(24,529)	(114,770)	(262,346)
	8,896	23,730	90,831	94,219
Interest receivables	6,319	20,685	29,601	38,856
Amount due from related parties *(Note 14(c))*	–	5,202	27,988	16,012
Prepayments for purchase of a building for own use	–	–	109,654	–
Repossessed assets	–	–	–	12,565
Other prepayments, deposits and other receivables	18,863	22,272	52,265	147,193
	34,078	71,889	310,339	308,845

14 TRADE AND OTHER RECEIVABLES (CONTINUED)

As at December 31, 2010, 2011, 2012 and October 31, 2013, except for deposits of RMB4.8 million, RMB8.4 million, RMB135.6 million and RMB79.3 million, respectively, all of the remaining trade and other receivables are expected to be recovered or recognised as expense within one year.

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receivables for the default payment *(Note 14(a))*	6,186	7,304	–	–
Amounts due from related parties/ subsidiaries *(Note 14(c))*	–	5,202	27,988	106,026
Prepayments, deposits and other receivables	4,605	4,606	3,076	83,821
	10,791	17,112	31,064	189,847

All of the other trade and other receivables were expected to be recovered or recognised as expense within one year.

(a) Ageing analysis:

As of the end of the reporting period, the ageing analysis of trade receivables and receivables for default payments, based on the invoice date and net of allowance for doubtful debts, is as follows:

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	14,920	34,222	174,354	203,455
Over 1 year but less than 2 years	–	12,061	23,247	135,125
Over 2 years but less than 3 years	1,976	–	8,000	17,985
Over 3 years but less than 4 years	–	1,976	–	–
	16,896	48,259	205,601	356,565
Less: allowance for doubtful debts	(8,000)	(24,529)	(114,770)	(262,346)
	8,896	23,730	90,831	94,219

14 TRADE AND OTHER RECEIVABLES (CONTINUED)

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	4,210	1,267	–	–
Over 1 years but less than 2 years	–	4,061	–	–
Over 2 years but less than 3 years	1,976	–	–	–
Over 3 years but less than 4 years	–	1,976	–	–
	6,186	7,304	–	–

Receivables that were not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(b) Impairment of trade receivables:

Impairment losses in respect of trade receivables and receivables for default payments are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and receivables for default payments directly (see Note 1(j)(ii)).

The movement in the allowance for doubtful debts during the Relevant Periods, including both specific and collective loss components, is as follows:

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	8,000	24,529	114,770
Impairment losses recognised in the consolidated income statements *(Note 4)*	8,000	16,529	90,241	147,576
At the end of the year/period	8,000	24,529	114,770	262,346

At December 31, 2010, 2011, 2012 and October 31, 2013, the Group's receivables for default payments of RMB14.2 million, RMB40.7 million, RMB198.0 million and RMB352.1 million, respectively, were individually determined to be impaired. The individually impaired receivables were related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB8.0 million, RMB24.5 million, RMB114.8 million and RMB262.3 million were made at December 31, 2010, 2011, 2012 and October 31, 2013 respectively.

(c) Amounts due from related parties and subsidiaries

The amounts due from related parties and subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

15 LOANS TO OFFICERS

Loans to officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

(a) Loans made by a third party under a guarantee given by the Company

Name of borrower	Lin Feng	Zhou Xiaochuan	Xie Jinfeng	Cui Weilan	Li Ruping
Position	Executive Director/Vice President	Vice President	Vice President	Secretary of the Board/Vice President	Supervisor/ General Manager
Particulars of guarantee given *(RMB'000)*	Guarantee given to financial institution in respect of a loan of 900	Guarantee given to financial institution in respect of a loan of 980	Guarantee given to financial institution in respect of a loan of 970	Guarantee given to financial institution in respect of a loan of 1,000	Guarantee given to financial institution in respect of a loan of 1,000
Maximum liability under the guarantee *(RMB'000)*					
– at October 31, 2013	–	–	–	–	–
– at December 31, 2012	–	–	–	1,000	1,000
– at December 31, 2011	810	880	880	950	–
– at December 31, 2010	900	980	970	–	–
Amount paid or liability incurred under the guarantee	Nil	Nil	Nil	Nil	Nil

The guarantees are given without recourse to the directors and have expired by September 2013.

The directors do not consider it probable that a claim will be made against the Company under Guarantee.

(b) Loans made by the Group

Name of borrower	Xie Jinfeng	Liu Jiaoyang	Chen Zhonghua	Li Changjin
Position	Vice President	Executive Director	Supervisor	Supervisor (Resigned on March 13, 2013)
Terms of the loans				
– duration	three months	1-1.5 years	six months-1.5 years	six months-one year
– loan amount *(RMB'000)*	400	100	200	750
– interest rate	10%	5%	10%	10%-12%
– securities	None	Property	None	None
Balance of the loan *(RMB'000)*				
– at October 31, 2013	–	–	–	–
– at December 31, 2012	–	–	–	90
– at December 31, 2011	–	33	52	205
– at December 31, 2010	400	100	–	267
Maximum balance outstanding *(RMB'000)*				
– during the ten months ended October 31, 2013	–	–	–	90
– during 2012	–	33	52	355
– during 2011	400	100	100	467
– during 2010	400	100	–	400

There was neither amount due but unpaid, nor any provision made against the principal amount or interest on these loans at December 31, 2010, 2011, 2012 and October 31, 2013.

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

The Group

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Micro-lending	542,727	886,592	981,866	1,778,741
Retail loans	354,747	721,126	716,660	1,728,907
Loans to individual business proprietors	–	6,440	342,747	381,053
Loans to related parties	48,187	51,170	4,323	–
Gross loans and advances to customers	945,661	1,665,328	2,045,596	3,888,701
Less: Allowances for impairment losses				
– Individually assessed	(7,618)	(16,484)	(15,958)	(35,610)
– Collectively assessed	(15,659)	(31,910)	(68,039)	(123,070)
Total allowances for impairment losses	(23,277)	(48,394)	(83,997)	(158,680)
Net loans and advances to customers	922,384	1,616,934	1,961,599	3,730,021

Loans and advances to customers included loans under repurchase agreements, amounting to RMB80.0 million, RMB50.0 million, RMB220.0 million and RMB460.0 million as at December 31, 2010, 2011, 2012 and October 31, 2013, respectively (See Note 22).

The Company

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Micro-lending	31,280	27,280	–	–
Loans to related parties	28,620	–	–	–
Gross loans and advances to customers	59,900	27,280	–	–
Less: Allowances for impairment losses	–	–	–	–
Net loans and advances to customers	59,900	27,280	–	–

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector

The Group

	At December 31, 2010		At December 31, 2011		At December 31, 2012		At October 31, 2013	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Wholesale and retail	310,368	32.82%	614,635	36.91%	735,296	35.95%	1,431,713	36.82%
Manufacturing	279,177	29.52%	445,245	26.74%	542,134	26.50%	702,400	18.06%
Real estate	4,000	0.42%	38,800	2.33%	110,530	5.40%	370,530	9.53%
Construction	38,041	4.02%	74,958	4.50%	94,011	4.60%	339,025	8.72%
Leasing and commercial services	23,063	2.44%	61,761	3.71%	141,088	6.90%	201,006	5.17%
Others	242,825	25.68%	378,759	22.74%	418,214	20.44%	844,027	21.70%
	897,474	94.90%	1,614,158	96.93%	2,041,273	99.79%	3,888,701	100.00%
Loans to related parties	48,187	5.10%	51,170	3.07%	4,323	0.21%	–	–
Gross loans and advances to customers	945,661	100.00%	1,665,328	100.00%	2,045,596	100.00%	3,888,701	100.00%
Less: Allowances for impairment losses	(23,277)		(48,394)		(83,997)		(158,680)	
Net loans and advances to customers	922,384		1,616,934		1,961,599		3,730,021	

The Company

	At December 31, 2010		At December 31, 2011		At December 31, 2012		At October 31, 2013	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Manufacturing	27,280	45.54%	27,280	100.00%	–	–	–	–
Real estate	4,000	6.68%	–	–	–	–	–	–
Loans to related parties	28,620	47.78%	–	–	–	–	–	–
Net loans and advances to customers	59,900	100.00%	27,280	100.00%	–	–	–	–

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guaranteed loans	784,855	1,310,234	1,347,977	1,416,494
Unsecured loans	150,013	310,724	515,571	1,887,832
Secured loans	10,793	44,370	182,048	584,375
Gross loans and advances to customers	945,661	1,665,328	2,045,596	3,888,701
Less: Allowances for impairment losses				
– Individually assessed	(7,618)	(16,484)	(15,958)	(35,610)
– Collectively assessed	(15,659)	(31,910)	(68,039)	(123,070)
Total allowances for impairment losses	(23,277)	(48,394)	(83,997)	(158,680)
Net loans and advances to customers	922,384	1,616,934	1,961,599	3,730,021

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guaranteed loans	27,280	27,280	–	–
Unsecured loans	32,620	–	–	–
Net loans and advances to customers	59,900	27,280	–	–

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue period

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Overdue within 3 months (inclusive)	7,229	15,069	52,281	71,868
Overdue more than 3 months to 6 months (inclusive)	2,576	10,735	11,089	64,252
Overdue more than 6 months to one year (inclusive)	8,343	49,586	20,520	21,900
Overdue more than one year	25,360	27,769	20,117	25,229
	43,508	103,159	104,007	183,249

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Overdue within 3 months (inclusive)	–	–	–	–
Overdue more than 3 months to 6 months (inclusive)	2,300	–	–	–
Overdue more than 6 months to one year (inclusive)	–	–	–	–
Overdue more than one year	24,980	27,280	–	–
	27,280	27,280	–	–

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Analysed by methods for assessing allowances for impairment losses

The Group

	At December 31, 2010				
		Impaired loans and advances			
	Loans and advances for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Micro-lending	498,710	1,387	42,630	44,017	542,727
Retail Loans	352,255	2,492	–	2,492	354,747
Loans to related parties	48,187	–	–	–	48,187
Gross loans and advances to customers	899,152	3,879	42,630	46,509	945,661
Less: Allowances for impairment losses	(11,980)	(3,679)	(7,618)	(11,297)	(23,277)
Net loans and advances to customers	887,172	200	35,012	35,212	922,384

The Company

	At December 31, 2010				
		Impaired loans and advances			
	Loans and advances for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Micro-lending	4,000	–	27,280	27,280	31,280
Loans to related parties	28,620	–	–	–	28,620
Net loans and advances to customers	32,620	–	27,280	27,280	59,900

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Analysed by methods for assessing allowances for impairment losses (continued)

The Group

	At December 31, 2011				
		Impaired loans and advances			
	Loans and advances for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Micro-lending	826,913	5,669	54,010	59,679	886,592
Retail Loans	711,340	2,427	7,359	9,786	721,126
Loans to individual business proprietor	6,440	–	–	–	6,440
Loans to related parties	51,170	–	–	–	51,170
Gross of loans and advances to customers	1,595,863	8,096	61,369	69,465	1,665,328
Less: Allowances for impairment losses	(24,675)	(7,235)	(16,484)	(23,719)	(48,394)
Net loans and advances to customers	1,571,188	861	44,885	45,746	1,616,934

The Company

	At December 31, 2011				
		Impaired loans and advances			
	Loans and advances for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Micro-lending	–	–	27,280	27,280	27,280

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Analysed by methods for assessing allowances for impairment losses (continued)

The Group

	At December 31, 2012				
		Impaired loans and advances			
	Loans and advances for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Micro-lending	940,947	22,557	18,362	40,919	981,866
Retail Loans	694,221	11,729	10,710	22,439	716,660
Loans to individual business proprietors	342,293	454	–	454	342,747
Loans to related parties	4,323	–	–	–	4,323
Gross of loans and advances to customers	1,981,784	34,740	29,072	63,812	2,045,596
Less: Allowances for impairment losses	(37,241)	(30,798)	(15,958)	(46,756)	(83,997)
Net loans and advances to customers	1,944,543	3,942	13,114	17,056	1,961,599

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Analysed by methods for assessing allowances for impairment losses (continued)

The Group

	At October 31, 2013				
	Loans and advances for which allowances are collectively assessed	Impaired loans and advances			Total
		for which allowances are collectively assessed	for which allowances are individually assessed	Subtotal	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Micro-lending	1,739,507	25,274	13,960	39,234	1,778,741
Retail Loans	1,679,867	25,022	24,018	49,040	1,728,907
Loans to individual business proprietors	375,030	1,007	5,016	6,023	381,053
Gross loans and advances to customers	3,794,404	51,303	42,994	94,297	3,888,701
Less: Allowances for impairment losses	(78,793)	(44,277)	(35,610)	(79,887)	(158,680)
Net loans and advances to customers	3,715,611	7,026	7,384	14,410	3,730,021

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of allowances for impairment losses

The Group

	At December 31, 2010				
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances			
		which are collectively assessed	which are individually assessed	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1	6,767	147	–	147	6,914
Charge for the year *(Note 4)*	5,213	3,532	8,345	11,877	17,090
Write-offs	–	–	(727)	(727)	(727)
As at December 31	11,980	3,679	7,618	11,297	23,277

	At December 31, 2011				
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances			
		which are collectively assessed	which are individually assessed	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1	11,980	3,679	7,618	11,297	23,277
Charge for the year *(Note 4)*	12,695	5,441	8,866	14,307	27,002
Write-offs	–	(1,885)	–	(1,885)	(1,885)
As at December 31	24,675	7,235	16,484	23,719	48,394

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of allowances for impairment losses (continued)

The Group (continued)

	At December 31, 2012				
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances			
		which are collectively assessed	which are individually assessed	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1	24,675	7,235	16,484	23,719	48,394
Charge/(reversals) for the year *(Note 4)*	12,566	27,787	(526)	27,261	39,827
Write-offs	–	(4,233)	–	(4,233)	(4,233)
Recoveries	–	9	–	9	9
As at December 31	37,241	30,798	15,958	46,756	83,997

	At October 31, 2013				
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances			
		which are collectively assessed	which are individually assessed	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1	37,241	30,798	15,958	46,756	83,997
Charge for the period *(Note 4)*	41,552	15,585	19,652	35,237	76,789
Write-offs	–	(2,372)	–	(2,372)	(2,372)
Recoveries	–	266	–	266	266
As at October 31	78,793	44,277	35,610	79,887	158,680

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(g) Analysed by credit quality

The Group

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Gross balance of loans and advances to customers				
Neither past due nor impaired	886,804	1,543,029	1,941,589	3,705,452
Overdue but not impaired	12,348	52,834	40,195	88,952
Impaired	46,509	69,465	63,812	94,297
	945,661	1,665,328	2,045,596	3,888,701
Less: allowances for impairment losses				
Neither past due nor impaired	(11,687)	(22,738)	(32,194)	(70,078)
Overdue but not impaired	(293)	(1,937)	(5,047)	(8,715)
Impaired	(11,297)	(23,719)	(46,756)	(79,887)
	(23,277)	(48,394)	(83,997)	(158,680)
Net balance				
Neither past due nor impaired	875,117	1,520,291	1,909,395	3,635,374
Overdue but not impaired	12,055	50,897	35,148	80,237
Impaired	35,212	45,746	17,056	14,410
	922,384	1,616,934	1,961,599	3,730,021

The Company

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Gross and net balance of loans and advances to customers				
Neither past due nor impaired	32,620	–	–	–
Overdue but not impaired	27,280	27,280	–	–
Impaired	–	–	–	–
	59,900	27,280	–	–

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted available-for-sale equity instruments	170,500	–	10,000	9,593

At December 31, 2010, 2012 and October 31, 2013, available-for-sale equity instruments were all unlisted securities.

18 INVESTMENTS IN HANHUA GUARANTEE AND OTHER SUBSIDIARIES

The Company

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment in Hanhua Guarantee	450,000	909,000	818,100	3,075,592
Investment in other subsidiaries	30,004	30,004	–	1,172,397

As detailed in Note 1(b), Hanhua Guarantee was established by the Company, Huitai and the Other Shareholders on August 19, 2009. Upon establishment of Hanhua Guarantee and until August 2011, the Company had significant influence over the management of Hanhua Guarantee and accounted for it as an associate on the Company's statement of financial position. As described in Note 1(b), upon establishment 10% equity interest in Hanhua Guarantee was held by Huitai on behalf of the Company and the Other Shareholders based on their respective equity interests in Hanhua Guarantee. In addition, Mr. Tu was given the right to determine all significant matters related to Huitai including Huitai's voting rights in respect of its equity interest in Hanhua Guarantee. Accordingly, Mr. Tu had control while the Company had significant influence over Hanhua Guarantee upon its establishment. On August 26, 2011, the Company and Huitai entered into an agreement pursuant to which the Company and Huitai agreed to act in concert with respect to all significant matters of Hanhua Guarantee. As a result, Hanhua Guarantee became jointly controlled by the Company and Huitai and was accounted for as a joint venture for the purpose of the Company's statement of financial position. In connection with the Reorganisation as further described in Note 1(b), Hanhua Guarantee became a subsidiary of the Company on February 25, 2013.

In accordance with the accounting policies of the Company as disclosed in Note 1(e) and (f), the investment in Hanhua Guarantee is stated at cost less impairment losses in the Company's statement of financial position. Please refer to Note 1(b) for a discussion of the basis of preparation of the Financial Information of the Group on a consolidated basis.

The following list contains the information of the Company's subsidiaries as at October 31, 2013.

	Place and date of incorporation/ establishment	Equity interest held by the Group				Particulars of registered and paid in capital as at October 31, 2013	Principal activity
		At December 31,			At October 31, 2013		
		2010	2011	2012			
		(Note (ii))	*(Note (ii))*				
Sichuan Hanhua Financing Guarantee Co., Ltd. (四川瀚華融資擔保有限公司) *(Note (i)), (Note (iii))*	Chengdu May 19, 2005	45.00%	47.24%	42.52%	100.00%	500,000	Financial guarantee
Beijing Hanhua Financing Guarantee Co., Ltd. (北京瀚華融資擔保有限公司) *(Note (i)), (Note (iii))*	Beijing August 11, 2006	45.00%	47.24%	42.52%	100.00%	300,000	Financial guarantee
Liaoning Hanhua Investment Guarantee Co., Ltd. (遼寧瀚華投資擔保有限公司) *(Note (i)), (Note (iii))*	Shenyang August 25, 2006	45.00%	47.24%	42.52%	100.00%	300,000	Financial guarantee
Guiyang Hanhua Investment Guarantee Co., Ltd. (貴陽瀚華投資擔保有限公司) *(Note (i)), (Note (iv))*	Guiyang September 7, 2006	100.00%	100.00%	N/A	N/A	–	Financial guarantee
Chongqing Hanhua Assets Management Co., Ltd. (重慶瀚華資產管理有限公司) *(Note (i)), (Note (iii))*	Chongqing May 29, 2007	45.00%	47.24%	42.52%	100.00%	100,000	Assets management
Chongqing Yuzhong Hanhua Micro-credit Co., Ltd. (重慶市渝中區瀚華小額貸款有限責任公司) *(Note (i)), (Note (v))*	Chongqing September 25, 2008	13.50%	18.90%	27.64%	56.00%	500,000	SME lending
Sichuan Hanhua Micro-credit Co., Ltd. (四川瀚華小額貸款有限公司) *(Note (i)), (Note (vi))*	Chengdu May 19, 2009	21.60%	40.95%	36.85%	95.00%	400,000	SME lending
Hanhua Guarantee (瀚華擔保股份有限公司) *(Note (i))*	Chongqing August 19, 2009	45.00%	47.24%	42.52%	100.00%	3,000,000	Financial guarantee
Sichuan Small & Medium-sized Assets Management Co., Ltd. (四川中微資產管理有限公司) *(Note (i)), (Note (iii))*	Chengdu October 21, 2010	45.00%	47.24%	42.52%	100.00%	200,000	Assets management

18 INVESTMENTS IN HANHUA GUARANTEE AND OTHER SUBSIDIARIES (CONTINUED)

	Place and date of incorporation/ establishment	Equity interest held by the Group				Particulars of registered and paid in capital as at October 31, 2013	Principal activity
		At December 31,			At October 31, 2013		
		2010	2011	2012			
		(Note (ii))	*(Note (ii))*				
Tianjin Hanhua Micro-credit Co., Ltd. (天津瀚華小額貸款有限公司) *(Note (i)), (Note (iii))*	Tianjin June 29, 2011	–	47.24%	42.52%	100.00%	100,000	SME lending
Shenyang Financial and Commercial Development District Hanhua Technology Small Loan Company (瀋陽金融商貿開發區瀚華科技小額貸款有限公司) *(Note (i)), (Note (vii))*	Shenyang September 30, 2011	–	23.15%	31.68%	100.00%	300,000	SME lending
Tianjin Small & Medium-sized International Factoring Co., Ltd. (天津中微國際保理有限公司) *(Note (i)), (Note (iii))*	Tianjin November 11, 2011	–	47.24%	42.52%	100.00%	10,000	Investment consulting
Nanning Hanhua Micro-credit Co., Ltd. (南寧市瀚華小額貸款有限公司) *(Note (i)), (Note (iii))*	Nanning December 8, 2011	–	47.24%	42.52%	100.00%	150,000	SME lending
Beijing Hanhua Credit Management Co., Ltd. (北京瀚華信用管理有限公司) *(Note (i)), (Note (iii))*	Beijing March 15, 2012	–	–	42.52%	100.00%	5,000	Investment consulting
Chongqing Huiwei Investment Co., Ltd. (重慶惠微投資有限公司) *(Note (i))*	Chongqing January 7, 2013	–	–	–	100.00%	3,000	Investment consulting
Changchun Hanhua Micro-credit Co., Ltd. (長春市瀚華小額貸款有限公司) *(Note (i))*	Changchun January 25, 2013	–	–	–	60.00%	150,000	SME lending
Xi'an Hanhua Micro-credit Co., Ltd. (西安市瀚華小額貸款有限公司) *(Note (i))*	Xi'an September 12, 2013	–	–	–	65.00%	400,000	SME lending
Beijing Hanhua Network Technology Co., Ltd. (北京瀚華網絡科技有限公司) *(Note (i))*	Beijing October 11, 2013	–	–	–	100.00%	10,000	Technical consulting and technical service

All of the above subsidiaries are incorporated and operated in the PRC.

Notes:

(i) *The English translation of the names of these companies is for reference only. The official names of these companies are in Chinese.*

(ii) *It included the equity interests in the subsidiaries directly and indirectly held by Huitai on behalf of the Company. (See Note 1(b))*

(iii) *These entities were wholly owned subsidiaries of Hanhua Guarantee or Hanhua Guarantee's subsidiary since its establishment and before the Reorganisation.*

(iv) *Guiyang Hanhua Investment Guarantee Co., Ltd ("Guiyang Hanhua"), which was a wholly-owned subsidiary in the years ended 31 December 2010 and 2011, was liquidated on July 11, 2012.*

(v) *Pursuant to the Articles of Association of Chongqing Yuzhong Hanhua Micro-credit Co., Ltd. ("Chongqing Yuzhong"), Hanhua Guarantee and Sichuan Small & Medium-sized Assets Management Co., Ltd. had 60% voting right of the Board of Directors of Chongqing Yuzhong as at December 31, 2010, 2011 and 2012 respectively.*

(vi) *Pursuant to the Articles of Association of Sichuan Hanhua Micro-credit Co., Ltd. ("Sichuan Hanhua Micro-credit"), Hanhua Guarantee, Sichuan Hanhua Financing Guarantee Co., Ltd. and Chongqing Hanhua Assets Management Co., Ltd. had 57.14% voting right of the Board of Directors of Sichuan Hanhua Micro-credit as at December 31, 2010, 2011 and 2012 respectively.*

(vii) *Pursuant to the Articles of Association of Shenyang Financial and Commercial Development District Hanhua Technology Small Loan Company ("Shenyang Hanhua Small Loan"), Hanhua Guarantee, Liaoning Hanhua Investment Guarantee Co., Ltd. and Sichuan Small & Medium-sized Assets Management Co., Ltd. had 100.0% voting right of the Board of Directors of Shenyang Hanhua Small Loan since its inception in 2011 and before the Reorganisation.*

19 FIXED ASSETS

The Group

	Buildings held for own use	Motor vehicles	Office and other equipments	Leasehold improvements	Construction in process	Total fixed assets
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At January 1, 2010	–	4,119	5,166	4,271	–	13,556
Additions	41,438	7,029	2,792	3,252	254	54,765
Disposals	–	(511)	–	–	–	(511)
At December 31, 2010 and January 1, 2011	41,438	10,637	7,958	7,523	254	67,810
Additions	–	7,237	6,774	10,964	–	24,975
Disposals	–	(282)	(241)	–	–	(523)
At December 31, 2011 and January 1, 2012	41,438	17,592	14,491	18,487	254	92,262
Additions	–	3,768	6,218	11,141	265	21,392
Disposals	–	(1,413)	(45)	–	–	(1,458)
At December 31, 2012 and January 1, 2013	41,438	19,947	20,664	29,628	519	112,196
Additions	212,811	3,365	4,686	5,893	5,695	232,450
Disposals	–	(1,130)	(269)	–	–	(1,399)
At October 31, 2013	254,249	22,182	25,081	35,521	6,214	343,247
Accumulated depreciation:						
At January 1, 2010	–	(1,824)	(1,032)	(369)	–	(3,225)
Charge for the year	–	(1,255)	(1,261)	(1,614)	–	(4,130)
Written back on disposals	–	385	–	–	–	385
At December 31, 2010 and January 1, 2011	–	(2,694)	(2,293)	(1,983)	–	(6,970)
Charge for the year	(1,202)	(2,594)	(2,036)	(4,765)	–	(10,597)
Written back on disposals	–	268	153	–	–	421
At December 31, 2011 and January 1, 2012	(1,202)	(5,020)	(4,176)	(6,748)	–	(17,146)
Charge for the year	(1,202)	(3,476)	(3,259)	(6,852)	–	(14,789)
Written back on disposals	–	1,160	23	–	–	1,183
At December 31, 2012 and January 1, 2013	(2,404)	(7,336)	(7,412)	(13,600)	–	(30,752)
Charge for the period	(1,583)	(3,397)	(3,582)	(7,456)	–	(16,018)
Written back on disposals	–	621	153	–	–	774
At October 31, 2013	(3,987)	(10,112)	(10,841)	(21,056)	–	(45,996)
Net book value:						
At December 31, 2010	41,438	7,943	5,665	5,540	254	60,840
At December 31, 2011	40,236	12,572	10,315	11,739	254	75,116
At December 31, 2012	39,034	12,611	13,252	16,028	519	81,444
At October 31, 2013	250,262	12,070	14,240	14,465	6,214	297,251

19 FIXED ASSETS (CONTINUED)

The Company

	Motor vehicles	Office and other equipments	Construction in process	Total fixed assets
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At January 1, 2010	852	33	–	885
Additions	425	4	–	429
At December 31, 2010 and January 1, 2011	1,277	37	–	1,314
Additions	–	25	–	25
At December 31, 2011, January 1, 2012 and December 31, 2012, January 1, 2013	1,277	62	–	1,339
Additions	–	–	394	394
At October 31, 2013	1,277	62	394	1,733
Accumulated depreciation:				
At January 1, 2010	(692)	(18)	–	(710)
Charge for the year	(138)	(5)	–	(143)
At December 31, 2010 and January 1, 2011	(830)	(23)	–	(853)
Charge for the year	(128)	(7)	–	(135)
At December 31, 2011 and January 1, 2012	(958)	(30)	–	(988)
Charge for the year	(80)	(8)	–	(88)
At December 31, 2012 and January 1, 2013	(1,038)	(38)	–	(1,076)
Charge for the period	(68)	(6)	–	(74)
At October 31, 2013	(1,106)	(44)	–	(1,150)
Net book value:				
At December 31, 2010	447	14	–	461
At December 31, 2011	319	32	–	351
At December 31, 2012	239	24	–	263
At October 31, 2013	171	18	394	583

20 INTANGIBLE ASSETS

The Group

All intangible assets of the Group are software during Relevant Periods.

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
At the beginning of the year/period	617	953	1,444	1,450
Additions	336	491	6	3,136
At the end of the year/period	953	1,444	1,450	4,586
Less: Accumulated amortisation				
At the beginning of the year/period	(211)	(375)	(553)	(819)
Charge for the year/period	(164)	(178)	(266)	(364)
At the end of the year/period	(375)	(553)	(819)	(1,183)
Net book value				
At the end of the year/period	578	891	631	3,403
At the beginning of the year/period	406	578	891	631

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
At the beginning of the year/period	–	–	–	–
Additions	–	–	–	1,536
At the end of the year/period	–	–	–	1,536
Less: Accumulated amortisation				
At the beginning of the year/period	–	–	–	–
Charge for the year/period	–	–	–	(35)
At the end of the year/period	–	–	–	(35)
Net book value				
At the end of the year/period	–	–	–	1,501
At the beginning of the year/period	–	–	–	–

21 INTEREST-BEARING BORROWINGS

The Group's interest-bearing borrowings are analysed as follows:

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans *(Note (i))*				
– Guaranteed by third parties	–	85,000	312,500	360,000
– Secured by properties of the Group *(Note (ii))*	–	–	–	97,000
– Unsecured	150,000	115,000	168,500	133,090
	150,000	200,000	481,000	590,090
Loans from related parties *(Note (iii))*				
– Unsecured	130,000	505,362	324,600	20,000
Other loans *(Note (iv))*				
– Unsecured	–	30,000	74,950	92,500
	280,000	735,362	880,550	702,590

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans from related parties *(Note (iii))*				
– Unsecured	130,000	505,362	287,400	–
Other loans *(Note (iv))*				
– Unsecured	–	30,000	74,950	–
	130,000	535,362	362,350	–

Details of the repayment schedule of the Group's interest-bearing borrowings are set out in Note 29(c).

Notes:

(i) *All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 29(c). At December 31, 2010, 2011, 2012 and October 31, 2013, none of covenants relating to the bank loans had been breached.*

(ii) *The bank loans are secured by the Group's buildings held for own use. The aggregate carrying value of the secured properties amounted to RMB212.8 million as at October 31, 2013.*

(iii) *Loans from related parties bear interest at a range from 6% to 15% per annum, are unsecured and are repayable before March 15, 2014. Part of the loan, with an amount of RMB266.5 million, was converted into the registered capital of the Company on February 3, 2013.*

(iv) *Other loans bear interest at a range from 6% to 15% per annum, are unsecured and are repayable before May 30, 2015.*

22 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENT

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Benefit rights of loans and advances to customers	81,500	51,352	222,304	465,985

Details of the carrying values of underlying assets of financial assets under repurchased agreement are set out in Note 16(a).

23 LIABILITIES FROM GUARANTEES

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income	144,619	259,646	346,535	407,802
Provisions for guarantee losses *(Note 23(a))*	104,600	228,546	280,215	383,171
	249,219	488,192	626,750	790,973

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income	–	–	4,039	723
Provisions for guarantee losses *(Note 23(a))*	2,632	278	127	127
	2,632	278	4,166	850

(a) Provisions for guarantee losses

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	27,000	104,600	228,546	280,215
Charge for the year/period	97,679	141,903	142,063	250,532
Transfers out	(20,079)	(17,957)	(90,394)	(147,576)
At the end of the year/period	104,600	228,546	280,215	383,171

23 LIABILITIES FROM GUARANTEES (CONTINUED)

(a) Provisions for guarantee losses (continued)

The Company

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	13,211	2,632	278	127
Charge for the year/period	1,500	–	–	–
Transfers out	(12,079)	(2,354)	(151)	–
At the end of the year/period	2,632	278	127	127

24 CUSTOMER PLEDGED DEPOSITS AND ACCRUALS AND OTHER PAYABLES

(a) Customer pledged deposits

Customer pledged deposits refer to deposits received from customers as collateral security of the credit guarantee issued by the Group. These deposits are interest-free, and will be returned to customers after the guarantee contracts expire.

(b) Accruals and other payables

The Group

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued staff cost				
– Salaries, wages, bonuses and other benefits	15,635	24,968	30,518	53,914
– Contribution to retirement scheme	72	8	51	49
Interest payables	2,632	19,428	7,695	8,937
Other payables	5,757	5,312	4,986	16,851
Financial liabilities measured at amortised cost	24,096	49,716	43,250	79,751
Business tax and other surcharges payable	3,817	6,020	9,216	13,741
Receipts in advance	41,069	95,820	117,079	172,005
Total	68,982	151,556	169,545	265,497

The Company

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest payables	2,265	18,997	6,197	5,888
Amount due to subsidiaries	30,969	32,894	–	238,700
Other accruals and payables	922	756	1,451	10,809
Total	34,156	52,647	7,648	255,397

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

As described in Note 1(b), Huitai was established as the Group's vehicle for implementing a share-based incentive scheme (the "Share Incentive Scheme") to provide share incentive to the senior management of the Group. On June 20, 2013 (the "Grant Date"), details of the Share Incentive Scheme were finalised under which 15 directors, supervisors and senior management of the Company (the "Grantees") were granted entitlement to shares of the Company through their equity interests in Huitai (the "share awards") at a discounted price. The share awards would vest in installments on a monthly basis over the 8-year service period from January 1, 2013 to December 31, 2020. When a Grantee terminates his/her employment with the Group, any unvested portion of benefits will be reallocated to the remaining Grantees in proportion to their then respective interests in Huitai.

Huitai held 7.88% of the equity interests of the Company on the Grant Date for the purpose of the Share Incentive Scheme and did not carry out any other business.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions
Awards granted to directors and supervisors:		
– on June 20, 2013	193,918,615	Every month from January 1, 2013 to December 31, 2020
Awards granted to employees:		
– on June 20, 2013	76,351,233	Every month from January 1, 2013 to December 31, 2020
Total share awards granted	270,269,848	

(b) The number and weighted average exercise prices of share awards are as follows:

	Ten months ended October 31, 2013	
	Weighted average exercise price (RMB)	*Number of shares*
Outstanding at the beginning of the period	–	–
Granted during the period	0.42	270,269,848
Exercised during the period	–	–
Outstanding at the end of the period	0.42	270,269,848
Exercisable at the end of the period	0.42	28,153,109

(c) Fair value of share awards and assumptions

The fair value of services received in return for share awards granted is measured by reference to the fair value of share awards granted. The Company accounts for the Share Incentives Scheme on the basis of the pool of shares granted rather than treating the individual Grantee as the unit of account. The fair value of the total pool of shares is measured at the Grant Date with the non-vesting condition effectively ignored for valuation purposes. Subsequent forfeitures and reallocations would have no effect on the accounting treatment and the measurement of share awards granted to management. The estimate of the fair value of the share awards granted is measured based on a Cox-Ross-Rubinstein Binomial Pricing model. The contractual life of the share awards is used as an input into this model.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Fair value of share awards and assumptions (continued)

Fair value of share awards and assumptions	Share awards granted on June 20, 2013
Fair value at measurement date (RMB)	1.77
Share price (RMB)	2.26
Exercise price (RMB)	0.53
Expected volatility (expressed as weighted average volatility used in the modelling under Cox-Ross-Rubinstein Binomial Pricing model)	64.3%
Option life (expressed as weighted average life used in the modelling under Cox-Ross-Rubinstein Binomial Pricing model)	7.53 years
Expected dividend yield	1.3%
Risk-free interest rate (based on Exchange Fund Notes)	1.45%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share awards), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share awards were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share awards grants.

26 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION

(a) Movements in current taxation in the consolidated statement of financial position are as follows:

The Group

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance of income tax payable at the beginning of the year/period	7,242	33,701	116,131	113,816
Provision for income tax on the estimated taxable profit for the year/period *(Note 6(a))*	55,493	151,345	167,706	168,694
Income tax paid during the year/period	(29,034)	(68,915)	(170,021)	(187,557)
Balance of income tax payable at the end of the year/period	33,701	116,131	113,816	94,953

The Company

	At December 31,			At October 31,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance of income tax payable at the beginning of the year/period	2,625	4,820	–	–
Provision for income tax on the estimated taxable profit for the year/period	5,224	–	–	–
Income tax paid during the year/period	(3,029)	(4,820)	–	–
Balance of income tax payable at the end of the year/period	4,820	–	–	–

26 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	Deferred tax assets					Deferred tax Liabilities			
Deferred tax arising from:	Provisions for impairment losses	Accrued staff cost	Provisions for guarantee losses and accruals	Fair value adjustments on available-for-sale financial assets	Total	Fair value adjustments on available-for-sale financial assets	Government grants	Total	Net
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	
At January 1, 2010	708	976	2,062	–	3,746	(7,425)	–	(7,425)	(3,679)
Recognised/(credited) to the consolidated income statements *(Note 6(a))*	5,941	1,859	28,978	–	36,778	–	(1,126)	(1,126)	35,652
Charged to reserves	–	–	–	–	–	(2,775)	–	(2,775)	(2,775)
At December 31, 2010 and at January 1, 2011	6,649	2,835	31,040	–	40,524	(10,200)	(1,126)	(11,326)	29,198
Recognised to the consolidated income statements *(Note 6(a))*	4,188	1,669	45,161	–	51,018	–	330	330	51,348
Charged to reserves	–	–	–	–	–	10,200	–	10,200	10,200
At December 31, 2011 and at January 1, 2012	10,837	4,504	76,201	–	91,542	–	(796)	(796)	90,746
Recognised/(credited) to the consolidated income statements *(Note 6(a))*	14,914	1,036	36,197	–	52,147	–	(557)	(557)	51,590
At December 31, 2012 and at January 1, 2013	25,751	5,540	112,398	–	143,689	–	(1,353)	(1,353)	142,336
Recognised to the consolidated income statements *(Note 6(a))*	15,383	3,483	53,576	–	72,442	–	558	558	73,000
Charged to reserves	–	–	–	102	102	–	–	–	102
At October 31, 2013	41,134	9,023	165,974	102	216,233	–	(795)	(795)	215,438

The Company

There were no significant deferred tax assets and liabilities at December 31, 2010, 2011, 2012 and October 31, 2013.

26 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(o), the Group and the Company has not recognised deferred tax assets in respect of cumulative tax losses of nil, RMB23.0 million, RMB25.4 million and RMB165.1 million at December 31, 2010, 2011, 2012 and October 31, 2013, respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire in five years since initial occurrence under current tax legislation.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year/period are set out below:

The Company

	Paid-in capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 27(c)	Note 27(d)(ii)	Note 27(d)(iii)	Note 27(d)(iv)		
Balance at January 1, 2010	250,000	22,275	7,320	7,320	51,668	338,583
Changes in equity for 2010:						
Profit for the year	–	–	–	–	6,405	6,405
Other comprehensive income	–	(22,275)	–	–	–	(22,275)
Total comprehensive income	–	(22,275)	–	–	6,405	(15,870)
Capital injection	50,000	–	–	–	–	50,000
Appropriation to surplus reserve	–	–	3,892	–	(3,892)	–
Appropriation to general reserve	–	–	–	3,892	(3,892)	–
Balance at December 31, 2010	300,000	–	11,212	11,212	50,289	372,713
Balance at January 1, 2011	300,000	–	11,212	11,212	50,289	372,713
Changes in equity for 2011:						
Profit for the year and total comprehensive income	–	–	–	–	24,819	24,819
Appropriation to surplus reserve	–	–	20,576	–	(20,576)	–
Appropriation to general reserve	–	–	–	20,576	(20,576)	–
Balance at December 31, 2011	300,000	–	31,788	31,788	33,956	397,532
Balance at January 1, 2012	300,000	–	31,788	31,788	33,956	397,532
Changes in equity for 2012:						
Profit for the year and total comprehensive income	–	–	–	–	78,828	78,828
Appropriation to surplus reserve	–	–	18,334	–	(18,334)	–
Appropriation to general reserve	–	–	–	18,334	(18,334)	–
Balance at December 31, 2012	300,000	–	50,122	50,122	76,116	476,360

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Movement in components of equity (continued)

The Company (continued)

	Paid-in capital	Capital/ share premium	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 27(c)	Note 27(d)(i)	Note 27(d)(ii)	Note 27(d)(iii)	Note 27(d)(iv)		
Balance at January 1, 2013	300,000	–	–	50,122	50,122	76,116	476,360
Changes in equity for the ten months ended October 31, 2013:							
Loss for the period and total comprehensive income	–	–	–	–	–	(52,013)	(52,013)
Capital injection	2,211,608	1,480,163	–	–	–	–	3,691,771
Equity-settled share-based payment	–	–	117,258	–	–	–	117,258
Share capital increased by retained earnings transfer	125,549	–	–	–	–	(125,549)	–
Conversion into joint stock company	792,843	(657,201)	–	(50,122)	(50,122)	(35,398)	–
Balance at October 31, 2013	3,430,000	822,962	117,258	–	–	(136,844)	4,233,376
Unaudited							
Balance at January 1, 2012	300,000	–	–	31,788	31,788	33,956	397,532
Changes in equity for the ten months ended October 31, 2012 :							
Profit for the period and total comprehensive income	–	–	–	–	–	75,582	75,582
Balance at October 31, 2012	300,000	–	–	31,788	31,788	109,538	473,114

(b) Dividends

The Company has not distributed any dividend to the equity holders/shareholders during the Relevant Periods.

(c) Paid-in/share capital

The paid-in/share capital of the Group as at January 1, 2010, December 31, 2010, 2011, 2012 and October 31, 2013 represented the paid-in/share capital of the Company.

27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Capital/share premium

The capital/share premium represents the difference between the paid-in capital/par value of the shares of the Company and capital injection/proceeds received from the issuance of the shares of the Company.

(ii) Capital reserve

The capital reserve mainly comprises the following:

– the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policies in Note 1(j)(i);

– the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 1(t).

(iii) Surplus reserve

The surplus reserve represents statutory surplus reserve fund. The Company is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC after making good prior year's accumulated loss, to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(iv) General reserve

Pursuant to relevant regulations, the Company and its subsidiaries are required to set aside a general reserve through appropriations of profit after tax according to 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC after making good prior year's accumulated loss to cover potential losses against their assets.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity holders/shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity holder/shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Group's approach to capital management during the Relevant Periods.

Particularly for guarantee and credit loan operation, the Group monitors regularly the residual balance of outstanding guarantees or/and credit loans for single customers and multiples of the total outstanding guarantees or/and credit loans in relation to paid-in/share capital of companies in the Group engaging guarantee or/and credit loan business respectively, so as to keep the capital risk within an acceptable limit. The decision to manage the paid-in/share capital of companies in the Group to meet the needs of developing guarantee or/and credit loans business rests with the directors.

28 SEGMENT REPORTING

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Guarantee business

This segment represents the provision of a range of guarantee and related consulting services to customers. These guarantee services include financing guarantee, performance guarantee and litigation guarantee. The consulting services include the provision of debt financing, internal control and risk management related consulting services to the guarantee customers.

SME lending

This segment represents the provision of a range of loan and services to the small and medium sized and micro enterprises ("SME enterprises") or the owners of SME enterprises.

Others

This segment represents the aggregation of other non-significant business lines and the operational results of the headquarters.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets. Segment liabilities include all liabilities managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purpose of resource allocation and assessment of segment performance for the Relevant Periods is set out below:

	Year ended December 31, 2010			
	Guarantee business	SME lending	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net guarantee and consulting fee income	123,195	–	–	123,195
Net interest and handling fee income	1,511	197,216	–	198,727
Reportable segment revenue	124,706	197,216	–	321,922
Other net revenue	7,262	168	476	7,906
Investment income	–	–	6,680	6,680
Provisions for guarantee losses	(77,600)	–	–	(77,600)
Impairment losses	(8,000)	(17,090)	–	(25,090)
Administrative expenses	(68,891)	(51,516)	(3,607)	(124,014)
Reportable segment profit before taxation	(22,523)	128,778	3,549	109,804

28 SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (continued)

	At December 31, 2010			
	Guarantee business	SME lending	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	1,503,178	943,341	170,500	2,617,019
Segment liabilities	1,121,138	272,769	–	1,393,907

	Year ended December 31, 2011			
	Guarantee business	SME lending	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net guarantee and consulting fee income	452,657	–	–	452,657
Net interest and handling fee income	14,554	403,083	–	417,637
Reportable segment revenue	467,211	403,083	–	870,294
Other net revenue	31,011	264	180	31,455
Investment income	–	–	91,307	91,307
Provisions for guarantee losses	(123,946)	–	–	(123,946)
Impairment losses	(16,529)	(27,002)	–	(43,531)
Administrative expenses	(133,598)	(113,368)	(2,426)	(249,392)
Reportable segment profit before taxation	224,149	262,977	89,061	576,187

	At December 31, 2011			
	Guarantee business	SME lending	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	2,840,890	1,685,538	–	4,526,428
Segment liabilities	2,272,253	340,391	–	2,612,644

	Year ended December 31, 2012			
	Guarantee business	SME lending	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net guarantee and consulting fee income	784,476	–	–	784,476
Net interest and handling fee income	23,295	335,481	–	358,776
Reportable segment revenue	807,771	335,481	–	1,143,252
Other net revenue	26,267	1,312	1,239	28,818
Provisions for guarantee losses	(51,669)	–	–	(51,669)
Impairment losses	(90,241)	(39,827)	–	(130,068)
Administrative expenses	(225,646)	(127,182)	(3,542)	(356,370)
Reportable segment profit before taxation	466,482	169,784	(2,303)	633,963

28 SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (continued)

	At December 31, 2012			
	Guarantee business	SME lending	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	2,785,361	2,030,236	10,000	4,825,597
Segment liabilities	1,581,976	877,918	–	2,459,894

	Ten months ended October 31, 2012 (Unaudited)			
	Guarantee business	SME lending	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net guarantee and consulting fee income	615,114	–	–	615,114
Net interest and handling fee income	21,220	289,501	–	310,721
Reportable segment revenue	636,334	289,501	–	925,835
Other net revenue	6,485	485	–	6,970
Provisions for guarantee losses	(31,832)	–	–	(31,832)
Impairment losses	(74,585)	(31,353)	–	(105,938)
Administrative expenses	(193,743)	(93,553)	(1,936)	(289,232)
Reportable segment profit before taxation	342,659	165,080	(1,936)	505,803

	Ten months ended October 31, 2013			
	Guarantee business	SME lending	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net guarantee and consulting fee income	740,698	–	–	740,698
Net interest and handling fee income	43,776	462,329	–	506,105
Reportable segment revenue	784,474	462,329	–	1,246,803
Other net revenue	10,526	777	514	11,817
Provisions for guarantee losses	(102,956)	–	–	(102,956)
Impairment losses	(147,576)	(76,789)	–	(224,365)
Administrative expenses	(288,241)	(130,566)	(142,884)	(561,691)
Reportable segment profit before taxation	256,227	255,751	(142,370)	369,608

	At October 31, 2013			
	Guarantee business	SME lending	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	3,017,921	4,408,208	9,592	7,435,721
Segment liabilities	1,061,899	1,344,680	–	2,406,579

28 SEGMENT REPORTING (CONTINUED)

(b) Reconciliation of reportable segment assets

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Reportable segment assets	2,617,019	4,526,428	4,825,597	7,435,721
Deferred tax assets	29,198	90,746	142,336	215,438
Consolidated total assets	2,646,217	4,617,174	4,967,933	7,651,159

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, market and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practice used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments under loans the Group guaranteed or provided. Credit risk is primarily attributable to unexpired guarantee issued by the Group and the loan business of the Group, loans and advances to customers and trade and other receivables.

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods. Except for the guarantee as disclosed below, the Group has no credit risk arising from any other guarantee.

Credit risk arising from guarantee business

The Group has taken measures to identify credit risks arising from guarantee business. The Group manages credit risk at every stage of the risk management system, including pre-approval, review and credit approval and post-transaction monitoring processes. The Group conducts customer acceptance and due diligence by business department and risk management department during the pre-approval process. A transaction may be subject to the review and approval of credit approval officer, regional risk committee, deputy chairman and chairman depending on the transaction size.

During the post-transaction monitoring process, the Group conducts on-site inspection and ongoing post-transaction reviews focusing on various aspects, including but not limited to customers' product markets, operating income, assets and liabilities, cash flows from operating activities to detect potential risks. The Group takes proactive preventive actions based on the risk analysis and design contingency plans accordingly.

When a certain number of clients undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfill contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to specific industries or geographical locations. As the Group mainly operates its businesses in the PRC, there exists a certain level of geographical concentration risk for its guarantee and loan portfolios in that it might be affected by changes in the PRC economic conditions.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

The guarantees issued and outstanding are analysed by type as follows:

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank financing guarantees	6,801,457	11,881,417	11,920,162	14,748,778
Non-bank financing guarantees	72,310	312,291	1,478,934	3,533,756
Performance guarantees	1,924,894	2,018,841	1,287,130	1,127,859
Maximum amount guarantee	8,798,661	14,212,549	14,686,226	19,410,393
Less: customer pledged deposits	(680,505)	(1,070,051)	(446,929)	(86,581)
Net guarantee exposure	8,118,156	13,142,498	14,239,297	19,323,812

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank financing guarantees	167,225	11,216	2,820	970
Performance guarantees	350,316	154,706	154,706	122,106
Maximum amount guarantee	517,541	165,922	157,526	123,076
Less: customer pledged deposits	(15,720)	(930)	(130)	(130)
Net guarantee exposure	501,821	164,992	157,396	122,946

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

The maximum exposure to credit risk in respect of guarantees by industry at December 31, 2010, 2011, 2012 and October 31, 2013 is as follows:

The Group

	At December 31, 2010		At December 31, 2011		At December 31, 2012		At October 31, 2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Commercial services	1,990,675	22.62%	3,611,273	25.41%	3,712,460	25.28%	5,836,245	30.07%
Manufacturing and processing	2,609,181	29.65%	4,193,387	29.50%	4,187,921	28.52%	5,480,144	28.23%
Construction	2,161,825	24.57%	3,828,172	26.94%	3,443,772	23.45%	4,406,298	22.70%
Household Goods	1,127,642	12.82%	1,318,737	9.28%	1,515,087	10.32%	1,903,875	9.81%
Energy	324,820	3.69%	447,021	3.15%	696,689	4.74%	484,935	2.50%
Agricultural processing industry	231,680	2.63%	246,210	1.73%	249,220	1.70%	356,882	1.84%
Service industry	61,860	0.70%	105,790	0.74%	114,540	0.78%	255,344	1.32%
Telecommunications, computer services and software	85,010	0.97%	129,034	0.91%	94,510	0.64%	193,661	1.00%
Agriculture	61,200	0.70%	317,520	2.23%	471,660	3.21%	45,770	0.24%
Others	144,768	1.65%	15,405	0.11%	200,367	1.36%	447,239	2.29%
Subtotal of guarantee	8,798,661	100.00%	14,212,549	100.00%	14,686,226	100.00%	19,410,393	100.00%

The Company

	At December 31, 2010		At December 31, 2011		At December 31, 2012		At October 31, 2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Manufacturing and processing	87,232	16.86%	60,937	36.73%	60,000	38.09%	60,000	48.75%
Construction	237,560	45.90%	71,600	43.15%	71,600	45.45%	48,600	39.49%
Commercial services	47,980	9.27%	17,980	10.84%	14,980	9.51%	5,380	4.37%
Others	144,769	27.97%	15,405	9.28%	10,946	6.95%	9,096	7.39%
Subtotal of guarantee	517,541	100.00%	165,922	100.00%	157,526	100.00%	123,076	100.00%

Credit risk arising from micro-lending business

The Group adopts the same pre-approval, review and credit approval risk management system for credit risk arising from micro-lending business. During the post-transaction monitoring process, the Group conducts a visit of customers within one month after disbursement of loans, and conducts on-site inspection on a semi-annual basis. The review focuses on the use of loans, the financial and operational conditions of the borrowers or the progress of projects and status of the collateral.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

Credit risk arising from micro-lending business (continued)

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special Mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Group has established relevant mechanisms to apply tiered management of credit risks, and set limits to acceptable risks for different individual or group counterparties, different industries and geographical regions. The Group monitors the risk status of these customers regularly and reviews their risk positions at least on a quarterly basis.

In accordance with accounting policies and regulations, if there is objective evidence that indicates the cash flow for a particular loan is expected to decrease, and the amount can be estimated, the loan is recorded as an impaired loan and the impairment loss is recognised in the income statement.

The Group's policy requires regular review of the quality of individually significant financial assets. For assets for which an allowance for impairment loss is provided individually, the amount is determined by an evaluation of the incurred loss at reporting date on a case-by-case basis. In making such assessments, the Group considers the value of collateral held and expected future cash flows from the asset.

Impairment allowances are provided for the following portfolios according to historical data, experience and statistical techniques: (i) those consisting of homogeneous assets that are individually below materiality thresholds; and (ii) those where losses that have been incurred but have not yet been individually identified with any specific asset within the portfolio.

Other credit risks

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluation focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from loans and advances to customers and trade and other receivables are set out in Note 16 and Note 14, respectively.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Interest rate risk

The Group is principally engaged in the provision of credit guarantee, lending and related consulting services to SME enterprises in the PRC. Its interest rate risk arises primarily from deposits with banks, loans and advances to customers and interest-bearing borrowings.

(i) Interest rate profile

The following tables details the interest rate profile of the Group's and the Company's assets and liabilities as at the end of the Relevant Periods:

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fixed interest rate				
Financial assets				
– Restricted bank deposits	253,485	1,472,077	1,577,555	1,612,863
– Loans and advances to customers	922,384	1,616,934	1,961,599	3,730,021
	1,175,869	3,089,011	3,539,154	5,342,884
Financial liabilities				
– Interest-bearing borrowings	(195,000)	(635,362)	(512,050)	(358,350)
– Financial assets sold under repurchase agreement	(81,500)	(51,352)	(222,304)	(465,985)
	(276,500)	(686,714)	(734,354)	(824,335)
Net	899,369	2,402,297	2,804,800	4,518,549
Variable interest rate				
Financial assets				
– Cash and cash equivalents	562,241	528,296	254,109	809,928
– Restricted bank deposits	612,282	760,989	629,674	663,571
	1,174,523	1,289,285	883,783	1,473,499
Financial liabilities				
– Interest-bearing borrowings	(85,000)	(100,000)	(368,500)	(344,240)
Net	1,089,523	1,189,285	515,283	1,129,259
Fixed rate financial liabilities as a percentage of total financial liabilities	76.49%	87.29%	66.59%	70.54%

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Interest rate risk (continued)

(i) Interest rate profile (continued)

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fixed interest rate				
Financial assets				
– Loans and advances to customers	59,900	27,280	–	–
Financial liabilities				
– Interest-bearing borrowings	(130,000)	(535,362)	(362,350)	–
Net	(70,100)	(508,082)	(362,350)	–
Variable interest rate				
Financial assets				
– Cash and cash equivalents	1,121	520	207	29,826
– Restricted bank deposits	7,764	2,400	1,000	20,000
	8,885	2,920	1,207	49,826
Fixed rate financial liabilities as a percentage of total financial liabilities	100.00%	100.00%	100.00%	–

(ii) Sensitivity analysis

At December 31, 2010, 2011, 2012 and October 31, 2013, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's profit before taxation for the next 12 months by approximately RMB5.5 million, RMB5.9 million, RMB2.6 million and RMB5.6 million, respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Liquidity risk

Management regularly monitors the Group's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following tables provide an analysis of financial assets and liabilities of the Group and the Company into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods:

The Group

	At December 31, 2010						
	Indefinite	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalents	–	562,872	–	–	–	–	562,872
Restricted bank deposits	–	135,132	209,183	458,603	62,849	–	865,767
Trade and other receivables	–	14,122	11,398	957	4,792	–	31,269
Loans and advances to customers	–	39,930	522,239	350,229	9,986	–	922,384
Available-for-sale financial assets	170,500	–	–	–	–	–	170,500
Total	170,500	752,056	742,820	809,789	77,627	–	2,552,792
Liabilities							
Customer pledged deposits	–	5,012	103,438	487,878	83,877	300	680,505
Interest-bearing borrowings	–	–	115,000	–	165,000	–	280,000
Financial assets sold under repurchase agreement	–	–	–	81,500	–	–	81,500
Accrued staff cost	–	–	15,707	–	–	–	15,707
Other liabilities	–	2,632	5,557	200	–	–	8,389
Total	–	7,644	239,702	569,578	248,877	300	1,066,101
Net	170,500	744,412	503,118	240,211	(171,250)	(300)	1,486,691
Guarantee issued							
Maximum amount guaranteed*	–	76,659	810,437	4,928,091	2,284,319	18,650	8,118,156

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Liquidity risk (continued)

The Group (continued)

	At December 31, 2011						
	Indefinite	**Repayable on demand**	**Within three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalents	–	528,532	–	–	–	–	528,532
Restricted bank deposits	–	295,781	814,237	1,032,660	90,088	300	2,233,066
Trade and other receivables	–	39,532	15,146	7,135	8,406	–	70,219
Loans and advances to customers	–	80,530	798,268	731,683	6,453	–	1,616,934
Total	–	944,375	1,627,651	1,771,478	104,947	300	4,448,751
Liabilities							
Customer pledged deposits	–	107,291	196,718	691,778	74,264	–	1,070,051
Interest-bearing borrowings	–	–	–	433,911	301,451	–	735,362
Financial assets sold under repurchase agreement	–	–	20,687	30,665	–	–	51,352
Accrued staff cost	–	–	24,976	–	–	–	24,976
Other liabilities	–	431	24,309	–	–	–	24,740
Total	–	107,722	266,690	1,156,354	375,715	–	1,906,481
Net	–	836,653	1,360,961	615,124	(270,768)	300	2,542,270
Guarantee issued							
Maximum amount guaranteed*	–	256,493	2,541,767	8,517,097	1,826,191	950	13,142,498

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Liquidity risk (continued)

The Group (continued)

	At December 31, 2012						
	Indefinite	**Repayable on demand**	**Within three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalents	–	254,355	–	–	–	–	254,355
Restricted bank deposits	–	276,767	672,451	1,220,305	36,956	750	2,207,229
Trade and other receivables	–	129,812	27,140	13,320	25,863	–	196,135
Loans and advances to customers	–	92,933	916,389	938,324	13,953	–	1,961,599
Available-for-sale financial assets	10,000	–	–	–	–	–	10,000
Total	10,000	753,867	1,615,980	2,171,949	76,772	750	4,629,318
Liabilities							
Customer pledged deposits	–	33,565	389,980	1,650	21,184	550	446,929
Interest-bearing borrowings	–	–	110,950	436,100	333,500	–	880,550
Financial assets sold under repurchase agreement	–	–	96,221	76,083	50,000	–	222,304
Accrued staff cost	–	–	30,569	–	–	–	30,569
Other liabilities	–	–	5,653	6,428	600	–	12,681
Total	–	33,565	633,373	520,261	405,284	550	1,593,033
Net	10,000	720,302	982,607	1,651,688	(328,512)	200	3,036,285
Guarantee issued							
Maximum amount guaranteed*	–	273,266	2,873,212	9,588,824	1,469,095	34,900	14,239,297

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Liquidity risk (continued)

The Group (continued)

	At October 31, 2013						
	Indefinite	Repayable on demand	Within three months	Three months and one year	Between one year and five years	More than five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalents	–	505,094	305,080	–	–	–	810,174
Restricted bank deposits	–	523,572	948,565	799,747	4,550	–	2,276,434
Trade and other receivables	–	129,886	89,373	43,007	20,073	–	282,339
Loans and advances to customers	–	112,466	1,075,828	2,380,187	161,540	–	3,730,021
Available-for-sale financial assets	9,593	–	–	–	–	–	9,593
Total	9,593	1,271,018	2,418,846	3,222,941	186,163	–	7,108,561
Liabilities							
Customer pledged deposits	–	81,146	400	5,000	35	–	86,581
Interest-bearing borrowings	–	–	115,850	359,500	227,240	–	702,590
Financial assets sold under repurchase agreement	–	–	–	465,985	–	–	465,985
Accrued staff cost	–	–	53,963	–	–	–	53,963
Other liabilities	–	–	16,368	9,420	–	–	25,788
Total	–	81,146	186,581	839,905	227,275	–	1,334,907
Net	9,593	1,189,872	2,232,265	2,383,036	(41,112)	–	5,773,654
Guarantee issued							
Maximum amount guaranteed*	–	538,181	3,634,501	13,129,164	1,986,516	35,450	19,323,812

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Liquidity risk (continued)

The Company

	At December 31, 2010						
	Indefinite	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalents	–	1,121	–	–	–	–	1,121
Restricted bank deposits	–	–	–	5,364	2,400	–	7,764
Trade and other receivables	–	6,259	–	–	4,532	–	10,791
Loans and advances to customers	–	27,280	32,620	–	–	–	59,900
Total	–	34,660	32,620	5,364	6,932	–	79,576
Liabilities							
Customer pledged deposits	–	–	–	14,790	930	–	15,720
Interest-bearing borrowings	–	–	80,000	–	50,000	–	130,000
Accrued staff cost	–	–	63	–	–	–	63
Other liabilities	–	31,807	2,265	–	–	–	34,072
Total	–	31,807	82,328	14,790	50,930	–	179,855
Net	–	2,853	(49,708)	(9,426)	(43,998)	–	(100,279)
Guarantee issued							
Maximum amount guaranteed*	–	46,296	147,322	188,703	119,500	–	501,821

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Liquidity risk (continued)

The Company (continued)

	At December 31, 2011						
	Indefinite	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalents	–	602	–	–	–	–	602
Restricted bank deposits	–	–	–	1,400	1,000	–	2,400
Trade and other receivables	–	7,322	–	9,735	–	–	17,057
Loans and advances to customers	–	27,280	–	–	–	–	27,280
Total	–	35,204	–	11,135	1,000	–	47,339
Liabilities							
Customer pledged deposits	–	–	–	800	130	–	930
Interest-bearing borrowings	–	–	–	268,911	266,451	–	535,362
Accrued staff cost	–	–	81	–	–	–	81
Other liabilities	–	33,556	18,997	–	–	–	52,553
Total	–	33,556	19,078	269,711	266,581	–	588,926
Net	–	1,648	(19,078)	(258,576)	(265,581)	–	(541,587)
Guarantee issued							
Maximum amount guaranteed*	–	164,992	–	–	–	–	164,992

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Liquidity risk (continued)

The Company (continued)

	At December 31, 2012						
	Indefinite	**Repayable on demand**	**Within three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalents	–	227	–	–	–	–	227
Restricted bank deposits	–	–	–	1,000	–	–	1,000
Trade and other receivables	–	8,024	14,976	8,006	–	–	31,006
Total	–	8,251	14,976	9,006	–	–	32,233
Liabilities							
Customer pledged deposits	–	–	–	130	–	–	130
Interest-bearing borrowings	–	–	89,250	273,100	–	–	362,350
Accrued staff cost	–	–	84	–	–	–	84
Other liabilities	–	127	6,197	–	–	–	6,324
Total	–	127	95,531	273,230	–	–	368,888
Net	–	8,124	(80,555)	(264,224)	–	–	(336,655)
Guarantee issued							
Maximum amount guaranteed*	–	157,396	–	–	–	–	157,396

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Liquidity risk (continued)

The Company (continued)

	At October 31, 2013						
	Indefinite	Repayable on demand	Within three months	Three months and one year	Between one year and five years	More than five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets							
Cash and cash equivalents	–	29,833	–	–	–	–	29,833
Restricted bank deposits	–	–	20,000	–	–	–	20,000
Trade and other receivables	–	182,174	–	–	470	–	182,644
Total	–	212,007	20,000	–	470	–	232,477
Liabilities							
Customer pledged deposits	–	130	–	–	–	–	130
Accrued staff cost	–	851	–	–	–	–	851
Other liabilities	–	254,002	–	–	–	–	254,002
Total	–	254,983	–	–	–	–	254,983
Net	–	(42,976)	20,000	–	470	–	(22,506)
Guarantee issued							
Maximum amount guaranteed*	–	122,946	–	–	–	–	122,946

* *The maximum amount guaranteed represents the total amount of liability less the amount of customer pledged deposits should all customers default. Since a significant portion of guarantee is expected to expire without being called upon, the maximum liabilities do not represent expected future cash outflows.*

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Fair values

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Level 3	170,500	–	10,000	9,593

During the years ended December 31, 2010, 2011, 2012 and October 31, 2013, there were no transfers between instruments in Level 1 and Level 2. The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	144,200	170,500	–	10,000
Net unrealised gains or losses recognised in other comprehensive income during the year/period	38,300	–	–	(407)
Payment for purchases	–	–	10,000	–
Proceeds from sales	(12,000)	(170,500)	–	–
At the end of the year/period	170,500	–	10,000	9,593

30 COMMITMENTS

(a) Capital commitments outstanding at December 31, 2010, 2011, 2012 and October 31, 2013 not provided for in the Financial Information were as follows:

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Commitments in respect of purchase of fixed assets – Contracted for	–	–	98,673	5,119

(b) The total future minimum lease payments under non-cancellable operating leases of properties were payable as follows:

The Group

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year (inclusive)	8,643	22,726	32,265	25,025
After 1 year but within 3 years (inclusive)	13,052	23,127	25,869	21,095
Over 3 years	1,115	2,872	3,751	6,330
Total	22,810	48,725	61,885	52,450

The Company

	At December 31,			At October 31,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year (inclusive)	247	55	58	2,905
After 1 year but within 3 years (inclusive)	185	–	–	8,209
Over 3 years	–	–	–	1,610
Total	432	55	58	12,724

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 1-5 years, at the end of which period all terms are renegotiated. None of the leases include contingent rentals.

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel remuneration

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Key management personnel remuneration *(Note (i))*	3,988	5,997	6,303	5,633	116,434
Guarantee income	24	56	–	–	–
Interest income	23	29	8	6	41
Interest expenses	–	–	(511)	(153)	(318)
Additions in interest-bearing borrowings	–	–	12,000	12,000	–
Repayment of interest-bearing borrowings	–	–	–	–	(12,000)
Additions of loans and advances to customers	700	1,500	200	150	540
Repayment of loans and advances to customers	(466)	(1,977)	(400)	(326)	(630)
Providing guarantee	2,850	950	2,000	2,000	–
Releasing guarantee	–	(280)	(3,520)	(3,520)	(2,000)

Notes:

(i) Remuneration for key management personnel of the Group includes amounts paid to the Company's directors as disclosed in Note 7 and the highest paid employees as disclosed in Note 8.

(ii) All the balances with key management personnel are disclosed in relevant notes of this section.

31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties other than key management personnel

	Years ended December 31,			Ten months ended October 31,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Guarantee income	1,298	1,115	889	758	977
Interest income	218	1,737	5,796	4,231	377
Interest expenses	(3,665)	(20,732)	(25,661)	(22,096)	(10,725)
Additions in interest-bearing borrowings	419,580	731,362	427,758	68,762	260,000
Repayment of interest-bearing borrowings *(Note (i))*	(414,750)	(356,000)	(620,520)	(149,724)	(552,600)
Additions of loans and advances to customers	52,920	104,780	62,760	61,560	250
Repayment of loans and advances to customers	(44,300)	(101,320)	(109,407)	(85,277)	(4,483)
Assets transfer *(Note (i))*	–	–	128,855	–	–
Providing guarantee	108,000	110,000	48,500	48,500	35,000
Releasing guarantee	(196,000)	(107,860)	(137,790)	(94,790)	(20,850)

Notes:

(i) *Assets transfer represents the transfer of 4.72% equity interest in Hanhua Guarantee to Loncin Holdings Co., Ltd. for a consideration of RMB90.9 million and the transfer of loans to customers with net book value of RMB38.0 million to a related party for a consideration of RMB38.0 million in 2012. Of the consideration, RMB116.9 million was satisfied through the repayment of interest-bearing borrowings from the counterparties, and the remaining RMB12.0 million was satisfied in cash.*

RMB266.5 million out of the total repayment of interest-bearing borrowings for the ten months ended October 31, 2013 was settled as capital injection to the Company by one of its shareholders.

(ii) *At December 31, 2010, 2011, 2012 and October 31, 2013, the outstanding guarantee provided to related parties are RMB108.0 million, RMB110.1 million, RMB20.8 million, and RMB35.0 million, respectively. The balances of other transactions with related parties are disclosed in relevant notes of this section.*

32 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 25 and Note 29 contains information about the assumptions and their risk factors relating to fair value of share awards granted to directors, supervisors and senior management of the Company and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of receivables, loans and advances and available-for-sale financial assets

The Group reviews portfolios of receivables, loans and advances and available-for-sale financial assets periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for receivables, loans and advances and available-for-sale financial assets. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for receivables and loans and advances that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

32 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(a) Impairment of receivables, loans and advances and available-for-sale financial assets (continued)

The objective evidence of impairment for available-for-sale financial assets includes significant or continual decline in fair value of investments. When deciding whether there is significant or continual decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 1(m). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(c) Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their useful lives after taking into account estimated residual value. The useful lives and residual value are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation, the rate of depreciation is revised.

(d) Provisions for guarantee losses

The Group makes reasonable estimate on costs required to fulfil the relevant obligation of guarantee contracts when the Group computes the provisions of guarantee losses. Such estimation is made based on the available information as at the balance sheet date and is determined by the Group's practical experience, taking into consideration of industry information and market data.

(e) Tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*	January 1, 2014
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	January 1, 2014
Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*	January 1, 2014
Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*	January 1, 2014
HK(IFRIC) 21, *Levies*	January 1, 2014
Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contribution*	July 1, 2014
HKFRS 9, *Financial instruments (2009)*	Unspecified
HKFRS 9, *Financial instruments (2010)*	Unspecified
Amendments to HKFRS 9, *Financial instruments* and HKFRS 7 *Financial instruments: Disclosures – Mandatory effective date and transition disclosures*	Unspecified
HKFRS 9, *Financial instruments : Hedge accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39 (2013)*	Unspecified

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

34 STATUTORY AUDIT

No statutory financial statement has been prepared for Guiyang Hanhua as of and for the years ended December 31, 2010 and 2011 as Guiyang Hanhua has not carried on any business since the date of incorporation up to its liquidation on July 11, 2012.

No statutory financial statements have been prepared for Changchun Hanhua Micro-credit Co., Ltd., Chongqing Huiwei Investment Co., Ltd., Xi'an Hanhua Micro-credit Co., Ltd. and Beijing Hanhua Network Technology Co., Ltd. (these four subsidiaries were newly established in 2013) as there is no statutory audit requirement from their inception to October 31, 2013.

Except for these five subsidiaries mentioned above, the financial statements of the companies now comprising the Group which are subject to audit during the Relevant Periods were audited by the following auditors:

Name of company *(Note (i))*	**Financial year/period**	**Name of auditors** *(Note (i))*
Hanhua Financial Holding Co., Ltd. (瀚華金控股份有限公司) Formerly named as Hanhua Guarantee Co., Ltd. (瀚華擔保有限公司)	Year ended December 31, 2010	Chongqing Yuzi Certified Public Accountants (重慶渝諮會計師事務所有限責任公司)
	Year ended December 31, 2011	Chongqing Jinzhou Certified Public Accountants (重慶金洲會計師事務所有限公司)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
	Period from January 1, 2013 to February 28, 2013	Pan-China Certified Public Accountants (SGP) (天健會計師事務所(特殊普通合夥))

34 STATUTORY AUDIT (CONTINUED)

Name of company *(Note (i))*	**Financial year/period**	**Name of auditors** *(Note (i))*
Hanhua Guarantee (瀚華擔保股份有限公司)	Years ended December 31, 2010, and 2011	Ascenda Certified Public Accountants (天健正信會計師事務所有限公司)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) (天健會計師事務所(特殊普通合夥))
Sichuan Hanhua Financing Guarantee Co., Ltd. (四川瀚華融資擔保有限公司)	Years ended December 31, 2010, and 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Beijing Hanhua Financing Guarantee Co., Ltd. (北京瀚華融資擔保有限公司)	Years ended December 31, 2010, and 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Liaoning Hanhua Investment Guarantee Co., Ltd. (遼寧瀚華投資擔保有限公司)	Years ended December 31, 2010, and 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Chongqing Hanhua Assets Management Co., Ltd. (重慶瀚華資產管理有限公司)	Years ended December 31, 2010, and 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Chongqing Yuzhong (重慶市渝中區瀚華小額貸款有限責任公司)	Years ended December 31, 2010, and 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)

34 STATUTORY AUDIT (CONTINUED)

Name of company *(Note (i))*	**Financial year/period**	**Name of auditors** *(Note (i))*
Sichuan Hanhua Micro-credit (四川瀚華小額貸款有限公司)	Years ended December 31, 2010, and 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Sichuan Small & Medium-sized Assets Management Co., Ltd. (四川中微資產管理有限公司)	Years ended December 31, 2010, and 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Tianjin Hanhua Micro-credit Co., Ltd. (天津瀚華小額貸款有限公司) *(Note (ii))*	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Shenyang Hanhua Small Loan (瀋陽金融商貿開發區瀚華科技小額貸款有限公司) *(Note (ii))*	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Tianjin Small & Medium-sized International Factoring Co., Ltd. (天津中微國際保理有限公司) *(Note (ii))*	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Nanning Hanhua Micro-credit Co., Ltd. (南寧市瀚華小額貸款有限公司) *(Note (ii))*	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)

34 STATUTORY AUDIT (CONTINUED)

Name of company *(Note (i))*	**Financial year/period**	**Name of auditors** *(Note (i))*
Beijing Hanhua Credit Management Co., Ltd. (北京瀚華信用管理有限公司) *(Note (iii))*	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)

Notes:

(i) The English translation of the names of these companies and auditors is for reference only. The official names of these companies and auditors are in Chinese.

(ii) These companies were established in 2011.

(iii) The company was established in 2012.

35 SUBSEQUENT EVENT

On December 6, 2013, the Company and two of its wholly-owned subsidiaries established Kunming Panlong District Hanhua Micro-credit Co., Ltd. ("Kunming Micro-credit") with paid-in-capital of RMB200.0 million. Upon establishment, Kunming Micro-credit became a wholly-owned subsidiary of the Group.

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to October 31, 2013. No dividends or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to October 31, 2013.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong