CHINA HUIRONG FINANCIAL HOLDINGS LIMITED
中國匯融金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1290

CHINA HUIRONG

ANNUAL REPORT 2016

WE ARE COMMITTED TO BEING A LEADING COMPREHENSIVE FINANCING SERVICE PROVIDER IN CHINA.

We are dedicated to provide diversified financing services including secured loans, credit loans, on-line P2P lending business finance platform to our customers and to engage in investment business.

We operate in Suzhou city and the four county-level cities that are governed by the Suzhou city government, or the Greater Suzhou Area, which is the most economically advanced region in Jiangsu Province, one of the most economically developed provinces in China.
Our business has been steadily expanding across China.

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Chen Yannan *(Chairman)*
Mr. Wu Min *(Chief Executive Officer)*
Mr. Zhang Changsong *(Chief Financial Officer)*

Non-executive Directors

Mr. Zhuo You
Mr. Zhang Cheng
Ms. Zhang Shu

Independent Non-executive Directors

Mr. Zhang Huaqiao
Mr. Feng Ke
Mr. Tse Yat Hong

Committee Composition

Audit Committee

Mr. Tse Yat Hong *(Chairman)*
Mr. Feng Ke
Mr. Zhang Cheng

Remuneration Committee

Mr. Zhang Huaqiao *(Chairman)*
Mr. Tse Yat Hong
Mr. Wu Min

Nomination Committee

Mr. Chen Yannan *(Chairman)*
Mr. Feng Ke
Mr. Zhang Huaqiao

Internet Finance Business Committee

Mr. Zhang Huaqiao *(Chairman)*
Mr. Feng Ke
Mr. Wu Min

Company Secretary

Miss Leung Ching Ching

Authorised Representatives

Mr. Wu Min
Miss Leung Ching Ching

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Suite 418, Beverley Commercial Centre
87–105 Chatham Road South
Kowloon, Hong Kong

Principal Place of Business and Head Office in the PRC

22/F, 345 Baodai East Road, Suzhou
Jiangsu Province, the PRC

Principal Share Registrar

Conyers Trust Company (Cayman) Limited

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited

Principal Banks

Jiangsu Bank, Suzhou Branch
Suzhou Bank, Suzhou Branch

Auditors

PricewaterhouseCoopers

Legal Advisers

Mayer Brown JSM
Haiwen & Partners

Company's Website

www.cnhuirong.com

Stock Code

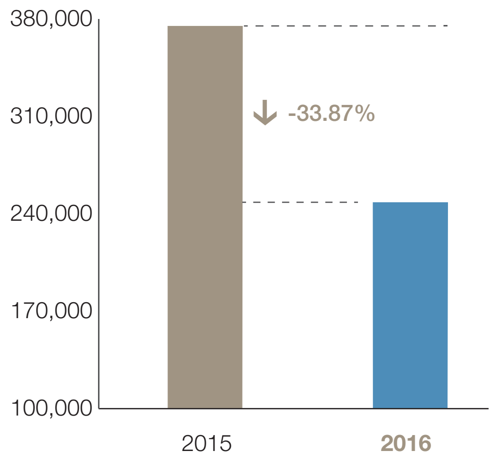
The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited

Stock Code 01290

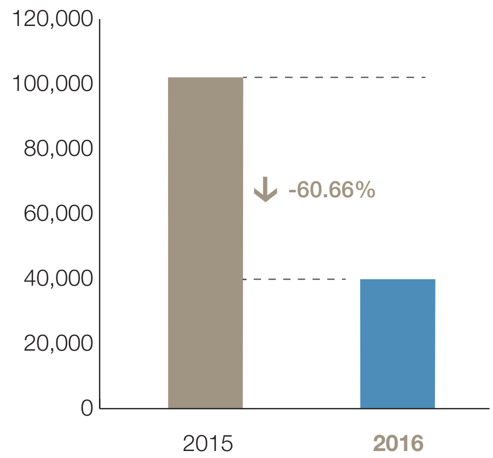
FINANCIAL SUMMARY

	For the year ended or as at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating Results					
Revenue	**248,334**	375,536	388,832	236,664	208,460
Net revenue	**187,816**	323,334	335,967	218,743	187,206
Profit attributable to equity holders	**40,078**	101,886	165,003	126,731	96,041
Financial Position					
Total assets	**3,136,179**	2,769,417	2,380,204	2,074,946	866,983
Cash at bank and on hand	**912,349**	670,547	855,975	816,845	159,081
Loans to customers	**2,024,425**	2,030,053	1,494,248	750,114	689,406
Total liabilities	**1,336,041**	1,002,596	880,091	744,607	264,143
Net assets	**1,800,138**	1,766,821	1,500,113	1,330,339	602,840

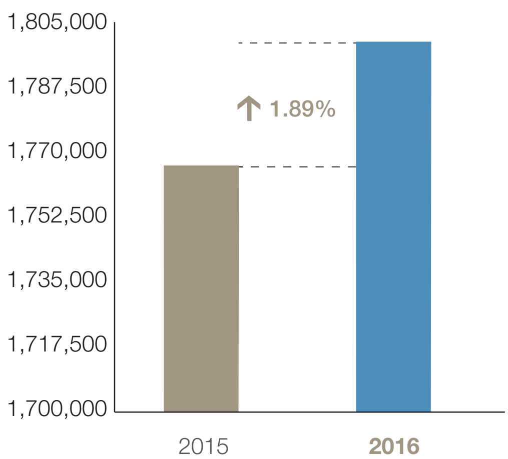
Revenue (RMB'000)



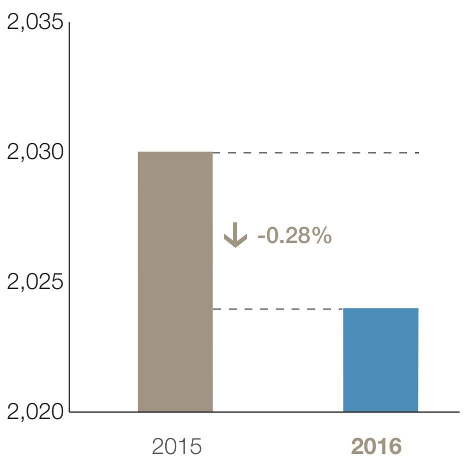
Profit attributable to equity holders (RMB'000)



Net assets (RMB'000)



Loans to customers (RMB in millions)



CHAIRMAN'S STATEMENT

WE FOCUS ON DEVELOPING THREE MAJOR PROFIT POINTS CENTREING ON MICRO-FINANCE AND PAWN LOANS BUSINESS, INTERNET-BASED FINANCE AND INVESTMENT BUSINESS, ENHANCING CAPITAL OPERATION EFFICIENCY BY DEVOTING GREATER EFFORT TO DISPOSE INVENTORY ASSETS, WHILE EXPANDING OUR BUSINESS COVERAGE TO PROVIDE INTEGRATED AND COMPREHENSIVE FINANCIAL SERVICES TO OUR CUSTOMERS.

Chen Yannan
Chairman of the Board

Chairman's Statement (Continued)

On behalf of the Board of Directors of China Huirong Financial Holdings Limited, I am pleased to present the annual report for the year ended 31 December 2016.

2016 saw a volatile economic environment exert its material impact on small- and medium-sized businesses which are mainly funded by private capital. The Company's operation was also affected. Nevertheless, during the year, the Company adjusted its development strategies and continuously improved its internal management structure, responding to adverse economic and industrial environment positively. In 2016, the Company increased its investment in internet finance. Meanwhile, the Company also started on-lending service based on cooperation with banks, providing loans for an especially short-term that mainly lasts from a few days to over ten days. Such service mitigated business risks and yielded good economic benefits. In addition, the Company attained certain achievement in its refined management, realizing product standardization and whole-process control step by step. This serves as a robust guarantee for controlling risks and sustaining business, and lays a solid foundation for business development in 2017.

For such results achieved in the economy downturn, I would like to express my sincere gratitude on behalf of the Board to all of our staff for their diligent contribution and to all shareholders for their full support.

In 2017, we will continue to work towards our goal of providing comprehensive financing services. We are recognized by banks and customers for our ultra short-term loan turnover business that features a transparent process and controllable risks. We predict that the business will embrace considerable development in 2017. In the new year, we will continue with our equity investment business, striving to contribute more to the development of the Group. In 2017, we will further intensify the collection and disposal of our stock assets and to lift the efficiency of our asset operation. In short, we will strive to expand our operation space and provide diversified financing services to our customers, so as to create a greater value for our shareholders.

The year 2017 is going to be an important year of new development for the Group.

China Huirong Financial Holdings Limited
Chen Yannan
Chairman of the Board

17 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

We provide our customers with an alternative financing channel that is quick and convenient as compared to traditional bank loans.

We have designed our loan approval and collateral appraisal processes to be efficient and transparent to specifically address customers' immediate and short-term financing needs.

Management Discussion and Analysis (Continued)

The year 2016 was a critical year for the Company to implement its strategic upgrade and adjust its business in an all-round way. Confronted by complicated and changeable external environment and intensifying competition in the industry, the Company strived to overcome difficulties and challenges, continuously improve internal organization structure and actively cope with market competition by sticking to its strategic goal of "Reform, Transformation and Innovation", achieving the transformation and upgrade of its business and the optimisation and adjustment of its structure of traditional business. With the emerging industry being well-prepared, the positive and steady trend of business development of the Company has taken shape.

1. Business Review and Development

1.1 Loans to customers

The following table sets out the details of new loans and renewed loans, including loans secured by real estate collateral, equity interest collateral, inventory collateral and entrusted loans we granted during the indicated periods as at 31 December 2016:

	Year ended 31 December	
	2016	2015
Total new loan amount granted (RMB in millions)	**1,779**	2,957
Total number of new loans granted	**173**	187
Total loan amount renewed (RMB in millions)	**26**	67
Total number of loans renewed	**9**	4
Average loan repayment period (days)	**172**	130

During the Reporting Year, the average loan repayment period increased by 42 days, from 130 days for the year ended 31 December 2015 to 172 days.

1.2 Outstanding loans to customers

As at 31 December 2016, our outstanding loans to customers were RMB2,024,425 thousand. The following table sets forth our outstanding loans to customers for the indicated periods:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Loans to customers, net		
Real estate backed loans	**1,040,114**	1,018,812
Equity interest backed loans	**248,633**	432,819
Personal property backed loans	**16,197**	13,197
Guaranteed loans	**240,387**	248,346
Unsecured loans	**479,094**	316,879
	2,024,425	2,030,053

As at 31 December 2016, the amount of our outstanding loans secured by real estate collateral remained at approximately the same level as that in the previous year. The net monthly average outstanding amount for the real estate backed loans almost reached the maximum amount we can grant pursuant to relevant regulations on pawn business. In addition, given the consideration of adjustment of loan portfolio structure, the net outstanding amount of equity interest backed loans during the Reporting Year decreased by 42.6% as compared to that in the previous year.

1.3 Online P2P lending business — Suzhou Qian Dai

As part of the Group's commitment to diversify its business and expand its income stream, the Group officially launched an online "peer-to-peer" lending ("P2P Lending") platform, namely Suzhou Qian Dai (www.suzhoumoney.com) on 8 January 2015. It provides a diverse channel of lending which complements the traditional short-term collateral-backed loan business of the Group.

During the Reporting Year, Suzhou Qian Dai launched 661 projects in total. The number of its registered users reached 35,970 and the outstanding balance of its projects amounted to RMB483,604 thousand as at 31 December 2016.

The following table sets out the details of lending business on the online P2P Lending platform during the indicated periods:

	Year ended 31 December	
	2016	2015
Total lending business amount (RMB in millions)	**2,352**	179
Total number of lending business	**661**	97

2016 marked a year of explosive business development for Suzhou Qian Dai. The total loan amount of its lending business increased by 1,214% and the total number of loan of its lending business on a project basis increased by 581%, respectively, as compared to that in the previous year, which showed a benign growth trend.

1.4 Effective yield of loans to customers

During the Reporting Year, the effective loan yield declined to 15.1% from that of last year (2015: 22.2%). The decline in loan yield was attributable to the decrease in financing cost of the market in general. To maintain our regional market leadership and competitiveness, the Company continued to lower the rates charged to our customers during the Reporting Year.

1.5 Impairment allowance

As at 31 December 2016, the Group had outstanding loans that individually impaired amounting to RMB360,413 thousand, representing 15.8% of the total outstanding loans granted to customers (before provision). The above loans are expected to incur impairment loss of RMB197,730 thousand, representing 8.7% of the total outstanding loans granted to customers (before provision). In light of the changes in market environment, impairment allowances were made to adequately reflect the Group's credit risk exposure. As at 31 December 2016, the gross impairment allowance made by the Group amounted to RMB260,233 thousand, representing 11.4% of the total outstanding loans granted to customers (before provision).

Management Discussion and Analysis (Continued)

2. Financial Review

During the Reporting Year, the net revenue of the Group was RMB187,816 thousand, representing a decrease of 41.9% as compared with 2015. Profit attributable to equity holders was RMB40,078 thousand, representing a decrease of 60.7% as compared with 2015.

The financial review is summarised as follows:

2.1 Interest income, interest costs and net interest margin

Interest income:
The interest income decreased in 2016 due to the decrease in market interest rate in general.

Interest income from the top five customers accounted for 27.43% of total interest income for the year ended 31 December 2016 (2015: 28.91%). The concentration on customers of our interest income has declined for three consecutive years.

Interest cost:
During the Reporting Year, our interest costs amounted to RMB65,639 thousand (2015: RMB54,655 thousand), representing an increase of 20% from that in 2015. The increase of interest cost was mainly due to the moderate growth of borrowings during the Reporting Year.

Net interest margin:
Net interest margin equals net interest income divided by the average of the beginning and the ending balances of interest-earning assets, which equals the sum of the balances of loans to customers and deposits with banks. Net interest margin was 6.5% during the Reporting Year (2015: 12.7%).

2.2 Administrative expenses

The administrative expenses during the Reporting Year amounted to RMB63,998 thousand (2015: RMB67,580 thousand), representing a decrease of RMB3,582 thousand or 5.3% from that of 2015. The decrease was mainly due to:

The Group's lending businesses are subject to business tax and surcharges before 1 May 2016. Business tax was levied at 5% of interest income from loans to customers, while surcharges are 12% of business tax payable. Starting from 1 May 2016, interest income on loans to customers of the Group is subject to value-added tax at 6% while surcharges are 12% of value-added tax payable. The aforesaid business tax has decreased by RMB15,733 thousand compared to that in the previous year due to the decrease in operating revenue. The decrease in value-added tax was mainly due to the decrease in consultancy service fee income as a result of decrease in profit made by individual entity within the Group, which in turn resulting in the decrease in such tax.

2.2.1 Employee benefit expenses

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages and salaries	**12,806**	9,793
Discretionary bonuses	**10,054**	9,072
Pension	**1,455**	1,343
Other social security obligations	**2,028**	1,822
Share-based payments	**2,607**	(4,771)
	28,950	17,259

As at 31 December 2016, the Group had a total of 148 full-time employees, with an increase in number of 22 from 126 as at 31 December 2015. We will adjust the number of our employees and our remuneration policy based on the development of our business and review of our employees' performance. As at 31 December 2016, the employee benefit expenses were RMB28,950 thousand, representing an increase of RMB11,691 thousand or 68% as compared to that in the previous year.

2.2.2 Share-based payments

A share option scheme was adopted on 26 May 2014 to enable the Company to grant options to eligible participants as incentives or rewards for their contribution or potential contribution to the Group (for more details of the key terms of the share option scheme, please refer to the circular of the Company dated 22 April 2014). All the 50,000,000 share options to subscribe for up to a total of 50,000,000 Shares previously granted on 16 June 2014 have lapsed since the performance targets set as the vesting conditions were not achieved and the share options have not been vested.

To further reward and motivate eligible participants for their contribution to the Group and align their interest with the Company, 50,000,000 share options to subscribe for up to a total of 50,000,000 Shares were granted to the directors and selected employees on 13 September 2016 (the "Date of Grant") with an exercise price of HK$0.62 per share. The exercise of the aforesaid share options is conditional upon (a) the achievement of certain performance targets by the relevant individual grantees and/or the Group, up to 50% of the share options so granted to him/her at any time during the period commencing from the 1st anniversary of the Date of Grant and ending on 12 September 2021; and (b) the achievement of certain performance targets by the relevant individual grantees and/or the Group, up to 100% of the share options so granted to him/her less the share options which have been exercised by him/her at any time during the period commencing from the 2nd anniversary of the Date of Grant and ending on 12 September 2021 (for more details, please refer to the announcement of the Company dated 13 September 2016). Employee benefit expense of RMB2,607 thousand was

Management Discussion and Analysis (Continued)

recognised for share options granted to directors and employees for the year ended 31 December 2016. Details of exercise price and number of share option are set out below:

	2016	
	Average exercise price in HK$ per share option	**Number of share options** (thousands)
At 1 January	—	—
Granted	0.62	50,000
	0.62	50,000

2.2.3 *The ratio of administrative expenses to net revenue*

During the Reporting Year, the ratio of administrative expenses to net revenue was 34% (2015: 20.9%).

2.3 Charge of impairment allowance

During the Reporting Year, net charge of impairment allowance was RMB106,610 thousand (2015: RMB142,920 thousand).

	Twelve months ended 31 December	
	2016 RMB'000	2015 RMB'000
Net charge/(reversal) of impairment allowance on loans to customers		
Individually assessed	**84,936**	92,959
Collectively assessed	**21,674**	49,961
	106,610	142,920

During the Reporting Year, the net charge of impairment allowance decreased by 25.4% as compared to that in the previous year.

2.4 Income tax expenses

During the Reporting Year, the income tax expenses amounted to RMB8,259 thousand, representing a decrease of 80% as compared with 2015 (2015: RMB41,605 thousand).

2.5 Profit attributable to equity holders and return on assets

During the Reporting Year, profit attributable to equity holders was RMB40,078 thousand (2015: RMB101,886 thousand), representing a decrease of 60.7% as compared with 2015. During the Reporting Year, return on average assets was 1.9% (2015: 4.3%) and return on average equity was 3.5% (2015: 9.4%).

3. Loans to Customers

3.1 Loan portfolio

The table below sets out the details of loans we granted to customers as at the dates indicated:

	As at 31 December	
	2016	2015
Gross loans to customers, inclusive of principal and interest (RMB'000)		
Real estate backed loans	**1,089,431**	1,059,644
Equity interest backed loans	**419,901**	553,810
Personal property backed loans	**16,197**	13,197
Guaranteed loans	**273,729**	261,941
Unsecured loans	**485,400**	321,082
Total	**2,284,658**	2,209,674
Number of loans outstanding		
Real estate backed loans	**134**	96
Equity interest backed loans	**35**	52
Personal property backed loans	**853**	798
Guaranteed loans	**103**	178
Unsecured loans	**113**	122
Total	**1,238**	1,246
Average loan amount (RMB'000)		
Real estate backed loans	**8,130**	11,038
Equity interest backed loans	**11,997**	10,650
Personal property backed loans	**19**	17
Guaranteed loans	**2,658**	1,472
Unsecured loans	**1,846**	2,632
Total	**24,650**	25,809

Management Discussion and Analysis (Continued)

3.2 Loan classification and impairment allowances

The table below sets out the details of the classification of loans we granted to customers as at the dates indicated:

	As at 31 December			
	2016		2015	
	RMB'000	**%**	RMB'000	%
Neither past due nor impaired (i)	**1,043,847**	**45.7%**	1,150,290	52.1%
Past due but not impaired (ii)	**880,398**	**38.5%**	850,137	38.5%
Individually impaired (iii)	**360,413**	**15.8%**	209,247	9.5%
Gross	**2,284,658**	**100.0%**	2,209,674	100.0%
Less: Impairment allowance	**(260,233)**	**11.4%**	(179,621)	8.1%
Net	**2,024,425**	**—**	2,030,053	—

(i) *Loans neither past due nor impaired*

Loans that are neither past due nor impaired relate to a wide range of customers with no recent history of default.

Personal property backed loans are included in this category as their repayments can be effected by disposal of forfeited personal property collateral, which normally carry higher values than the carrying amount of the loan.

(ii) *Loans past due but not impaired*

Loans that are past due but not impaired relate to the customers that have good borrowing records with the Group. The loans are fully secured by real estate collateral with a reasonably ascertainable market value, or in the case of equity interest backed pawn loans, guaranteed loans and unsecured loans, there has not been a significant change in the customers' credit quality and the balances are considered fully recoverable.

The Group accepted real estate collateral at fair value of approximately RMB1,384,947 thousand for real estate backed loans that were past due but not impaired as at 31 December 2016 (2015: RMB924,460 thousand).

As at 31 December 2016, loans that were past due but not impaired amounted to RMB880,398 thousand, including loans secured by real estate collateral of RMB837,291 thousand, accounting for 95.1%; loans secured by equity interest collateral of RMB7,247 thousand, accounting for 0.8%; guaranteed loans of RMB32,790 thousand, accounting for 3.7%; and unsecured loans of RMB3,070 thousand, accounting for 0.3%.

(iii) Loans individually impaired

As at 31 December 2016, loans to customers which were individually impaired amounted to RMB360,413 thousand, with an estimated loss of RMB197,730 thousand. The estimated loss is due to the difficulty in generating future cash flows faced by a small number of customers and is measured based on the difference between the carrying amount and the present value of estimated future cash flows of the credit assets.

The following table sets forth the breakdown of our impairment allowance as at the indicated dates:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Real estate backed loans	**(49,317)**	(40,832)
Equity interest backed loans	**(171,268)**	(120,991)
Personal property backed loans	**—**	—
Guaranteed loans	**(33,342)**	(13,595)
Unsecured loans	**(6,306)**	(4,203)
Total	**(260,233)**	(179,621)

In light of the changes in market environment, impairment allowances were made to adequately reflect the Group's market risk exposure. As at 31 December 2016, the impairment allowance for loans secured by real estate collateral, loans secured by equity interest collateral, entrusted loans, guaranteed and unsecured loans amounted to RMB260,233 thousand, representing 11.4% of the total outstanding loans granted to customers (before provision). The balance comprised of individually assessed impairment allowance of RMB197,730 thousand and collectively assessed impairment allowance of RMB62,503 thousand.

3.3 Loans under legal proceedings

As at 31 December 2016, we are under legal proceedings in respect of the recovery of 39 loans, among the loans to customers that were past due but not impaired, which are secured by real estate collateral and amounted to RMB531,608 thousand. No loss is expected to be incurred on such loans. The loans are fully secured by real estate collateral with a reasonably ascertainable market value and considered fully recoverable. Among the loans that were individually impaired, we have initiated legal proceedings for the recovery of 13 loans, which are secured by equity interest collateral and amounted to RMB141,586 thousand. Individually assessed impairment allowance of RMB91,496 thousand was provided on such loans. To improve the operational efficiency of our assets, the Group strengthened the collection on loans that were past due by taking legal proceedings against customers during 2016.

Management Discussion and Analysis (Continued)

4. Credit Risk Management

According to our internal policy, the principal amount of a loan we grant to a loan applicant is negotiated with the applicant individually but the appraised loan-to-value ratio of the loan is capped at 70% for real estate collateral and 50% for equity interest collateral.

The following table sets forth a breakdown by collateral type of (i) aggregate loan amount; (ii) appraised value of collateral at time of loan approval; and (iii) the weighted average appraised loan-to-value ratio as of the granting dates of loans outstanding as at the indicated dates:

	As at 31 December	
	2016	2015
Aggregate loan amount (RMB in millions)		
Real estate backed loans	**1,089**	1,060
Equity interest backed loans	**420**	554
Appraised value of collateral at time of pawn loan approval (RMB in millions)		
Real estate backed loans	**1,732**	1,608
Equity interest backed loans	**1,552**	1,917
Range of appraised loan-to-value ratios of pawn loans		
Real estate backed loans	**6%–69%**	14%–70%
Equity interest backed loans	**3%–48%**	4%–50%
Weighted average appraised loan-to-value ratio of pawn loans		
Real estate backed loans	**56%**	57%
Equity interest backed loans	**34%**	37%

5. Total Equity and Capital Management

5.1 Total Equity

Our total equity as at 31 December 2016 was RMB1,800,138 thousand, representing an increase of RMB33,317 thousand or 1.9% as compared to that as at 31 December 2015. The increase was due to:

(i) total net profit attributable to equity holders of RMB40,078 thousand during the Reporting Year; and

(ii) recognition of the employee benefit expenses of RMB2,607 thousand provided for the share option scheme by the Group.

5.2 Gearing ratio management

We monitor capital risk on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt represents bank borrowings less cash and cash equivalents. Total equity represents total equity as stated in the consolidated statement of financial position. Total capital is the sum of net debt and total equity.

Our gearing ratio as at 31 December 2016 was 38% (2015: 33%).

6. Borrowings and Pledge of Assets

The following table sets forth our bank borrowings as at the indicated dates:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Bank borrowings (a)	**888,422**	859,442
Borrowings from securities company (c)	**20,249**	—
SME bonds issued	**—**	27,748
Interests of holders of consolidated SEs — Suzhan Qian Dai (b)	**379,635**	63,382
	1,288,306	950,572

(a) (i) Bank borrowings are with maturity within one year and bear fixed interest rates ranging from 4.35% to 6.20% per annum in the year ended 31 December 2016 (2015: From 4.35% to 6.50%).

(ii) As at 31 December 2016, bank borrowings with principal amount of RMB290,000 thousand (31 December 2015: RMB267,000 thousand) were secured by restricted term deposits at bank of US$48,149 thousand, equivalent to RMB334,010 thousand (31 December 2015: US$47,721 thousand, equivalent to RMB309,880 thousand).

(iii) As at 31 December 2016, bank borrowings with principal amount of RMB57,000 thousand were secured by restricted term deposits at bank of RMB60,000 thousand.

(iv) As at 31 December 2016, bank borrowings with principal amount of RMB370,000 thousand were guaranteed by Wuzhong Jiaye and the Ultimate Controller (2015: RMB370,000 thousand). As at 31 December 2016, bank borrowings with principal amount of RMB50,000 thousand were guaranteed by Jiangsu Wuzhong Group Co. Ltd (2015: RMB60,000 thousand). As at 31 December 2016, bank borrowings with principal amount of RMB120,000 thousand were guaranteed by Huifang Technology (2015: RMB120,000 thousand).

(v) As at 31 December 2016, the Group had no undrawn borrowing facilities (2015: Same).

(b) (i) As at 31 December 2016, interests of holders of platform loans were borrowings from individual investors through the P2P platform of Suzhou Qian Dai.

(ii) As at 31 December 2016, the loans funded by the above borrowings through Suzhou Qian Dai and guaranteed by Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. ("Dongshan Micro-finance") were consolidated by the Group amounted to RMB375,198 thousand (2015: RMB62,886 thousand).

(c) As at 31 December 2016, borrowings from a securities company with principal amount of RMB20,200 thousand were pledged by listed equity investment of 2,383,474 shares held by the Group.

Management Discussion and Analysis (Continued)

7. Capital Expenditure

Our capital expenditure primarily consists of purchases of property and intangible assets. Our capital expenditure was RMB1,224 thousand during the Reporting Year (2015: RMB700 thousand).

8. Significant Investments, Acquisition and Disposal

In line with its all-round strategic upgrade and business adjustment, the Group made the following two investments during the year: (i) subscription of 3,177,966 shares in the non- public offering made by Zhongheng Design Group Co., Ltd (中衡設計集團股份有限公司) on 22 August 2016, at a subscription price of RMB18.88 per share, with a total consideration amounted to RMB60,000 thousand (fair value as at the balance sheet date: RMB66,447 thousand); (ii) acquisition of 6.85% of equity interests in Dongguan Xionglin New Material Technology Co., Ltd. (東莞市雄林新材料科技股份有限公司) on 20 December 2016, with a consideration of RMB41,459 thousand (fair value as at the balance sheet date: RMB34,550 thousand).

9. Contingencies, Contractual Obligations, Liquidity and Financial Resources

9.1 Contingencies

As at 31 December 2016, the Group did not have any significant contingent liabilities (2015: Dongshan Micro-finance had guarantees commitments of RMB1,060 thousand).

9.2 Commitments

a. *Operating lease Commitments*

The Group leases various buildings under non-revocable operating lease agreements. The leases have various terms, clauses for upgrading and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
No later than 1 year	**3,443**	3,354
Later than 1 year and no later than 5 years	**3,535**	4,956
Later than 5 years	**31**	—
	7,009	8,310

b. Capital Commitments

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Suzhou Dang Tian Xia Technology Company Limited	**5,000**	—
Suzhou Huifang Sihai Regulation Company Limited	**1,000**	—
	6,000	—

(a) The Group set up a new 100% owned legal entity Suzhou Dang Tian Xia Technology Company Limited (蘇州當天下網路科技有限公司) on 17 June 2016. The registered capital is RMB5,000 thousand and has not been paid up by the Group as at 31 December 2016.

(b) The Group set up a new 100% owned legal entity Suzhou Huifang Sihai Regulation Company Limited (蘇州匯方四海調劑有限公司) on 30 November 2016. The registered capital is RMB1,000 thousand and has not been paid up by the Group as at 31 December 2016.

c. Guarantees commitments

	As at 31 December	
	2016	2015
Guarantees	**—**	1,060

9.3 Liquidity and capital resources

a. Cash flow analysis

As at 31 December 2016, the Group's cash and cash equivalents amounted to RMB191,216 thousand, representing an increase of RMB125,270 thousand as compared to that as at 31 December 2015. The following table sets forth a summary of our cash flows for the indicated periods:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Net cash (outflow)/inflow from operating activities	**(181,602)**	(27,103)
Net cash (outflow)/inflow from investing activities	**(1,224)**	(123,995)
Net cash (outflow)/inflow from financing activities	**308,039**	(3,832)
Increase/(Decrease) in cash and cash equivalents	**125,213**	(154,930)
Exchange gains on cash and cash equivalents	**57**	34,517
Cash and cash equivalents at beginning of the year	**65,946**	186,359
Cash and cash equivalents at end of the year	**191,216**	65,946

Management Discussion and Analysis (Continued)

Net Cash Flow from Operating Activities

During the Reporting Year, net cash outflow from operating activities amounted to RMB181,602 thousand. The net cash outflow from operating activities was mainly due to the increase in financial assets designated through profit or loss and the increase in term deposits with banks.

Net Cash Flow from Investing Activities

During the Reporting Year, net cash outflow from investing activities amounted to RMB1,224 thousand.

Net Cash Flow from Financing Activities

During the Reporting Year, net cash inflow from financing activities amounted to RMB308,039 thousand, which was mainly due to new borrowings from financial institutions.

b. *Liquidity risk*

Details of liquidity risk are set out in the paragraph headed "LIQUIDITY RISK" in the section headed "Notes to The Consolidated Financial Statements".

10. Market Risk

Details of market risk are set out in the paragraph headed "MARKET RISK" in the section headed "Notes to The Consolidated Financial Statements".

11. Human Resource and Employee Benefits

As at 31 December 2016, the Group had a total of 148 full-time employees, with an increase in number of 22 from 126 as at 31 December 2015. The increase was mainly due to the rapid expansion of online P2P Lending business and the newly established factoring business during the Reporting Year. We will adjust the number of our employees and our remuneration policy based on the development of our business and review of our employees' performance.

During the Reporting Year, employee remuneration and benefits increased by 68% from that for the year ended 31 December 2015 to RMB28,950 thousand. Details are set out below:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages and salaries	**12,806**	9,793
Discretionary bonuses	**10,054**	9,072
Pension	**1,455**	1,343
Other social security obligations	**2,028**	1,822
Share-based payments	**2,607**	(4,771)
	28,950	17,259

Pursuant to the applicable PRC regulations, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. We have been in compliance with all statutory social insurance and housing fund obligations applicable to us under PRC laws in all material respects. We are not subject to any collective bargaining agreements.

12. Future Plans Relating to Material Investments

Same as disclosed in this annual report, the Group has no plans for material investments or acquisition of capital assets. However, the Group will continue to seek new business opportunities.

13. Events After Reporting Year

Same as disclosed in this annual report, there is no significant event after 31 December 2016.

Prospects

The current economic situations were still full of challenges and uncertainties, despite of which, the market competitiveness and risk management of the Group were enhanced due to the continuous improvement of the internal organization structure of the Group and the launch of new products during 2016. The management is confident with the future development of the Group in spite of the macro-economic downturn and the intensifying competition in the industry.

In 2017, the management put forward to develop 3 profit points, i.e. traditional business profit point based on micro-finance and pawn loans, internet finance profit point centered on Suzhou Qian Dai and investment business profit point supported by equity investment and factoring business. We will further optimise our organizational structure to establish and develop a performance management system and internal control system that meets the demand of the Group, so as to ensure the efficient operation of the 3 profit points.

The management takes the year 2017 as a critical year for the Group's upgrade and transformation, and also an important strategic period for the Group to break new ground. With the rationalisation of the Group's organization structure and the improvement of its internal control system, our leadership in the regional market will be strengthened. By leveraging on such competitive edge, the management will capture new opportunities to create new income streams and bring return to our shareholders.

DIRECTORS AND CHIEF EXECUTIVE

Directors

The Board currently consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors.

Executive Directors

Mr. CHEN Yannan (陳雁南), aged 66, is the Chairman of our Company and was appointed as an executive Director of the Company on 11 November 2011. Mr. Chen is responsible for convening and presiding over the board meetings regularly and making decisions for the key issues of our Company, such as determining the Company's macroscopic development direction, researching into relevant national policies and avoiding the systemic risks in our industry. Mr. Chen joined our Group as an executive director of the PRC Operating Entity on 8 May 2005 and is responsible for overseeing the operations and making the decisions for the key issues of our Group. Throughout the Track Record Period, the PRC Operating Entity has been managed by Mr. Chen. He has also been a director of Wuzhong Jiaye since 2005. Mr. Chen was a director and the Deputy Chairman of the Board of Wuzhong Group from 1992 to 2003, and since 2003, Mr. Chen has been a director of Wuzhong Group, where his responsibilities include attending board meetings regularly and making decisions for the key issues of Wuzhong Group. He was also the General Manager of Wuzhong Group Sales Co., Ltd. (吳中集團銷售公司) from 1997 to 2004. Mr. Chen has over 10 years of experience in the short-term financing industry. Mr. Chen graduated from Changshu Advanced Vocational School of Jiangsu Province (江蘇省常熟高等專科學校) majoring in physical chemistry in July 1975. From 11 March 2004 to 16 April 2010, Mr. Chen was the Chairman of the Board of Supervisors (監事會) of Jiangsu Wuzhong Industrial Co., Ltd. (江蘇吳中實業股份有限公司) a company listed on the Shanghai Stock Exchange (Stock Code: 600200) whose primary business is pharmaceutical and real estate and is not in competition with our Group.

Mr. WU Min (吳敏), aged 48, is the chief executive officer of our Company and was appointed as an executive Director of the Company on 17 May 2012. Mr. Wu is responsible for the day-to-day operations and strategic development of our Company. Upon joining our Group in 26 January 2011, Mr. Wu has been the General Manager of the PRC Operating Entity. He possesses approximately 30 years of experience in commercial banking, finance and management. Mr. Wu worked in various positions in the Suzhou branch of the Industrial and Commercial Bank of China from 1985 to 2011, including being the President and Secretary of the Committee of Communist Party of China of the Wuzhong branch between 2005 and 2011. Mr. Wu graduated from Jiangsu Radio and TV University (江蘇廣播電視大學), majoring in finance, in July 1994; from the Party School of the Central Committee of Communist Party of China Correspondence Institute (中共中央黨校函授學院), majoring in executive management, in December 2001 and from the School of Business of Soochow University (蘇州大學商學院) in October 2003, where he completed a postgraduate course in finance. In November 2000, Mr. Wu obtained the Intermediate Economist qualification (中級經濟師任職資格) issued by the Ministry of Personnel of the PRC (中國人事部).

Mr. ZHANG Changsong (張長松), aged 44, was appointed as an executive Director and chief financial officer of the Company on 1 January 2016. Mr. Zhang is a senior accountant recognized by the Jiangsu Provincial Department of Human Resources and Social Security and a certified internal auditor recognized by the China Institute of Internal Audit with the authorization from the Institute of Internal Auditors. Mr. Zhang has also been awarded the professional designation of Certification in Risk Management Assurance by the Institute of Internal Auditors. Mr. Zhang received his bachelor degree in accounting from Anhui Institute of Finance and Trade, currently known as Anhui University of Finance & Economics, in 1998 and completed his postgraduate program in accounting at Anhui University of Finance & Economics in 2004. Mr. Zhang has more than 18 years of experience in auditing and accounting. In September 1998, he started working as an auditing staff at Anhui Xinhua Bookstore, which is currently known as Anhui Xinhua Media Co., Ltd. and listed on the Shanghai Stock Exchange. From 2005 to 2012, Mr. Zhang worked as an accounting supervisor, assistant manager in the asset auditing department, manager in the asset auditing department at Wuzhong Group, respectively. During the period from 2013 to 31 December 2015, he was the vice chief auditor and general manager in the asset auditing department at Wuzhong Group.

Directors and Chief Executive (Continued)

Non-executive Directors

Mr. ZHUO You (卓有), aged 48, was appointed as a non-executive Director of the Company on 17 May 2012. Mr. Zhuo is currently the director and Vice President of Wuzhong Group responsible for the strategic investment and overall management of Wuzhong Group. Mr. Zhuo is also Secretary of the Committee of the Communist Party of Wuzhong Group. He graduated from Suzhou Vocational University (蘇州市職業大學) in July 1990 where he completed a secretarial course. Mr. Zhuo was a reporter and editor of Suzhou Wuxian Radio Station (蘇州吳縣市廣播電台) from August 1990 to February 1995. Since 1995, he has held various positions including the positions of planning director, manager of the administration and management department, office director, assistant general manager and deputy managing director of Wuzhong Group and general manager of Suzhou Taihu Construction Investment Company (蘇州太湖建設投資公司), a subsidiary of Wuzhong Group.

Mr. ZHANG Cheng (張成), aged 34, was appointed as a non-executive Director of the Company on 17 May 2012. Mr. Zhang is responsible for the investor relation of our Company. Mr. Zhang graduated from Nanjing University with a bachelor's degree in economics and a master's degree in western economics in June 2002 and June 2005, respectively. Mr. Zhang was the investment manager of the Strategic Investment Department of Wuzhong Group from July 2005 to February 2006. From February 2006 to February 2008, he served as the assistant general manager of Jiangsu Wuzhong Hi-Tech Venture Capital Co., Ltd (江蘇吳中高科創業投資有限公司), a subsidiary of Wuzhong Group, and from February 2008, he became the deputy general manager and from February 2011, he became the general manager of such company. From February 2010, Mr. Zhang also became the deputy general manager of Suzhou Education Investment Company (蘇州教育投資有限公司), a subsidiary of Wuzhong Group, and from February 2011, became the general manager of such company. During his various positions in Wuzhong Group and the two subsidiaries of Wuzhong Group, Mr. Zhang is responsible for the management and development in relation to investment in the bio-pharmaceutical, information technology areas and private education.

Ms. ZHANG Shu (張姝), aged 51, was appointed as a non-executive Director of the Company on 18 March 2016. Ms. Zhang has been a vice president of Jiangsu Wuzhong Group Co., Ltd. since December 2011. Ms. Zhang has more than 26 years of experience in banking and finance industry. From August 1986 to May 1990, she worked as a clerk at the sales department of Suzhou branch of Bank of China. From May 1990 to October 1999, Ms. Zhang commenced working as a clerk in the bill settlement department and subsequently became the chief officer of loan department at Suzhou branch of Bank of China. Afterwards, Ms. Zhang worked as an assistant vice president in the administration division of BOC International Holdings Limited in Hong Kong from November 1999 to August 2003. She became the vice president of Suzhou Industrial District branch of Bank of China from September 2003 to March 2007 and then worked as the president of Suzhou Wuzhong branch of Bank of China from March 2007 to October 2011. Ms. Zhang then worked as the general manager of the risk management department of Suzhou branch of Bank of China from October 2011 to December 2011. Ms. Zhang obtained a diploma in English from Nanjing Normal University (南京師範大學) in June 1995 and a postgraduate degree in world economics from the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in September 1998. Ms. Zhang was awarded with the qualification certificate of speciality and technology in the speciality of financial economics (intermediate level) by the Human Resources Department of the People's Republic of China (中華人民共和國人事部) in November 1997.

Directors and Chief Executive (Continued)

Independent Non-executive Directors

Mr. ZHANG Huaqiao (張化橋), aged 53, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Zhang graduated from the Graduate School of the People's Bank of China (中國人民銀行研究生部) with a master's degree in economics in 1986; and from the Australian National University with a master's degree in economics in January 1991. From July 1986 to January 1989, Mr. Zhang was employed at the People's Bank of China in Beijing and from June 1999 to April 2006, Mr. Zhang worked at the Equities Department of UBS AG, Hong Kong Branch at which he first served as the head of the China research team and later became the co-head of the China research team. From March 2006 to September 2008, Mr. Zhang was the chief operating officer of Shenzhen Investment Limited (深圳控股有限公司), a company listed on the Stock Exchange (Stock Code: 0604).

Mr. Zhang currently holds the directorships as follows:

- non-executive director of Boer Power Holdings Limited, a company listed on the Stock Exchange (Stock Code: 1685), since November 2011;
- independent non-executive director of Fosun International Limited, a company listed on the Stock Exchange (Stock Code: 656), since March 2012;
- non-executive director and chairman of the board of China Smartpay Group Holdings Limited (formerly known as Oriental City Group Holdings Limited), a company listed on the Stock Exchange (Stock Code: 8325), since September 2012 and March 2014, respectively, re-designated as executive director on 13 May 2015;
- independent non-executive director of Zhong An Real Estate Limited, a company listed on the Stock Exchange (Stock Code: 672), since January 2013;
- independent non-executive director of Logan Property Holdings Company Limited, a company listed on the Stock Exchange (Stock Code: 3380), since November 2013;
- independent non-executive director of Yancoal Australia Limited, a company listed on the Australian Securities Exchange (ASX code: YAL), since April 2014;
- independent non-executive director of Luye Pharma Group Ltd., a company listed on the Stock Exchange (Stock code: 2186), since June 2014;
- independent non-executive director of Wanda Hotel Development Company Limited (formerly known as Wanda Commercial Properties (Group) Co., Limited), a company listed on the Stock Exchange (Stock Code:169), since September 2014; and
- independent non-executive director of Sinopec Oilfield Service Corporation (formerly known as Sinopec Yizheng Chemical Fibre Company Limited), a company listed on the Stock Exchange (Stock code: 1033), since February 2015.

In addition, Mr. Zhang held the following directorships in various listed companies in the last 3 years:

- independent non-executive director of Fuguiniao Co., Ltd., a company listed on the Stock Exchange (Stock Code: 1819), from May 2013 to June 2014;

Directors and Chief Executive (Continued)

- independent non-executive director of Ernest Borel Holdings Limited, a company listed on the Stock Exchange (Stock Code: 1856), from June 2014 to November 2014; and

- director of Nanjing Central Emporium (Group) Stocks Co., Ltd. (南京中央商場(集團)股份有限公司), a company listed on the Shanghai Stock Exchange (Stock code: 600280), from March 2013 to June 2015.

Mr. FENG Ke (馮科), aged 45, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Feng graduated from Guangdong University of Finance (廣東金融學院) majoring in international finance in July 1993; from Guangdong Academy of Social Sciences (廣東省社會科學院) with a master's degree in economics in July 1999; and from Peking University School of Economics (北京大學經濟學院) with a doctor's degree in political economics in July 2002. Mr. Feng has been an associate professor at School of Economics of Peking University from 2010. Mr. Feng was the assistant manager of Golden Eagle Asset Management Co., Ltd (金鷹基金管理有限公司) from November 2002 to January 2006.

Mr. Feng currently holds directorships as follows:

- independent director of China Great Wall Computers Shenzhen Co. Ltd (中國長城計算機深圳股份有限公司) (Stock Code: 000066), a company listed on the Shenzhen Stock Exchange, since August 2010;

- independent non-executive director of Asian Capital Resources (Holdings) Limited (亞洲資產(控股)有限公司), a company listed on the Growth Enterprise Market Board of the Stock Exchange (Stock Code: 08025), since October 2008, re-designated as executive director on 1 September 2013;

- independent non-executive director of Zhuguang Holdings Group Co. Ltd. (珠光控股集團有限公司) (Stock Code: 01176), a company listed on the Hong Kong Stock Exchange, since June 2015

- independent director of Shenzhen Yushun Electronic Limited (深圳宇順電子股份有限公司) (Stock Code: 002289), a company listed on the Shenzhen Stock Exchange,since December 2015; and

- independent non-executive director of Yingde Gases Group Company Limited, a company listed on the main board of the Stock Exchange (Stock Code: 02168), since November 2016.

In addition, Mr. Feng held the following directorships in various listed companies in the last 3 years:

- independent director of Sichuan Guang'an AAA Public Co., Ltd (四川廣安愛眾股份有限公司), a company listed on the Shanghai Stock Exchange (Stock code: 600979), from November 2011 to September 2014;

- independent director of Nanhua Bio-medicine Co., Ltd. (南華生物醫藥股份有限公司) (formerly known as Beijing CCID Media Investments Co., Ltd. (北京賽迪傳媒投資股份有限公司)), a company listed on the Shenzhen Stock Exchange (Stock code: 000504), from December 2013 to December 2014;

- independent director of Guangdong Provincial Expressway Development Co., Ltd (廣東省高速公路發展股份有限公司) (Stock code: 000429), a company listed on the Shenzhen Stock Exchange, from January 2010 to June 2015; and

- independent director of Tande Co., Ltd (天地源股份有限公司) (Stock code: 600665), a company listed on the Shanghai Stock Exchange, from December 2009 to December 2015.

Directors and Chief Executive (Continued)

Mr. TSE Yat Hong (謝日康), aged 47, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Tse is a Fellow of the Hong Kong Institute of Certified Public Accountants and a FCPA of CPA Australia. Mr. Tse graduated from Monash University in April 1992 with a bachelor's degree in science. Since June 2000, Mr. Tse has been serving as the chief financial officer of Shenzhen International Holdings Limited (Stock code: 00152), a company listed on the Stock Exchange. From August 2000 to March 2008, Mr. Tse was also the company secretary of Shenzhen International Holdings Limited. Mr. Tse served as the joint company secretary of Shenzhen Expressway Company Limited from September 2004 to September 2007. Prior to that, Mr. Tse worked in the audit profession in one of the international accounting firms for years.

Mr. Tse currently has served as a non-executive director of Shenzhen Expressway Company Limited, a company listed on the Stock Exchange (Stock code: 00548) and the Shanghai Stock Exchange (Stock code: 600548), since January 2009. Mr. Tse had served as an independent non-executive director of Casablanca Group Limited, a company listed on the Stock Exchange (Stock code: 02223), from October 2012 to March 2015.

Save as disclosed in this section, there is no other matters concerning the Company's Directors which are discloseable pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there are no any material matters concerning the Company's Directors that need to be brought to the attention of the Shareholders.

Chief Executive

Mr. YAO Wenjun (姚文軍), aged 47, is a vice president of the Group responsible for marketing. Mr. Yao graduated from Southwestern University of Finance and Economics with a bachelor's degree in accounting in July 2010. From August 1989 to November 2012, he worked successively as an account manager, director and assistant president at China Construction Bank (Wuzhong Branch) in Suzhou. Mr. Yao joined the Group as vice president in January 2016.

Ms. LU Tian (陸甜), aged 35, is a vice president of the Group responsible for external investment. Ms. Lu graduated from Massey University, New Zealand with a bachelor's degrees in finance and market management in July 2006. From April 2006 to April 2008, she worked for the New Zealand branch of Australia and New Zealand Banking Group (ANZ), as an assistant general manager. From May 2008 to March 2016, she worked successively as the director for international business, deputy general manager, general manager and director of Suzhou International Development Venture Capital Holding Co., Ltd. (SIDVC). Ms. Lu joined the Group as vice president in March 2016.

Ms. CAO Yu (曹瑜), aged 42, is the Chief Risk Officer of our Group. She is responsible for risk control, asset quality and legal issues. Ms. Cao obtained a bachelor's degree in international trading from Peking University in July 1999. From August 1994 to December 2012, she worked in China Industrial and Commercial Bank of China, Suzhou Wuzhong Branch as an employee of the credit management department, account manager, manager of the corporate department, manager and senior credit approver of the Head Office of Industrial and Commercial Bank of China successively. Ms. Cao joined the Group in January 2013 as the general manger of our branch company and an assistant to the President of the Group.

Directors and Chief Executive (Continued)

Management Continuity

Our management team is a group of chief executive led by Mr. Chen Yannan, an executive Director and Chairman of the Company, who joined the Group in May 2005. Mr. Chen Yannan was Deputy Chairman of Wuzhong Group when the PRC Operating Entity was established in 1999. He has been an executive director of the PRC Operating Entity since 2005 and, as such, is responsible for overseeing the operations and making the decisions for the key issues of our Group.

Mr. Chen Yannan is ultimately responsible for the management team, being Mr. Wu Min, Ms. Cao Yu (joined in January 2013) and Mr. Zhang Changsong (joined in January 2016), the majority of whom had been in place prior to the start of the Track Record Period.

Company Secretary

Miss LEUNG Ching Ching (梁晶晶), aged 36, was appointed as a company secretary of our Company on 6 October 2013 and serves as a manager of corporate services of Tricor Services Limited. Miss Leung has over 10 years of experience in the company secretarial industry, and provided services to clients ranging from private companies to public companies listed on the main board of the Stock Exchange. Miss Leung is a Chartered Secretary and an Associate of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She graduated from The Chinese University of Hong Kong and received a Master of Arts degree in Professional Accounting and Information System from City University of Hong Kong.

Audit Committee

Our Company established an audit committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee consists of three members, namely Mr. Tse Yat Hong and Mr. Feng Ke, our independent non-executive Directors and Mr. Zhang Cheng, our non-executive Director. Mr. Tse Yat Hong has been appointed as the chairman of the audit committee, and is our independent non-executive Director processing the appropriate professional qualifications. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

Our Company established a remuneration committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members, namely Mr. Zhang Huaqiao, Mr. Tse Yat Hong, our independent non-executive Directors and Mr. Wu Min, our executive Director. Mr. Zhang Huaqiao has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for the Directors and chief executive and make recommendations on employee benefit arrangement.

Directors and Chief Executive (Continued)

Nomination Committee

Our Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely Mr. Feng Ke and Mr. Zhang Huaqiao, our independent non-executive Directors, and Mr. Chen Yannan, our executive Director. Mr. Chen Yannan has been appointed as the chairman of the nomination committee. The primary duties of the nomination committee are to review the composition of the Board of Directors and make recommendations to our Board on the appointment and removal of Directors of our Company.

Internet Finance Business Committee

Our Company established an internet finance business committee with written terms of reference. The internet finance business committee consists of three members, namely Mr. Feng Ke and Mr. Zhang Huaqiao, our independent non-executive Directors, and Mr. Wu Min, our executive Director. Mr. Zhang Huaqiao has been appointed as the chairman of the internet finance business committee. The primary duties of the internet finance business committee are to make recommendations to the Board on the strategies of the Group in the area of providing financial solutions via internet and other e-commerce matters ("Internet Finance Business").

Change in Directors' Information

Under Rule 13.51B(1) of Listing Rules, the changes in Directors' information of the Company required to be disclosed in this annual report are as follows:

Mr. Feng Ke, an independent non-executive Director of the Company, has been appointed as an independent non-executive director of Yingde Gases Group Company Limited (盈德氣體集團有限公司), a company listed on the main board of the Stock Exchange (stock code: 02168), since 5 November 2016.

Compensation of Directors and Chief Executive

The aggregate amount of remuneration our Directors (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) for the year ended 31 December 2015 and 2016 was approximately RMB5,773 thousand and RMB5,178 thousand, respectively.

During the year ended 31 December 2015 and 2016, five highest paid individuals of the Group included three executive Directors, whose emoluments were deducted from emoluments payable to the five highest paid individuals. Emoluments of the remaining highest paid individuals were RMB879 thousand and RMB1,900 thousand.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended 31 December 2016.

Save as disclosed above, no other payments have been made or are payable in respect of each of the two years ended 31 December 2015 and 2016 by the Group to the Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and chief executive in reference to the recommendations from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group.

DIRECTORS' REPORT

The Board of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Principal Activities

The Company is an investment holding company. The principal activity of the Group is the provision of comprehensive financing services in the PRC.

Business Review

The business review of the Group as at 31 December 2016 is set out in the section headed "Management Discussion and Analysis" from pages 6 to 20 of this annual report.

Possible Risks and Uncertainties Facing the Company

Description of possible risks and uncertainties facing the Company is set out in the paragraph headed "3 Financial Risk Management" in the section headed "Notes to the Consolidated Financial Statements" from pages 100 to 112 of this annual report.

Events after the Reporting Year

Save as disclosed in this annual report, there is no significant event after 31 December 2016.

Future Business Development

A discussion of the Group's future business development is set out in the "Chairman's Statement" on page 5 and "Management Discussion and Analysis" on page 20 of this annual report.

Financial Key Performance Indicators

An analysis of the Group's performance during the Reporting Year using financial key performance indicators is set out in the "Financial Summary" on page 3 of this annual report.

Environmental Protection and Compliance with Laws and Regulations

The Group is committed to supporting the environmental sustainability. Being a comprehensive financing service provider in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Reporting Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. Details of the Group's environmental policies and performance and compliance with laws and regulations that have a significant impact on the Group are set out in the section headed "Environmental, Social and Governance Report" from pages 64 to 68 of this annual report.

Relationship with Stakeholders

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

Financial Statements

The results of the Group for the year ended 31 December 2016 and the state of the Company's and the Group's financial affairs as at that date are set out on pages 75 to 79 of this annual report.

Final Dividend

The Board has not recommended the payment of any final dividends for the year ended 31 December 2016.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 22 May 2017 to Friday, 26 May 2017 (both dates inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on Friday, 19 May 2017.

Reserves

Changes to the reserves of the Group during the year ended 31 December 2016 are set out in the consolidated statements of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2016 are set out in Note 23 to the consolidated financial statements.

Share Capital

Details of the Company's share capital are set out in Note 22 to the consolidated financial statements.

Subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2016 are set out in Note 13 to the consolidated financial statements.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last 5 financial years is set out in Page 3 of this annual report.

Purchase, Sale or Redemption of the Company's Listed Securities

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2016.

Permitted Indemnity Provision

According to the Company's Articles of Association, each director is entitled to the compensation out of the assets of the Company for all losses or liabilities incurred due to the execution of his/her duties or taken place related to such execution. The Company has taken out the appropriate directors' and officers' liability insurance policy for the directors and officers of the Group as a means of security.

Equity-linked Agreement

Apart from the Share Option Scheme of the Company set forth from pages 35 to 37, the Company has not entered into any equity-linked agreement during the Reporting Year or there was not any subsisting equity-linked agreement entered into by the Company at the end of the Reporting Year.

Directors and Chief Executive

The Directors and chief executive of the Company during the year were:

Directors

Name	Position
Mr. Chen Yannan	Executive Director and Chairman of the Board
Mr. Wu Min	Executive Director and Chief Executive Officer
Mr. Zhang Changsong (appointed on 1 January 2016)	Executive Director and Chief Financial Officer
Mr. Zhuo You	Non-executive Director
Mr. Zhang Cheng	Non-executive Director

Name	Position
Ms. Zhang Shu (appointed on 18 March 2016)	Non-executive Director
Mr. Zhang Huaqiao	Independent Non-executive Director
Mr. Feng Ke	Independent Non-executive Director
Mr. Tse Yat Hong	Independent Non-executive Director
Mr. Mao Zhuchun (resigned on 1 January 2016)	Executive Director and Chief Financial Officer
Mr. Cao Jian (resigned on 18 March 2016)	Non-executive Director

Chief Executive

Name	Position
Mr. Yao Wenjun	Vice President
Ms. Lu Tian	Vice President
Ms. Cao Yu	Chief Risk Officer

The biographical details of the Directors and chief executive of the Company are set out in the section headed "Directors and Chief Executive" in this annual report.

Directors' Interests in Contracts

Save as disclosed in this annual report, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Confirmation of Independence from the Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors, namely, Mr. Zhang Huaqiao, Mr. Feng Ke and Mr. Tse Yat Hong, the annual confirmation letter of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that the independent non-executive Directors have been independent from their respective date of appointment to 31 December 2016 and remain independent as of the date of this annual report.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(1) Long positions in shares of the Company

Name of Director	Nature of Interest	Type of Interest	Number of Shares or Underlying Shares	Percentage of the Total Issued Shares
Chen Yannan	Beneficial owner	Share options	4,000,000 (L) *(Note 2)*	0.39%
	Interest in controlled corporation	Ordinary Shares	65,000,000 (L) *(Note 3)*	6.34%
Wu Min	Beneficial owner	Share options	4,000,000 (L) *(Note 2)*	0.39%
	Beneficial owner	Ordinary Shares	640,000 (L)	0.06%
Zhang Changsong	Beneficial owner	Share options	3,200,000 (L) *(Note 2)*	0.31%
	Beneficial owner	Ordinary Shares	550,000 (L)	0.05%
Zhuo You	Beneficial owner	Share options	1,000,000 (L) *(Note 2)*	0.10%
	Interest in controlled corporation	Ordinary Shares	39,000,000 (L) *(Note 4)*	3.80%
Zhang Shu	Beneficial owner	Share options	1,000,000 (L) *(Note 2)*	0.10%
		Ordinary Shares	300,000 (L)	0.03%
Zhang Cheng	Beneficial owner	Share options	1,000,000 (L) *(Note 2)*	0.10%
Zhang Huaqiao	Beneficial owner	Share options	2,000,000 (L) *(Note 2)*	0.20%
	Beneficial owner	Ordinary Shares	5,880,000 (L)	0.57%
Feng Ke	Beneficial owner	Share options	2,000,000 (L) *(Note 2)*	0.20%
Tse Yat Hong	Beneficial owner	Share options	2,000,000 (L) *(Note 2)*	0.20%

Notes:

1. (L) represents long position.

2. Details of the interest in the Share Option Scheme are set out below in the section headed "Share Option Scheme" and the announcement of the Company dated 13 September 2016.

3. These Shares are held by Southern Swan Investment Co., Ltd which is 100% beneficially owned by Mr. Chen Yannan, and therefore, Mr. Chen Yannan is deemed to be interested in all these Shares under the SFO.

4. These Shares are held by Assyria Babylon Investment Co., Ltd which is 100% beneficially owned by Mr. Zhuo You, and therefore, Mr. Zhuo You is deemed to be interested in all these Shares under the SFO.

(2) Long positions in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO)

Name of Director	Name of Associated Corporation	Nature of Interest	Amount of Registered Capital	Percentage of the Total Registered Capital
Chen Yannan	江蘇吳中嘉業集團有限公司 (Jiangsu Wuzhong Jiaye Group Co., Ltd.*)	Beneficial owner	RMB95,000,000 (L)	10%
	蘇州新區恒悅管理諮詢有限公司 (Suzhou Xinqu Hengyue Management Consulting Co., Ltd.*)	Beneficial owner	RMB20,000,000 (L)	10%
Zhuo You	江蘇吳中嘉業集團有限公司 (Jiangsu Wuzhong Jiaye Group Co., Ltd.*)	Beneficial owner	RMB57,000,000 (L)	6%
	蘇州新區恒悅管理諮詢有限公司 (Suzhou Xinqu Hengyue Management Consulting Co., Ltd.*)	Beneficial owner	RMB12,000,000 (L)	6%

Note:

1. (L) represents long position.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

As at 31 December 2016, the following parties (other than the Directors and chief executive of the Company) had interests and short positions of 5% or more of the shares or underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of Shareholder	Nature of Interest	Class of Shares	Number of Shares	Percentage of the Total Issued Shares
Xiaolai Investment Co., Ltd	Beneficial owner	Ordinary Shares	260,000,000(L)	25.36%
Xilai Investment Co., Ltd	Beneficial owner	Ordinary Shares	65,000,000(L)	6.34%
Zhu Tianxiao	Interest in controlled corporation	Ordinary Shares	325,000,000(L) *(Note 2)*	31.70%
Baoxiang Investment Co., Ltd	Beneficial owner	Ordinary Shares	84,500,000(L)	8.24%
Zhang Xiangrong	Interest in controlled corporation	Ordinary Shares	84,500,000(L) *(Note 3)*	8.24%
Wonder Capital Co., Ltd	Beneficial owner	Ordinary Shares	71,500,000(L)	6.97%
Ge Jian	Interest in controlled corporation	Ordinary Shares	71,500,000(L) *(Note 4)*	6.97%
Southern Swan Investment Co., Ltd	Beneficial owner	Ordinary Shares	65,000,000(L)	6.34%
RRJ Capital Master Fund II, L.P.	Interest in controlled corporation	Ordinary Shares	117,561,000(L) *(Note 5)*	11.47%

Notes:

1. (L) represents long position.

2. These Shares represent the 260,000,000 Shares held by Xiaolai Investment Co., Ltd and 65,000,000 Shares held by Xilai Investment Co., Ltd. Each of Xiaolai Investment Co., Ltd and Xilai Investment Co., Ltd is 100% beneficially owned by Mr. Zhu Tianxiao. Accordingly, Mr. Zhu Tianxiao is deemed to be interested in all the Shares beneficially owned by Xiaolai Investment Co., Ltd and Xilai Investment Co., Ltd under the SFO.

3. These Shares are held by Baoxiang Investment Co., Ltd, which is 100% beneficially owned by Mr. Zhang Xiangrong, and therefore, Mr. Zhang Xiangrong is deemed to be interested in all these Shares under the SFO.

4. These Shares are held by Wonder Capital Co., Ltd, which is 100% beneficially owned by Mr. Ge Jian, and therefore, Mr. Ge Jian is deemed to be interested in all these Shares under the SFO.

5. These Shares are held by Dalvey Asset Holding Limited. As Dalvey Asset Holding Limited is wholly owned by RRJ Capital Master Fund II, L.P., RRJ Capital Master Fund II, L.P. is deemed to be interested in all these Shares under the SFO.

Save as disclosed above, as at 31 December 2016, no person or corporation, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Share Option Scheme

On 26 May 2014, a share option scheme (the "Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The principal terms of the Share Option Scheme, which shall be valid and effective for 10 years from its adoption date and, are summarized below.

Purpose

The purpose of the Share Option Scheme is to incentivize and reward the eligible participants for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

Eligible participants

Pursuant to the Share Option Scheme, the Board may offer any employee (whether full-time or part-time) or a director of the Group options to subscribe for shares of the Company.

Total number of Shares available for issue under the Share Option Scheme

As at 31 December 2016, a total of 50,000,000 share options were granted, all of which have not been exercised. Accordingly, under the Share Option Scheme, the Company may further grant 52,523,700 share options, representing approximately 5.12% of the issued share capital of the Company as at the date of this annual report.

(a) 10% limit

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 10% of the total issued Shares as at the date of adoption of the Share Option Scheme (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme and any share option schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may, from time to time, refresh the Scheme Mandate Limit by obtaining the approval of the Shareholders in general meeting, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders' approval of the refreshed limit.

The Company may also seek separate approval of the Shareholders in general meeting for granting options beyond the Scheme Mandate Limit or the refreshed limit to any eligible persons specifically identified by the Board.

(b) 30% limit

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the Shares of the Company in issue from time to time.

Maximum entitlement of each eligible person

No Options shall be granted to any eligible person under the Share Option Scheme which, if exercised, would result in such eligible person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date. Any further grant of options to an eligible person in excess of the 1% limit as mentioned above shall be subject to the approval of the Shareholders in general meeting with such eligible person and his close associates (as defined in the Listing Rules) abstaining from voting.

Exercise price

The exercise price shall be determined by the Board in its absolute discretion but in any event shall be not less than the highest of:

(a) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant;

(b) the average closing price of the Shares as stated in the daily quotations sheets of the Stock Exchange for the 5 trading days immediately preceding the date of offer of grant; and

(c) the nominal value of the Shares.

Performance targets and minimum period for which an option must be held

The Board may, when making an offer of the grant of an option, impose and specify in the offer letter any terms and conditions as it may at its absolute discretion think fit, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised.

Amount payable upon acceptance of option

HK$0.62 is payable by each eligible person to the Company on acceptance of an offer of option.

On 13 September 2016, the Board considered and approved the grant of 50,000,000 share options to certain eligible persons under the Share Option Scheme. The options granted to each of the grantees under the Share Option Scheme shall be vested and become exercisable upon the first or second anniversary of the date of grant (i.e. 13 September 2016 or 13 September 2017). Vested options shall be exercisable until the expiry of the five-year period from the date of grant (i.e. until 12 September 2021). Grantees of such options are entitled to exercise the options at an exercise price of HK$0.62 per Share. For more details, please refer to the announcement of the Company dated 13 September 2016.

Remaining life of the Share Option Scheme

The Share Option Scheme will expire on 26 May 2024 and no further share options may be granted but the provisions of the Share Option Scheme shall in all other respects remain in force and effect necessary to give effect to the exercise of any share options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

Directors' Report (Continued)

Particulars of the outstanding options granted under the Share Option Scheme are set out below:

Name or category of participants	No. of Shares involved in the options outstanding as at 1 January 2016	Granted during 2016	Exercised during the year	Lapsed during the year	No. of Shares involved in the options outstanding as at 31 December 2016
Directors					
Chen Yannan	3,800,000	4,000,000	—	3,800,000	4,000,000
Wu Min	3,800,000	4,000,000	—	3,800,000	4,000,000
Mao Zhuchun (resigned on 1 January 2016)	2,400,000	—	—	2,400,000	—
Zhang Changsong	—	3,200,000	—	—	3,200,000
Zhuo You	1,000,000	1,000,000	—	1,000,000	1,000,000
Zhang Cheng	1,000,000	1,000,000	—	1,000,000	1,000,000
Cao Jian (resigned on 18 March 2016)	1,000,000	—	—	1,000,000	—
Zhang Shu	—	1,000,000	—	—	1,000,000
Zhang Huaqiao	2,000,000	2,000,000	—	2,000,000	2,000,000
Feng Ke	2,000,000	2,000,000	—	2,000,000	2,000,000
Tse Yat Hong	2,000,000	2,000,000	—	2,000,000	2,000,000
Subtotal	19,000,000	20,200,000	—	19,000,000	20,200,000
Employees					
Employees	31,000,000	29,800,000	—	31,000,000	29,800,000
Total	50,000,000	50,000,000	—	50,000,000	50,000,000

Notes:

1. The closing price of the Shares preceding the date on which the share options were granted was HK$0.59.

2. The vesting of all share options granted to the eligible persons is conditional upon the achievement of certain performance targets by the relevant individual grantees and/or the Group as set out in their respective offer letters.

3. The fair value of the share options granted during the year is set out in note 23 to the consolidated financial statements.

   On 16 June 2014, the Company granted 50,000 thousand share options to directors and selected employees with an exercise price of HK$1.4 as incentives or rewards for their contribution or potential contribution to the Group.

   In 2015, the Group did not achieve the target profit, thus the share option plan was forfeited and the accumulated expense as at the end of 2015 was reversed.

   The weighted average fair value of options are determined by Black-Scholes model. Such value is subject to a number of assumptions and with regard to the limitation of the model.

4. Mr. Mao Zhuchun resigned as the executive Director of the Company on 1 January 2016. Mr. Cao Jian resigned as the non-executive Director of the Company on 18 March 2016.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers

For the year ended 31 December 2016, the five largest customers contributed, in aggregate, 27.4% of the Group's total interest income from loans to customers.

None of the Directors, any of their close associates or any Shareholders which, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest customers of the Group during the year ended 31 December 2016.

Audit Committee

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Emolument Policy

The Company is well aware of the importance of incentivising and retaining its employees. The Group offers competitive remuneration packages to its employees and makes contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing fund for its employees. The Remuneration Committee is set up for reviewing the Group's emolument policy and remuneration package of the Directors and chief executive of the Group, having regard to the Group's overall operating results, individual performance and comparable market practices.

The details of the emoluments payable to the Directors during the year are set out in Note 31 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the Corporate Governance Code, the details of the emoluments payable to the members of the senior management during the year fell within the following bands:

Remuneration bands	**Number of individuals**
HK$ 0 to 1,000,000	2

Employee Retirement Benefits

Particulars of the employee retirement benefits of the Group are set out in Note 11 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2016, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium, other reserves and retained earnings amounted to approximately RMB924,374 thousand.

Bank and Other Loans

Particulars of bank and other loans of the Group as at 31 December 2016 are set out in Note 26 to the consolidated financial statements.

Rights to Acquire the Company's Securities

Other than as disclosed above, during the year was the Company, or any of its subsidiaries, a party to any arrangement to enable the Directors to have any right to subscribe for securities of the Company or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Competing Business

As at the date of this annual report, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete either directly or indirectly with the businesses of the Group as are required to be disclosed pursuant to the Listing Rules.

Non-Competition Undertaking

Each of Mr. Zhu Tianxiao, Xilai Investment Co., Ltd and Xiaolai Investment Co. Ltd. (the "Covenantors"), each being a controlling shareholder of the Company, has entered into a deed of non-competition (the "Deed of Non-Competition") in favour of the Company on 6 October 2013, pursuant to which each of the Covenantors has unconditionally, irrevocably and severally undertaken with the Group that they shall not, and shall procure that their respective members shall not, (except through the Group) directly or indirectly carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or connected with, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of the Group. For details of the Deed of Non-Competition, please refer to the Prospectus.

Each of the Covenantors has provided to the Company a written confirmation in respect of his/its compliance with the Deed of Non-Competition. The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2016.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

Related Party Transactions

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 29 to the financial statements. Some of these transactions also constituted fully exempted continuing connected transactions.

Continuing Connected Transactions

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Reference is made to the Prospectus. The short-term secured financing business in which the Group is engaging is a regulated business in the PRC and according to the relevant governmental policy. The Company, as a foreign investor, would not be granted the necessary approval to conduct and invest in the pawn loan business in the PRC. As a result, the Group, through an indirect wholly-owned subsidiary of the Company, Huifang Tongda, has entered into a series of contractual arrangements (the "Contractual Arrangements") with the PRC Operating Entity, which possess the necessary licences for the operation of the Group's short-term secured financing business in the PRC, such that the Group can conduct its business operations indirectly in the PRC through the PRC Operating Entity while complying with applicable PRC laws and regulations. The Contractual Arrangements are designed to provide the Group with effective control over the financial and operational policies of the PRC Operating Entity and, to the extent permitted by the PRC laws and regulations, the right to acquire the equity interests in and/or the assets of the PRC Operating Entity. Further, pursuant to the Contractual Arrangements, all economic benefits derived from the operation of the PRC Operating Entity are enjoyed by the Group and the financial results of the PRC Operating Entity are consolidated into the Group as if it were a wholly-owned subsidiary.

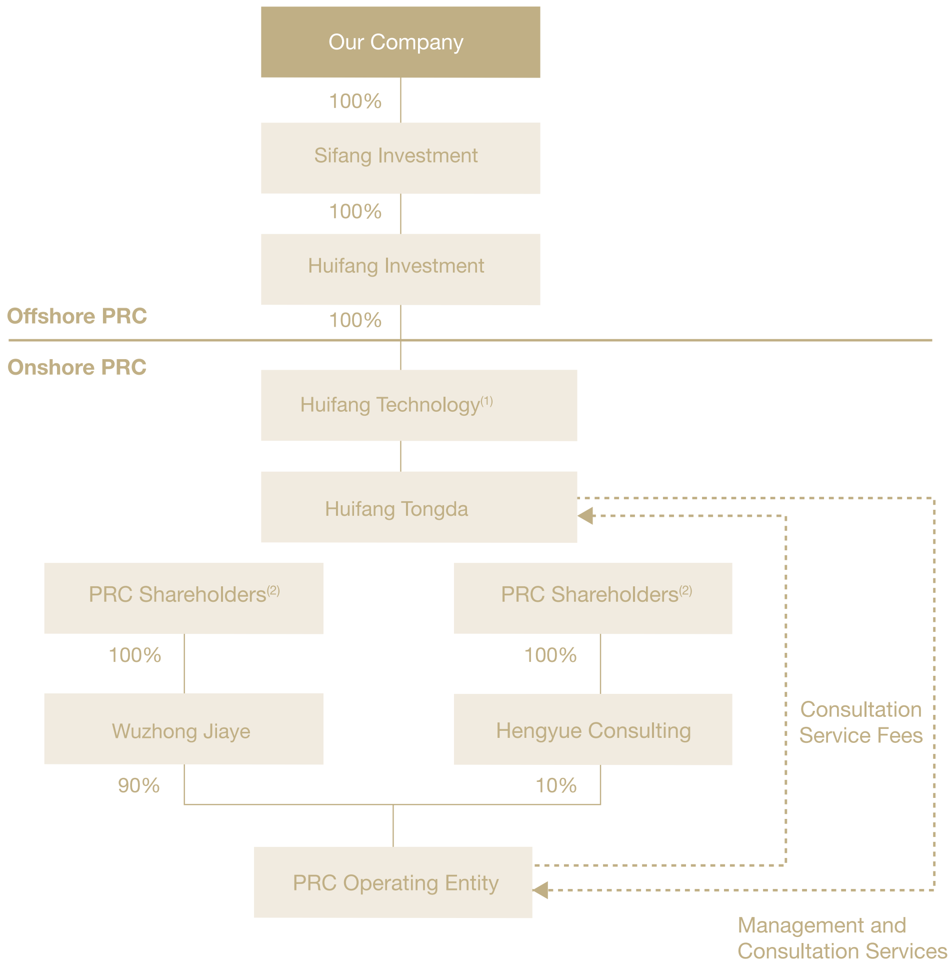
The Contractual Arrangements currently in effect comprise the following agreements, namely (a) the Exclusive Management and Consultation Service Agreement (as supplemented by the Supplemental Agreement to the Exclusive Management and Consultation Service Agreement), (b) the Exclusive Call Option Agreement, (c) the Proxy Agreement, (d) the Equity Pledge Agreement (as amended by the amended Equity Pledge Agreement), (e) the VIE Transfer Agreement, and (f) the PRC Shareholders Loan Agreement, which were entered into between, among others, the PRC Operating Entity, Huifang Tongda, Mr. Zhu Tianxiao ("Mr. Zhu"), Mr. Chen Yannan ("Mr. Chen") and/or Mr. Zhuo You ("Mr. Zhuo") (as the case may be). A summary of the aforementioned agreements are set out below.

Mr. Zhu, through two companies wholly owned by him, namely Xiaolai Investment Co., Ltd and Xilai Investment Co., Ltd, holds approximately 31.7% of equity interest in the Company and accordingly, he is a controlling shareholder and hence a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Mr. Chen and Mr. Zhuo, both being Directors, are also connected person of the Company under Rule 14A.07(1) of the Listing Rules.

The PRC Operating Entity is owned indirectly as to 50% by Mr. Zhu and therefore, is an associate of Mr. Zhu. As a result, the PRC Operating Entity is a connected person of the Company under Rule 14A.07(4) of the Listing Rules. In addition, Mr. Zhu, Mr. Chen and Mr. Zhuo are parties to some agreements under the Contractual Arrangements. Accordingly, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules upon Listing.

Contractual Arrangements

The following diagram sets out the simplified structure of the Group as of 31 December 2016 and illustrates the Contractual Arrangements between the PRC Operating Entity and Huifang Tongda:



Notes:

(1) The former name is Suzhou Huifang Management Consulting Co., Ltd.* (蘇州匯方管理諮詢有限公司) and the change of name was effected on 12 December 2013.

(2) The PRC Shareholders are Mr. Zhu (50%), Zhang Xiangrong (13%), Ge Jian (11%), Mr. Chen (10%), Wei Xingfa (4%), Yang Wuguang (6%) and Mr. Zhuo (6%).

Summary of the agreements under the Contractual Arrangements:

(a) Exclusive Management and Consultation Service Agreement

On 31 December 2011, Huifang Technology and the PRC Operating Entity entered into an exclusive management and consultation service agreement, as subsequently supplemented by the Supplemental Agreement (as defined below) (the "Exclusive Management and Consultation Service Agreement"), pursuant to which the PRC Operating Entity has agreed to engage Huifang Technology on an exclusive basis to provide consultation and other ancillary services, including without limitation enterprise management, market development and consultancy services. Pursuant to the Exclusive Management and Consultation Service Agreement, the PRC Operating Entity may not, among other restrictions or obligations, engage any other third party to provide similar services without the prior written consent of Huifang Technology.

In consideration for the provision of such services by Huifang Technology, the PRC Operating Entity has agreed to recognise consultation service fees payable to Huifang Technology on a quarterly basis. The consultation service fees will be billed by Huifang Technology to the PRC Operating Entity and are equivalent to the total revenue before tax audited pursuant to the Hong Kong Financial Reporting Standards less all the related costs incurred and reasonable expenses of the PRC Operating Entity.

The term of the Exclusive Management and Consultation Service Agreement commenced on 31 December 2011 and will expire on 30 December 2031 and is renewable at the sole election of Huifang Technology for successive terms as determined by Huifang Technology, until termination by Huifang Technology.

On 29 February 2012, Huifang Technology transferred all its rights and obligations under the Exclusive Management and Consultation Service Agreement to Huifang Tongda, in accordance with the VIE Transfer Agreement as described in sub-paragraph (e) below.

On 21 November 2012, Huifang Tongda and the PRC Operating Entity entered into a supplemental agreement to the Exclusive Management and Consultation Service Agreement (the "Supplemental Agreement"). Pursuant to the Supplemental Agreement, the consultation service fees, as the consideration for the provision of the service by Huifang Tongda, shall be equivalent to the total revenue before tax less all the related costs and expenses reasonably incurred by the PRC Operating Entity, provided that, Huifang Tongda may decide, for the purpose of operations and business expansion of the PRC Operating Entity, the actual amount of the service fees. The Supplemental Agreement is deemed to have retrospectively become effective on 1 July 2012. The Supplemental Agreement was entered into for the purpose of maintaining a certain level of net assets and net profits for the PRC Operating Entity, which will affect the amount of loans the PRC Operating Entity can grant and its ability to open a branch pursuant to the applicable regulations of the PRC, and to grant Huifang Tongda a right to decide the amount of the service fees charged on the PRC Operating Entity according to the PRC Operating Entity's operational needs and future business expansion. Pursuant to the Supplemental Agreement, it is Huifang Tongda's right to decide whether to change the amount of the service fees charged on the PRC Operating Entity, and pursuant to the Exclusive Call Option Agreement (as defined hereinafter), Huifang Tongda has been irrevocably and unconditionally granted an option to acquire the entire equity interest in the PRC Operating Entity and/or all assets of the PRC Operating Entity. Any profits not paid to Huifang Tongda in the form of consultation service fees may be acquired by Huifang Tongda when it exercises its option under the Exclusive Call Option Agreement. As a result, our ability to receive the entire economic benefits of the PRC Operating Entity as provided by the Contractual Arrangements is not affected by the Supplemental Agreement.

(b) Exclusive Call Option Agreement

On 31 December 2011, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders entered into an exclusive call option agreement (the "Exclusive Call Option Agreement") pursuant to which Wuzhong Jiaye and Hengyue Consulting irrevocably and unconditionally granted Huifang Technology an option to acquire, directly and/or through one or more nominees, the entire equity interest held by Wuzhong Jiaye and Hengyue Consulting in the PRC Operating Entity and/or all assets of the PRC Operating Entity at a price equivalent to the minimum amount as may be permitted by applicable PRC laws and regulations. If the PRC laws and regulations are silent in this regard, the price will be set at the nominal price agreed by the parties thereto. The PRC Operating Entity and the PRC Shareholders also agreed to the option granted to Huifang Technology. Subject to compliance with applicable PRC laws and regulations, Huifang Technology may exercise the option at any time, and acquire all or part of the equity interests and/or assets of the PRC Operating Entity in any manner in its sole discretion. In addition, Huifang Technology has undertaken to exercise the option and unwind the Contractual Arrangements as soon as applicable PRC laws and regulations allow our short-term secured financing business to be directly operated by Huifang Technology in China.

Pursuant to the Exclusive Call Option Agreement, the PRC Operating Entity may not, without the prior written consent of Huifang Technology, declare or distribute any dividends to its shareholders. Wuzhong Jiaye and Hengyue Consulting shall procure the PRC Operating Entity and the PRC Shareholders shall procure Wuzhong Jiaye and Hengyue Consulting, not to declare or distribute such dividends. In addition, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders have undertaken to assign or transfer to Huifang Technology and/or to one or more nominees any and all of dividend declared and distributed at any time or any interest payable to them by virtue of their holding of the equity interest in the PRC Operating Entity. Furthermore, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders have undertaken to assign or transfer to Huifang Technology and/or to one or more nominees any and all of proceeds or consideration received from the sales or disposal of the equity interest held in the PRC Operating Entity, and all of any appropriation of assets upon termination or liquidation of the PRC Operating Entity.

The Exclusive Call Option Agreement became effective on 31 December 2011 and will expire on the date on which all the equity interests or assets of the PRC Operating Entity are transferred to Huifang Technology and/or one or more nominees as contemplated under the Exclusive Call Option Agreement.

(c) Proxy Agreement

On 31 December 2011, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders entered into a proxy agreement (the "Proxy Agreement") whereby Wuzhong Jiaye and Hengyue Consulting irrevocably and unconditionally undertook to authorise Huifang Technology or the directors and their associates as authorised by Huifang Technology to exercise their shareholders' rights under the articles of association of the PRC Operating Entity and applicable PRC laws and regulations. Such shareholders' rights include but are not limited to (i) convening and attending the shareholders' meetings of the PRC Operating Entity pursuant to its articles of association; (ii) exercising voting rights on all matters requiring shareholders' consideration and approval, including but not limited to the nomination and removal of all the directors and/or chief executive members of the PRC Operating Entity whose appointment and removal is to be determined by the shareholders; (iii) passing resolutions on the disposal of the assets of the PRC Operating Entity; (iv) passing resolutions on the dissolution and liquidation of the PRC Operating Entity, forming a Liquidation Committee and exercising the rights and powers of the Committee, including but not limited to dealing with the assets of the PRC Operating Entity; (v) signing any and all shareholders resolutions; (vi) filing all the relevant documents with the relevant companies registry; and (vii) all other shareholders' voting rights under the articles of association of the PRC Operating Entity and/or applicable PRC laws and regulations.

Pursuant to the Proxy Agreement, Huifang Technology may exercise such shareholders' rights without the prior consultation with Wuzhong Jiaye, Hengyue Consulting or the PRC Shareholders. Wuzhong Jiaye, Hengyue Consulting as well as the PRC Shareholders shall not exercise such shareholders' rights without the prior written consent of Huifang Technology.

The Proxy Agreement became effective on 31 December 2011 and will expire on 30 December 2031 and is renewable at the election of Huifang Technology for successive terms as determined by Huifang Technology. The Proxy Agreement will expire upon the termination by Huifang Technology or until the date on which all the equity interest in the PRC Operating Entity are transferred to Huifang Technology and/or its nominees as contemplated under the Exclusive Call Option Agreement.

(d) Equity Pledge Agreement

On 31 December 2011, Huifang Technology and the PRC Shareholders entered into an equity pledge agreement with Wuzhong Jiaye and Hengyue Consulting, respectively, as subsequently amended as described below (collectively, the "Equity Pledge Agreement"), pursuant to which the PRC Shareholders granted first priority security interests over their respective equity interests in Wuzhong Jiaye and Hengyue Consulting to Huifang Technology for guaranteeing the performance of the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement and the Proxy Agreement.

Pursuant to the Equity Pledge Agreement, Huifang Technology is entitled to exercise its rights to sell all or part of the pledged equity interests in Wuzhong Jiaye and Hengyue Consulting upon the non-performance or breach of any of the terms of the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement, the Proxy Agreement and/or the Equity Pledge Agreement. In addition, the PRC Shareholders shall not pledge their respective equity interests in Wuzhong Jiaye and Hengyue Consulting in favour of or to other third parties without the prior written consent of Huifang Technology.

The Equity Pledge Agreement became effective on the date of its execution by all relevant parties (subject to the registrations of the pledge in the register of members of the PRC Operating Entity which have been completed) and shall terminate upon the performance by the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders (as the case may be) in full of all obligations under the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement, the Proxy Agreement, the Equity Pledge Agreement or the repayment of all losses arising from the breach of the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement, the Proxy Agreement and the Equity Pledge Agreement.

On 29 February 2012, Huifang Technology transferred all its rights and obligations under the Equity Pledge Agreement to Huifang Tongda in accordance with the VIE Transfer Agreement as described in sub-paragraph (e) below for further information of the VIE Transfer Agreement.

On 22 May 2013, Huifang Tongda, as the transferee of all the rights and obligations of Huifang Technology under the Equity Pledge Agreement, amended the Equity Pledge Agreement with the PRC Shareholders and each of Wuzhong Jiaye and Hengyue Consulting respectively. Pursuant to the amended Equity Pledge Agreement, the PRC Shareholders granted first priority security interests over their respective equity interests in Wuzhong Jiaye and Hengyue Consulting to Huifang Tongda as a guarantee to the performance of the PRC Shareholders Loan Agreement (as defined hereinafter), in addition to the performance of the Exclusive Management and Consultation Service Agreement (as described in details above), in addition to the Exclusive Call Option Agreement and the Proxy Agreement which was covered by the Equity Pledge Agreement entered into on 31 December 2011 and transferred to Huifang Tongda on 29 February 2012 as described in the immediate preceding paragraph.

Pursuant to the amended Equity Pledge Agreement, Huifang Tongda is entitled to exercise its rights to sell all or part of the pledged equity interests in Wuzhong Jiaye and Hengyue Consulting upon the non-performance or breach of any of the terms of the Exclusive Management and Consultation Service Agreement (as supplemented), the Exclusive Call Option Agreement, the Proxy Agreement, the PRC Shareholders Loan Agreement, and the amended Equity Pledge Agreement. In addition, the PRC Shareholders shall not pledge their respective equity interests in Wuzhong Jiaye and Hengyue Consulting in favour of or to other third parties without the prior written consent of Huifang Tongda.

The amended Equity Pledge Agreement became effective on 22 May 2013 upon execution by all relevant parties and the completion of the registrations of the pledge in the register of members of the PRC Operating Entity which have been completed, and shall terminate upon the performance of all obligation in full or the repayment of all losses arising from the breach by the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders (as the case may be) under the Exclusive Management and Consultation Service Agreement (as supplemented), the Exclusive Call Option Agreement, the Proxy Agreement, the PRC Shareholders Loan Agreement, and the amended Equity Pledge Agreement.

In addition, as the shareholders of the PRC Operating Entity, Wuzhong Jiaye and Hengyue Consulting amended the articles of association of the PRC Operating Entity on 31 December 2011. According to the articles of association currently in effect, no shareholder may pledge any of its equity interest in the PRC Operating Entity to any party.

(e) VIE Transfer Agreement

On 29 February 2012, Huifang Tongda, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders entered into a transfer agreement of structural contracts (the "VIE Transfer Agreement") pursuant to which Huifang Technology has agreed to transfer all of its rights and obligations under the Exclusive Management and Consultation Service Agreement, the Exclusive Call Option Agreement, the Proxy Agreement and the Equity Pledge Agreement to Huifang Tongda. Accordingly, on the same date, Huifang Tongda entered into relevant new agreements with the respective parties to effectuate such transfer. The VIE Transfer Agreement and such new agreements became effective on 29 February 2012. After the transfer, Huifang Technology became an investment holding company with no substantive businesses and may serve as a platform for the Company to expand into various new business sectors.

(f) PRC Shareholders Loan Agreement

On 22 May 2013 Huifang Tongda, PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders entered into a loan agreement (the "PRC Shareholders Loan Agreement"), pursuant to which Huifang Tongda agreed to extend interest-free loans equivalent to an amount to be injected as registered capital into the PRC Operating Entity (the "Capital Contribution Amount") to the PRC Shareholders in accordance with the PRC laws and regulations. The PRC Shareholders will contribute the full amount of the Capital Contribution Amount to the registered capital of Wuzhong Jiaye and Hengyue Consulting, which will in turn contribute such loan proceeds to the PRC Operating Entity as registered capital. Under the PRC Shareholders Loan Agreement, Huifang Tongda may request, at any time in its absolute discretion and to the extent permitted by the PRC laws and regulations, the PRC Shareholders to repay the loan (i) by using the capital realized from Huifang Tongda's exercise of its rights under the Exclusive Call Option Agreement to purchase from Wuzhong Jiaye and Hengyue Consulting, the entire equity interests in the PRC Operating Entity and/or all assets of the PRC Operating Entity, followed with a capital reduction of Wuzhong Jiaye and Hengyue Consulting (as well as PRC Operating Entity, as applicable); or (ii) any other means as permitted by applicable PRC laws and regulations.

Risk relating to the Contractual Arrangements

The following risks are associated with the Contractual Arrangements. Further details of the risks are set out on pages 36 to 44 of the Prospectus.

- imposing economic penalties;
- restricting our right to collect revenues;
- revoking the business licences and/or the licences or certificates of the PRC Operating Entity;
- discontinuing or restricting the operations of the PRC Operating Entity;
- imposing conditions or requirements in respect of the Contractual Arrangements with which we may not be able to comply;
- requiring us to restructure the relevant ownership structure or operations;
- voiding the Contractual Arrangements; and
- taking other regulatory or enforcement actions that could adversely affect our business.

Mitigation actions taken by the Company

- The Company has existing protections measures under the Contractual Arrangements. The Company's Internal Control Department will regularly review the compliance and performance of such conditions under the Contractual Arrangements.
- The Company's legal department will deal with matters relating to compliance and regulatory enquiries from relevant PRC authorities and report to the Board on a regular basis.

A waiver has been granted by the Stock Exchange regarding strict compliance with (i) the applicable disclosure and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in relation to the transactions contemplated under the Contractual Arrangements, (ii) the requirement of setting a maximum aggregate annual value (i.e. annual cap) for the fees payable to Huifang Tongda under the Contractual Arrangements, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the shares of the Company are listed on the Stock Exchange, subject to certain conditions as set out in the Prospectus. In addition, pursuant to the waiver granted by the Stock Exchange, the framework of the Contractual Arrangements may be renewed and/or cloned upon the expiry of the existing arrangements or, in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) that the Group might wish to establish, without obtaining the approval of the independent non-executive Directors and the independent Shareholders, on substantially the same terms and conditions as the Contractual Arrangements.

The independent non-executive Directors of the Company have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out during the year have been entered into in accordance with the relevant provisions of the Contractual Arrangements which had been entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group; and the terms are fair and reasonable and in the interests of the Shareholders as a whole; and have been operated so that the revenue generated by the PRC Operating Entity has been substantially retained by Huifang Tongda; (ii) no dividends or other distributions have been made by the PRC Operating Entity to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) no new contracts or renewed contracts have been entered into on the same terms as the existing Contractual Arrangements from the Listing Date till the end of the year.

Further, the Board has engaged the auditor of the Company to report on the Group's continuing connected transaction. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Listing Rule 14A.56 of the Listing Rules and confirmed that (i) nothing has come to their attention that causes them to believe that the continuing connected transactions carried out pursuant to the Contractual Arrangements during the year ended 31 December 2016 (a) have not received the approval of the Board and (b) were not entered into, in all material respects, in accordance with the relevant Contractual Arrangements; and (ii) no dividends or other distributions have been made by the PRC Operating Subsidiary to its shareholders during the year ended 31 December 2016.

A copy of the auditor's letter on the continuing connected transactions of the Group year ended 31 December 2016 has been provided by the Company to the Stock Exchange.

Save for the continuing connected transactions disclosed above and certain other connected transactions and continuing connected transactions which are exempted from reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, during the Reporting Year, there were no other transactions which constituted connected transaction or continuing connected transactions that were subject to the reporting requirements under the Listing Rules.

Public Float

As at the date of this annual report and based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

Auditors

The consolidated financial statements have been audited and agreed by PricewaterhouseCoopers who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

By order of the Board

Chen Yannan
Chairman

Hong Kong, 17 March 2017

CORPORATE GOVERNANCE REPORT

The Board of the Company hereby presents to the Shareholders the corporate governance report for the year ended 31 December 2016 (the "Reporting Year").

Corporate Governance Practices

The Board of the Company has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules.

In the opinion of the Directors, the Company has complied with all the applicable principles and code provisions of the CG Code throughout the Reporting Year.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors.

Specific enquiry has been made of all the Directors of the Company and they have confirmed that they have complied with the Model Code throughout the Reporting Year.

The Company has also adopted the Model Code as written guidelines (the "Employees Written Guidelines") for securities transactions by the relevant employees who are likely to be in possession of inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

Board of Directors

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board of the Company comprises the following Directors:

Executive Directors:
Mr. CHEN Yannan *(Chairman)*
Mr. WU Min *(Chief Executive Officer)*
Mr. MAO Zhuchun *(resigned on 1 January 2016)*
Mr. ZHANG Changsong *(Chief Financial Officer) (appointed on 1 January 2016)*

Non-executive Directors:
Mr. ZHUO You
Mr. ZHANG Cheng
Mr. CAO Jian *(resigned on 18 March 2016)*
Ms. ZHANG Shu *(appointed on 18 March 2016)*

Independent Non-executive Directors:
Mr. ZHANG Huaqiao
Mr. FENG Ke
Mr. TSE Yat Hong

The biographical information of the Directors are set out in the section headed "Directors and Chief Executive" on pages 21 to 25 of this annual report.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Chen Yannan and Mr. Wu Min respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

During the Reporting Year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than two months' written notice served by either the executive Directors or the Company. Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

In accordance with Article 84(1) and (2) of the Articles of Association, one-third of the Directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but no less than one-third) shall retire from office at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected as Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. In accordance with Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Therefore, Mr. Zhang Changsong and Ms. Zhang Shu who have filled the casual vacancies left by Mr. Mao Zhuchun and Mr. Cao Jian respectively retired and were re-elected as Directors at the 2016 annual general meeting. Accordingly, Mr. Chen Yannan, Mr. Feng Ke and Mr. Tse Yat Hong will retire and they being eligible, will offer themselves for re-election at the forthcoming 2017 annual general meeting.

None of Mr. Chen Yannan, Mr. Feng Ke and Mr. Tse Yat Hong has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and chief executive. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2016 are summarized as follows:

Name of Directors	**Type of Training**[Notes]
Executive Directors	
CHEN Yannan	A/B
WU Min	A/B
MAO Zhuchun *(Note 1)*	N/A
ZHANG Changsong *(Note 2)*	A/B
Non-Executive Directors	
ZHUO You	B
ZHANG Cheng	B
CAO Jian *(Note 3)*	N/A
ZHANG Shu *(Note 4)*	B
Independent Non-Executive Directors	
ZHANG Huaqiao	B
FENG Ke	B
TSE Yat Hong	A/B

Notes:

1. Mr. MAO Zhuchun resigned on 1 January 2016.
2. Mr. ZHANG Changsong was appointed on 1 January 2016.
3. Mr. CAO Jian resigned on 18 March 2016.
4. Ms. ZHANG Shu was appointed on 18 March 2016.

Types of Training
A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Committees

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Internet Finance Business Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of the Audit Committee, Remuneration Committee, Nomination Committee and Internet Finance Business Committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under the section headed "Corporate Information" on page 2 of this annual report.

Audit Committee

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Year, the Audit Committee held two meetings for reviewing the annual report in respect of the year ended 31 December 2015 and the interim financial results and report in respect of the period ended 30 June 2016 as well as the significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the executive Directors.

Remuneration Committee

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the Reporting Year, the Remuneration Committee met once meeting for reviewing and making recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and other related matters.

Details of the remuneration of the senior management by band are set out in note 11 in the Notes to the Audited Consolidated Financial Statements for the year ended 31 December 2016.

Nomination Committee

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

The Board has adopted a set of procedures for nomination of Directors and policy concerning diversity of Board members on 23 December 2013.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives (where appropriate) for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships of the Company, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Year, the Nomination Committee met once for reviewing the structure, size and composition of the Board, and to consider the qualifications of the retiring directors standing for election at the annual general meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

The Internet Finance Business Committee

The Company established the Internet Finance Business Committee under the Board on 28 May 2015. The principal duties of the Internet Finance Business Committee include formulating and making recommendations to the Board on the strategies of the Group in the area of providing financial solutions via internet and other e-commerce matters ("Internet Finance Business"), supervising the implementation, and reviewing the performance and efficiency, of the Internet Finance Business by the Group, and considering other matters as referred to the Internet Finance Business Committee by the Board.

During the Reporting Year, the Internet Finance Business Committee met once for reviewing and making recommendations to the Board on the strategies of the Internet Finance Business.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the Reporting Year, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and chief executive, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this corporate governance report.

Attendance Records of Directors and Committee Members

During the Reporting Year, the Company held four Board meetings, two Audit Committee meetings, one Nomination Committee meeting, one Remuneration Committee meeting, one Internet Finance Business Committee meeting and one general meeting.

Corporate Governance Report (Continued)

The attendance record of each Director at the Board and Board committee meetings of the Company and general meeting of the Company held during the Reporting Year is set out in the table below:

	Attendance/Number of Meetings					
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Internet Finance Business Committee**	**Annual General Meeting**
CHEN Yannan *(Chairman)*	4/4			1/1		0/1
WU Min	4/4		1/1		1/1	1/1
MAO Zhuchun *(Note 1)*	0/4					0/1
ZHANG Changsong *(Note 2)*	4/4					1/1
ZHUO You	4/4					1/1
ZHANG Cheng	2/4	1/2				0/1
CAO Jian *(Note 3)*	0/4					0/1
ZHANG Shu *(Note 4)*	4/4					0/1
ZHANG Huaqiao	4/4		1/1	1/1	1/1	1/1
FENG Ke	4/4	2/2		1/1	1/1	1/1
TSE Yat Hong	4/4	2/2	1/1			1/1

Notes:

1. Mr. MAO Zhuchun resigned on 1 January 2016.
2. Mr. ZHANG Changsong was appointed on 1 January 2016.
3. Mr. CAO Jian resigned on 18 March 2016.
4. Ms. ZHANG Shu was appointed on 18 March 2016.

Apart from regular Board meetings, the Chairman also held one meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive directors during the Reporting Year.

Risk Management and Internal Control

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management has confirmed to the Board and the Audit Committee on the effectiveness and adequacy of the risk management and internal control systems for the year ended 31 December 2016.

Details of the Company's risk management and internal control as at 31 December 2016 are set out in the section headed "Risk Management and Internal Control Report" on pages 58 to 63 of this annual report.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 73 to 74.

Auditors' Remuneration

The remuneration paid to the Company's external auditors of the Company in respect of audit services for the year ended 31 December 2016 amounted to RMB2,300 thousand. No non-audit services has been provided by the Company's external auditors to the Company.

Company Secretary

During the Reporting Year, Mr. He Jiong has resigned as a joint company secretary of the Company with effect from 24 May 2016. Currently, Miss Leung Ching Ching of Tricor Services Limited, external service provider, is the Company Secretary of the Company. Its primary contact person at the Company is Mr. Wu Min, executive Director and chief executive officer of the Company.

Shareholders' Rights

To safeguard Shareholder's interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholder meetings, including the election of individual directors. Pursuant to the Listing Rules, all resolutions put forward at Shareholders' meetings will be voted on by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, and poll results will be posted on the websites of the Company and of the Stock Exchange after each Shareholders' meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Company's Articles of Association, an extraordinary general meeting may be convened by the Board upon requisition of one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of the deposit of the requisition, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, while all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The requisitionist(s) must state the objects clearly in the requisition, sign the requisition and deposit the same to the Board or the secretary or the primary contact person of the Company.

Corporate Governance Report (Continued)

Putting Forward Proposals at General Meetings

Shareholders who wish to put forward proposal at general meetings may deposit a requisition for convening an extraordinary general meeting following the procedures set out above.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their requisitions, proposed resolutions for the general meeting or enquiries to the Board as mentioned above to the primary contact person of the Company as set out below:

Name:	Chen Yannan (陳雁南)
Address:	22/F, 345 East Baodai Road, Suzhou, Jiangsu Province, the PRC
Fax:	86-512-65131585

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board as well as chairman of Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees will make themselves available at the annual general meetings to meet Shareholders and answer their enquiries.

During the Reporting Year, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

To promote effective communication, the Company maintains a website at http://www.cnhuirong.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Going Concern

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL REPORT

China Huirong Financial Holdings Limited ("Company") is a group of companies engaged in pawn, small loans, Internet finance and investment in mainland China. The Company is committed to providing the small-and-medium-size companies and individuals with diversified and innovative financial products. Its vision is to become the leading comprehensive financial service provider in China who serves small-and-medium-size companies and individuals.

All business in the Company involves one or more risks in analysis, measurement, evaluation, commitment and management to a certain extent. The major risk types confronted by the Company are credit risk, liquidity and financing risk, market risk and operational risk. The company has established relatively sound risk management system and internal control, feedback system, and will make adjustments according to the economic environment and industry development, to ensure that it will achieve reasonable income while maintaining the risks within control.

1. Risk Management

The Company publishes risk management report on an annual basis, reviewing and evaluating the major risk types faced by the Company during the year and the operation of the risk management system, as well as revising the risk management guidelines for the coming year, to ensure balancing between the Company's earnings and risks.

Risks	Sources	Control and management risks
(1) Credit risk		
Financial loss risk arises when customers and counterparties default on contractual obligations.	Credit risk is mainly attributable to direct loans.	Potential amount of the loss will be measured when customers and counterparties default on payment. The loss will be capped and monitored and subject to approval from persons designated in the organizational framework. When customers and counterparties default on their contractual obligations, potential risks and losses suffered from by the Company will be no more than the caps. Risk management will be implemented by the risk management personnel in compliance with a consistent and sound risk control framework with policies, principles and guidelines specified clearly.
(2) Liquidity risk and financing risk		
Such risk will occur when the Company is unable to perform its obligations when due as a result of inadequate financial resource or performance of such obligations requires additional cost.	Liquidity risk arises from the time mismatch of cash flow. Financing risk occurs when liquidity could not be obtained with expected terms when necessary to fund the illiquid assets.	It will be measured with internal measurement standards including the stressed operating cash flow forecast, coverage ratio and the loan to core capital ratio and will be monitored by the audit committee of the Company in accordance with the liquidity and financing risk management framework in place.

Risk Management and Internal Control Report (Continued)

Risks	Sources	Control and management risks
(3) Market risk		
The risk arises from the change in market conditions such as exchange rates, credit spreads and share prices which may result in a decrease in the Company's income or the value of its investment portfolios.	Market risk is mainly attributable to deposits, assets and liabilities of the Company's retail and industrial and commercial business as well as held-for-sale financial investments held by the Company in foreign currencies.	The risk will be measured based on its estimated loss and applied to estimate the potential loss of the risk exposure generated by the change of market interest rates and prices during a designated period in a specific credibility. Then it will be subject to stress test to assess its potential impact on the value of portfolios if something extreme but possible happens. Various monitoring measures are taken including the sensitivity of net interest income and the Company will manage such risk with approved risk limits.
(4) Operational risk		
Such risk occurs when losses are incurred as a result of insufficient and ineffective internal procedures, human resources and systems or external events.	Operational risk is generated during daily operations or from external events and is relevant to all aspects of the Company's business.	Condition analysis procedures and risk and control assessment procedures will be applied to evaluate the risk level and effectiveness of the controlling. The risk will be monitored with key indicators and other internal control activities. Management of the risk will be mainly conducted by business and department managers who identify, assess, monitor and manage such risk as well as evaluating the effectiveness of the operational risk management framework in effect. The risk and audit department is responsible for such framework and the supervision of the operational risk management conducted in such business and departments.

The Company has established risk management policy procedures to identify and analyse risks, determine appropriate risk limits, and monitor and control all kinds of risks with its reliable and timely information management system. The risk management frameworks/policies, statement of risk exposure level and major limits of risk control are subject to approval from the Board and will be monitored and reviewed by the Directors regularly. The Company has set up efficient risk management frameworks and accountability mechanism and arranged for appropriate supervision and control on risks of all types and in every level across the Company, with an aim to ensure the effectiveness of its risk management.

The Board will assume ultimate responsibility for the statement of risk exposure level and the effectiveness of risk management of the Company. The audit committee is responsible for reviewing the statement of risk exposure level and consistency of the mid-to-long-term strategies and advises and reports to the Board with respect to the risk management, internal control and high level risk related matter.

The Audit Committee is in charge of constantly monitoring, assessing and managing the risk environment and the effectiveness of risk management policies. The director of risk control will report to the Board on the actual risk exposure of the Company regularly as well as relevant deviations and management improvements required to be made.

(1) Credit Risk

Credit risk refers to financial loss risk arising from customers' or counterparties' default on their contractual obligations. Credit risk is mainly attributable to direct loans. The Company has specified standards, policies and procedures to control and monitor credit risks in all relevant business.

In terms of the Company's customers, they are mostly small-and-medium-size companies with single business modes and weak capability for business transformation, and they tend to struggle hardly in economic downturns as they are at the end of the eco-chain, which results in an increase in bad loan assets of the Company in recent years. Although most of the loan assets were pledged or guaranteed, they directly drive down the Company's income and profits as litigation and disposal of such assets require prolonged time and lower interest income can be generated during such disposal.

Designated functions shall be reported to the director of risk control and credit risk is under centralized management with the following work conducted:

— Establish approval procedures, monitoring procedures after granting loans and policies of collection and for large loans;

— Publish guidelines for loans granted to specific markets, industries and products as well as acceptable facilities, mitigation risk and evaluation parameters for specific collaterals;

— Set up limits to monitor credit risks of industries, counterparties and loan portfolio types, etc.;

— Maintain and develop credit risk/credit rating systems to categorise risks for management purposes;

— Inform senior management and all committees of credit information of the Company;

— Actively manage and develop the credit system; and

— Advise the business departments on relevant loans and provide them with guidelines in this regard.

Management and Collection of Impaired Loans
The Company will continuously analyse and monitor its loans from different aspects. It pays much attention to doubtful loans and makes provisions for the impaired loans in a timely and consistent manner according to designated guidelines. It will also form a loan collection team to render comprehensive support to the customer, with an aim to maximize the recoverability of the doubtful debts. The management will review loan portfolios in detail on a regular basis, compare the performance and overdue statistics of the portfolios with past trends and assess the recent economic environment to identify if there is any impaired loan requiring appropriate provisions.

Risk Management and Internal Control Report (Continued)

Collaterals and Other Loan Improvement Conditions

Although collateral is an important tool for mitigating credit risk, the Company grants loans based on the customers' cash flow and solvency instead of value of collaterals. It is the Company's policy to cap the loan based on customers' solvency rather than undue reliance on collaterals. In certain circumstances, the loan may be unsecured, depending on the customers' financial position and product types. Major types of collaterals are personal/commercial properties, securities and trade receivables, etc.

The Company has organized professional teams comprised of risk management professionals and lawyers to manage its collaterals. However, there are always certain assets bearing no interest due to the prolonged period of litigation and fix asset disposal and the nature of the industry where the Company operates.

Concentration of Credit Risk

Counterparties of the Company are mainly located in Suzhou where the economy is well developed, indicating high regional concentration and that it will be influenced by regional economy more easily. The Company is dedicated to expand its business into surrounding regions and has developed new products such as "Yin Qiao Dai" (銀橋貸), "Rong ZhengTong" (融證通), "Shu Lou Dai" (贖樓貸) and automobile financial leasing in 2016 which are highly standardized and can be used across regions. With development of the new business, risk concentration will be reduced gradually.

(2) Liquidity and Financing Risk

Under policies and regulations, the Company mainly grants loans funding form its proprietary capital and bank borrowings which are pledged by deposits. According to the liquidity information of the Company in the year end, the Company is fully capable of repaying all bank borrowings and Suzhou Qian Dai borrowings.

Assets in the Company bearing no interest are mainly bad credit assets to be disposed of and will not have adverse effects on the liquidity. They will be realized gradually upon conclusion of litigations and completion of the asset disposal and will contribute to our business growth.

(3) Market Risk

The Company regards market risk as one of the major risk it confronted.

As for the market interest rate, effective interest rate is reduced due to interest rate cut and larger money supply in the society, directly bringing down the interest rate of the Company in granting loans, which in turn has an impact on its performance. Although effective interest rate is reduced, the private sector lacks investment willingness due to its pessimistic forecast of the future and its investment growth decreases year by year, which indirectly undermines the profit attributable to loans granted to prime customers by the Company.

Since 2016, the Company has been working actively on improving its current situation, especially by actively developing ultra-short term loan business for enterprises and personal loan business, so as to minimize the impact brought by market risks. The ultra-short term loan business is designed as a channel for capital operation between banks and companies and is expected to generate considerable income free from market risks by closely communicating with banks and companies and making it convenient for companies to obtain loans and raise funds. The personal loan business, which mainly refers to "Shu Lou Dai" (贖樓貸) business, provides funding services for vendors to release their property mortgage with banks. As purchase and sale agreement has been entered into, the source of repayment is certain, thus it is generally free from market risks.

(4) Operational Risk

The Company has marketing department, risk management department, loan center and audit department, which are clearly separate and independent from each other without hierarchical relationship.

The market department is responsible for collection of customers' information and preparation of project reports; the risk management department reviews such project reports, issues risk opinion and formulates conditions precedent for granting loans; the loan center reviews whether the customer fulfills such conditions precedent and grants loans; and the audit committee will review and audit the whole workflow.

The Company has operational departments independent to each other and its workflow has been practiced for years, which eliminates the risk arising from operation errors of its internal staffs and failure of systems.

Operation of the Company's products is generally standardized, and customer identification process and conditions for granting loans are well established and updated constantly in pace with environmental changes. The Company's risk management personnel are professionals with extensive risk management experience and can assess the customers' risks properly. The staffs in the Company's loan center are all seasoned financial management experts and can make accurate judgments on whether conditions for granting loans are fulfilled. Employees of the Company's audit department are specialists with profound financing, financial and auditing experience and can evaluate and cope with the external risks identified in the whole workflow.

The Company has maintained a sound operational system to effectively deal with the external operational risks.

2. Internal Control and Audit

The Company has set up audit department which is in charge of the development, operation and audit of its internal control system and reports to the Board and the audit committee.

From a macro perspective, the audit department makes judgments on the market and environment, conducts audit with respect to the nature and level of the risks set by the Company in achieving its strategic goals and issues independent opinion to and advise the audit committee and the Board.

The audit department will carry out twice regular (in January and July) and several ad-hoc audit and supervision on the risk management system and internal control system of the Company every year, and will inform the management and the Board of the operational status of such systems timely. During the Reporting Year, the audit department has reviewed the risk management and internal systems.

The audit department is responsible for the operation of the internal control system and will monitor and review the business process during or after the course of such business. It can get access to the documents of the business at any time to review whether the process is conducted in compliance with requirements and has the right to enquire all participants involved in such business, to prepare for an independent audit report. If any problem is identified in the business process by the audit department, such process must be suspended and individuals who misconduct will be held accountable.

Risk Management and Internal Control Report (Continued)

Disclosure of inside information of the Company is subject to management of the Board office and lawyers. The inside information will be identified by the Board office and confirmed by lawyers, who will then make a draft announcement thereon and the disclosure of which will be approved by the Board. The audit committee will also monitor the disclosure of such inside information and will conduct independent audit and advise on mandatory disclosure and voluntary disclosure. Inside information must be kept strictly confidential until an announcement is published in accordance with the requirements of the Listing Rules.

The management is required to assess the effectiveness of the risk management and internal control system annually and shall immediately report to the audit committee and the board on any deficiency of internal control identified and propose solutions.

For the financial year ended 31 December 2016, the Company believed that its risk management and internal control system was effective and adequate and it has been submitted to the Board and the audit committee for review.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

China Huirong Financial Holdings Limited (the "Company") holds environmental responsibility and social responsibility all the time. As an environment-friendly enterprise, the Company takes the initiative to arrange its energy-conservation and environmental protection work. It acts as a qualified entrepreneur responsible for offering employees a good job environment and promotion channels and ensure compliance of its products and operations with relevant laws and regulations and social interests.

1. Environmental Protection

The Company not only focuses on environmental protection in daily business, but also spreads the idea of environmental protection to customers, suppliers and other stakeholders. It is committed to diminishing harmful effects on the environment by day-to-day operations and actively getting involved in activities helpful to the environment. Meanwhile, the Company also undertakes social responsibility by virtue of investment and lending policies.

Environmental Performance	Unit	2015	2016
Carbon dioxide emissions			
Total carbon dioxide emissions	kg	198238.12	190194.96
Energy	kg	185361.20	170064.30
Business	kg	12876.92	20130.66
Average total carbon dioxide emissions per a full-time employee	kg/full-time employee	1694.34	1259.57
Energy	kg/full-time employee	1584.28	1126.25
Business	kg/full-time employee	110.06	133.32
Total carbon dioxide emissions/m^2	kg/m^2	70.80	61.35
Energy consumption			
Total energy consumption	GJ	669.31	614.07
Electricity	GJ	669.31	614.07
Average total energy consumption per a full-time employee	GJ	5.72	4.07
Total energy consumption/m^2	GJ/m^2	0.24	0.20
Total water consumption	mt	3563	2296
Total water consumption per a full-time employee	mt/full-time employee	30.45	15.21
Total paper consumption	kg	11900	14875
Wastes			
General office wastes (recyclable)	kg	19692.80	24616.00
General office wastes (unrecyclable)	kg	9267.20	11584.00
Electronic products and devices	kg	268.00	425.00

The above data include that of all business lines of the Company and figures are accurate to two decimal places.

Environmental, Social and Governance Report (Continued)

1.1 Emissions

The Company does not produce hazardous wastes as it does not deal with any industrial production activities. CO_2-dominated greenhouse gases produced by energy consumption and traffic are the Company's major emissions.

To reduce greenhouse gas emissions, the Company has actively developed and executed environmental policies, including using less energy-consuming LED lights in specified areas and adopting high-speed rails as a main business tool to minimize the use of autos and airplanes for they consume more energy.

Although the Company's business area increased 10.71% and employees raised 29.06% in 2016, its CO2 emission experienced a year-on-year decline of 4.06%, showing that the energy use efficiency was somewhat improved. The mileage proportion of high-speed rails for business was elevated from 7.84% to 31.15% with an obviously declined emission per unit as well. As a result, the Company will continue to adopt a series of measures to reduce emissions.

1.2 Energy Consumption

The Company piloted its office areas with light sources decreased in quantity, weakened in intensity and lowered in energy consumption as well as imposed more strict use standard on both central air-conditioning and energy-wasteful electronics, causing the energy consumption to effectively decrease by 8.25% in spite of growth in office areas and employees. New water-saving fixtures installed in office areas also made prominent result: total water consumption was reduced by 35.56%.

The Company used paper passing the authentication of FSC and specified that only wood pulp and/or 100% recycled paper with clear sources and not from high risk countries can be used. It promoted the paperless office as well. But unfortunately, the apparent growth in volume of business arisen from product transformation still led to the increase in total paper consumption.

1.3 Waste Management

The Company produces no hazardous wastes, so hazardous wastes that may be produced are disposed by a professional company entrusted.

The Company views environment as an important factor, evaluates impacts of clients on the environment, and uses approval principles of strict admittance on heavy energy-consuming and highly polluted industries. It is customary for the Company to organize tree-planting activities. The Company calls off dishes on endangered species in banquet activities and promote environmental idea in communities to advance the transmission of low-carbon life and recycling.

2. Society

The Company is socially responsible for employees and communities. It offers employees training and career development planning in a secure and good work environment. The Company respects intellectual property and customer privacy and has established and operated robust risk management system and internal monitoring system. Insisting on the social idea of not being evil, the Company seeks for harmony with the society through practical actions.

2.1 Employment and Labor Information

As at 31 December 2016, the Company has 148 employees, all of them are full-time employees.

2016 Employee Information

Age	Number	Gender	Number	Type	Number
20–35	79	Male	70	Full-time	148
36–45	44				
46–55	22	Female	78		
56 and above	3				
Total	**148**				

The Company ensures legitimate rights and interests of employees (include employment and dismissal) according to the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China* and relevant provisions. The Company has established the employee recruitment and promotion systems with reference to existing guidelines within or beyond this industry to offer employees equal opportunities and other rewards and benefits not below the industry average. The Company resolutely opposes discrimination and guarantees an equal job environment open to moderate diversification.

The Company holds campus recruitment once a year and social recruitment on an irregular basis. With a complete compensation system and assessment system, it provides career planning for each employee and career promotion channels for employees who meet requirements of assessment. The Company implements 8-hour working system and all employees are entitled to statutory holidays and paid annual leave.

2.2 Health and Security

The Company neither produces nor sells any product that could cause harm to the human body nor operates in environment that may cause harm. In compliance with the *Environmental Protection Law*, *Law on the Prevention and Control of Occupational Diseases* and the *Fire Control Law* and relevant provisions, the Company offers employees a safe and good work environment and adequate security measures to protect employees from occupational hazards.

The Company provides free medical examinations for all employees every year. It also organizes sports like long-distance running and badminton to ensure that the employees are in good health.

2.3 Development and Training

The Company conducts regular and irregular learning and training for all or some employees to improve their knowledge and skills. In 2016, the training rate for all employees reached 100%.

Employee Training Information

Classification		**Average training hours per employee**
Gender	Male	11.50
	Female	12.63
Employee level	Senior management	18.00
	Middle management	14.00

The Company provides business etiquette training for all employees; business training and risk management training for the business department and the risk department; specialized training courses as well as learning, training and company visits on a quarterly basis for employees under 35; training of new types of business like Internet finance and investment for senior management.

2.4 Labor Standard

In compliance with the *Labor Law of the People's Republic of China* and relevant provisions, the Company does not allow child labor nor forced labor. Employees need to have some knowledge reserves and professional skills due to the threshold and professional nature of this industry.

The Company validates identities of applicants to preclude the possibility of child labor. The code of operation specifies zero tolerance for forced labor and clearly provides the reporting contact information of the Company and regulatory department. The Company also makes interviews with employees from time to time by the HR department to ensure compliance with regulations.

2.5 Supply Chain Management

The Company is not a manufacturing enterprise, so there has no management of suppliers and supply chain.

2.6 Product Responsibility

In compliance with the *General Principles of the Civil Law*, *Product Quality Law* and the *Law on Protection of the Rights and Interests of Consumers* and relevant provisions, the Company offers financial services to the public and promotes business by briefing services it renders without any falsification or fraud. Attaching great importance to intellectual property and privacy information protection, the Company has developed multiple security measures to ensure that there is no act of selling or disclosing the customer information. It will never acquire or use unauthorized customer information through illegal channels.

The Company has set up the information isolation system that only those with authorization can inquire about the customer data stored in the Company. The Company regularly reviews the history records on a regular basis to ensure the procedural compliance.

2.7 Anti-Corruption

In compliance with the *Criminal Law of the People's Republic of China* and relevant provisions, the Company has formed strict monitoring systems and reporting procedures to prevent bribery, blackmail, fraud and money laundering and other criminal acts. As of 31 December 2016, there has no case of corruption in respect of the Company or its employees.

The Company renders financial services, to which the corruption may occur at business and risk ends. The Company has established strict multiple approval and audit review procedures to avoid risks caused by employees and reporting procedures and accountability mechanism reviewed by the audit department to ensure that all systems and procedures are operational.

2.8 Community Investment

The Company actively organizes and encourages employees to get involved in community activities. In 2016, it organized employees to give lectures about the prevention of financial risks on weekends for several times to cultivate the residents' awareness and discrimination on illegal finance; organized them to participate in community sports activities, such as marathon and badminton, for several times; stopped granting loans and providing financial services to enterprises that may endanger the community environment, which has forced them to improve their production process.

As an enterprise bearing environmental responsibility and social responsibility, the Company is willing to invest energy and resources in living harmoniously with the environment and the society.

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF CHINA HUIRONG FINANCIAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of China Huirong Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 75 to 143, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit is impairment allowances for loans to customers:

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment allowances for loans to customers	
Please refer to the notes to the consolidated financial statements: 2.5 , 3.2, 19 As of 31 December 2016, the aggregated net balances of loans to customers amounted to RMB 2,024,425 thousand, representing 64.6% of total assets. The impairment allowances for loans to customers were RMB 220,585 thousand. The Group first assesses whether objective evidence of impairment exists individually for loans to customers that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.	We evaluated the design and tested the Group's key controls over impairment calculation for loans to customers. These controls include key controls over timely identification of loans to customers that impairment were assessed on individual basis, and determination of key model, data, assumptions and parameters of impairment allowances for loans to customers whose impairment were made on collective basis. We also performed the following substantive procedures: We use sampling method to access loans to customers which had not been identified by the Group as impaired by obtaining external evidenced in respect of the borrowers.

Consolidated Financial Statements And Independent Auditor's Report (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
The impairment loss for a loan to customers that is individually assessed for impairment is the difference between the present value of estimated future cash flows and the carrying amount. When a group of loans are collectively assessed for impairment, the Group uses estimates based on historical loss experience for loans with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of the current observable data that reflects current economic conditions. We focus on this area because the assessment of impairment involves significant estimates and judgements from the management. We particularly focus on the judgement of managements including: timely identifying of impaired loans, future cash flows estimation of impaired loans for individual assessment; models selected, assumptions and parameters determination and calculation methodology applied for collective assessment.	**Individual assessment:** Where impairment allowance was assessed on an individual basis, where objective evidence of impairment had been identified, we assessed the assumptions, calculation and forecasts of expected future cash flows prepared by the Group's management on a sampling basis. **Collective assessment:** Where impairment allowance was assessed on a collective basis, we assessed the impairment models used by the Group under current economic environment that reflected the credit risk in loans to customers. We also assessed key data, assumptions and parameters used by the Group in the impairment models including segmentation of the loan portfolio, historical loss and loss identification period. Based on the work performed, we considered that the Group's models, key data, assumptions and parameters used in assessing impairment allowances for loans to customers are reasonable.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and those Who Charged with Governance for the Consolidated Financial Statements

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

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

Those who charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those who charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Li, Jack.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2016	2015
Interest income	6	**248,334**	375,536
Interest expense	7	**(65,639)**	(54,655)
Net interest income		**182,695**	320,881
Net loss from financial instruments designated at fair value through profit or loss	8	**(462)**	—
Other operating income	9	**5,583**	2,453
Net revenue		**187,816**	323,334
Administrative expenses	10	**(63,998)**	(67,580)
Net charge of impairment allowance on loans to customers	19(c)	**(106,610)**	(142,920)
Other gains, net	12	**45,769**	38,285
Profit before income tax		**62,977**	151,119
Income tax expense	14	**(8,259)**	(41,605)
Profit for the year		**54,718**	109,514
Attributable to:			
— Equity holders of the Company		**40,078**	101,886
— Non-controlling interests		**14,640**	7,628
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**54,718**	109,514
Attributable to:			
— Equity holders of the Company		**40,078**	101,886
— Non-controlling interests		**14,640**	7,628
Earnings per share form profit attributable to the equity holders of the Company (expressed in RMB)			
— Basic earnings per share	15	**0.04**	0.10
— Diluted earnings per share	15	**0.04**	0.10

The notes on pages 80 to 143 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2016**	2015
ASSETS			
Non-current assets			
Property, plant and equipment		**2,236**	1,121
Intangible assets		**1,021**	559
Deferred income tax assets	*17*	**72,494**	47,261
		75,751	48,941
Current assets			
Other assets	*18*	**22,657**	19,876
Loans to customers	*19*	**2,024,425**	2,030,053
Financial assets designated at fair value through profit or loss	*20*	**100,997**	—
Cash at bank and on hand	*21*	**912,349**	670,547
		3,060,428	2,720,476
Total assets		**3,136,179**	2,769,417
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital	*22*	**8,111**	8,111
Share premium	*23*	**548,237**	548,237
Other reserves	*23*	**584,739**	578,319
Retained earnings	*24*	**454,343**	418,078
		1,595,430	1,552,745
Non-controlling interests	*13(h)*	**204,708**	214,076
Total equity		**1,800,138**	1,766,821

Consolidated Statements of Financial Position (Continued)

As at 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2016	2015
LIABILITIES			
Current liabilities			
Other liabilities	*25*	**16,742**	16,015
Current income tax liabilities		**30,360**	32,412
Deferred income tax liabilities	*17*	**—**	2,913
Amounts due to related parties	*29(c)*	**633**	684
Borrowings	*26*	**1,288,306**	950,572
Total liabilities		**1,336,041**	1,002,596
Total equity and liabilities		**3,136,179**	2,769,417

The notes on pages 80 to 143 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 17 March 2017 and were signed on its behalf.

Chen, Yannan
Director

Wu, Min
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to the equity holders of the company						
	Note	Share Capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling Interests	Total equity
As at 1 January 2016		**8,111**	**548,237**	**578,319**	**418,078**	**1,552,745**	**214,076**	**1,766,821**
Comprehensive income								
Profit for the year		**–**	**–**	**–**	**40,078**	**40,078**	**14,640**	**54,718**
Total comprehensive income for the year		**–**	**–**	**–**	**40,078**	**40,078**	**14,640**	**54,718**
Appropriation to statutory reserves	*23(a)*	**–**	**–**	**3,813**	**(3,813)**	**–**	**–**	**–**
Employee share option — Value of employee services	*23(b)*	**–**	**–**	**2,607**	**–**	**2,607**	**–**	**2,607**
Dividends paid to Non-controlling Interests	*13(h)*	**–**	**–**	**–**	**–**	**–**	**(24,008)**	**(24,008)**
Total transactions with owners, recognised directly in equity		**–**	**–**	**6,420**	**(3,813)**	**2,607**	**(24,008)**	**(21,401)**
As at 31 December 2016		**8,111**	**548,237**	**584,739**	**454,343**	**1,595,430**	**204,708**	**1,800,138**
As at 1 January 2015		8,111	592,720	556,713	342,569	1,500,113	–	1,500,113
Comprehensive income								
Profit for the year		–	–	–	101,886	101,886	7,628	109,514
Total comprehensive income for the year		–	–	–	101,886	101,886	7,628	109,514
Appropriation to statutory reserves	*23(a)*	–	–	19,239	(19,239)	–	–	–
Employee share option — Forfeiture of the scheme		–	–	(4,771)	–	(4,771)	–	(4,771)
Non-controlling interests arising on business combination	*13(h)*	–	–	7,138	(7,138)	–	206,448	206,448
Distribution of special dividend relating to 2014	*16*	–	(44,483)	–	–	(44,483)	–	(44,483)
Total transactions with owners, recognised directly in equity		–	(44,483)	21,606	(26,377)	(49,254)	206,448	157,194
As at 31 December 2015		8,111	548,237	578,319	418,078	1,552,745	214,076	1,766,821

The notes on pages 80 to 143 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2016	2015
Cash flows from operating activities			
Profit before income tax		**62,977**	151,119
Adjustments for:			
Interest expense	*7*	**65,639**	54,655
Net charge of impairment allowance on loans to customers	*19(c)*	**106,610**	142,920
Depreciation and amortisation		**(353)**	1,113
Net foreign currency gains		**(42,217)**	(34,517)
Fair value loss on financial assets		**462**	—
Share-based payments		**2,607**	(4,771)
		195,725	310,519
Change in operating assets and liabilities:			
— Other assets		**(2,781)**	(1,863)
— Loans to customers		**(100,982)**	(267,932)
— Net increase in financial assets designated at fair value		**(101,459)**	—
— Term deposits with banks		**(116,532)**	65,015
— Exchange gains on term deposits with banks with original maturities over 3 months		**42,160**	—
— Other liabilities		**727**	(1,555)
— Amounts due to related parties		**(51)**	51
Cash (used)/generated in operations		**(83,193)**	104,235
Interest paid		**(59,952)**	(59,202)
Income tax paid		**(38,457)**	(72,136)
Net cash (outflow)/inflow from operating activities		**(181,602)**	(27,103)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**—**	(123,295)
Purchases of property, plant and equipment		**(656)**	(367)
Purchase of intangible asset		**(568)**	(333)
Net cash outflow from investing activities		**(1,224)**	(123,995)
Cash flows from financing activities			
Proceeds from bank borrowings		**1,352,398**	1,278,886
Repayments of bank borrowings		**(1,020,351)**	(1,238,235)
Dividends paid to Non-controlling Interests		**(24,008)**	—
Dividends paid to equity holders of the Company		**—**	(44,483)
Net cash inflow/(outflow) from financing activities		**308,039**	(3,832)
Net increase/(decrease) in cash and cash equivalents		**125,213**	(154,930)
Cash and cash equivalents at beginning of year		**65,946**	186,359
Exchange gains/(losses) on cash and cash equivalents		**57**	34,517
Cash and cash equivalents at end of year	*21*	**191,216**	65,946

The notes on pages 80 to 143 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

1 General information

China Huirong Financial Holdings Limited (中國匯融金融控股有限公司) (the "Company") was incorporated in the Cayman Islands on 11 November 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands.

The Company is an investment holding company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in lending services through granting collateral-backed loans, guaranteed loans and unsecured loans to customers in the People's Republic of China (the "PRC").

In preparation for the initial listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has undertaken a reorganisation (the "Reorganisation") to restructure Suzhou Wuzhong Pawnshop Co., Ltd. (蘇州市吳中典當有限責任公司) ("Wuzhong Pawnshop") as a subsidiary of the Company. Wuzhong Pawnshop was operated and ultimately controlled by Messrs Zhu Tianxiao (朱天曉), Zhang Xiangrong (張祥榮), Ge Jian (葛健), Chen Yannan (陳雁南), Wei Xingfa (魏興發), Yang Wuguan (楊伍官) and Zhuo You (卓有) (the "Ultimate Shareholders").

The Reorganisation involved primarily the insertion of the Company and its other subsidiaries owned by the Ultimate Shareholders, who also owned Wuzhong Pawnshop, as holding companies of Wuzhong Pawnshop. Accordingly, the reorganisation is accounted for using the accounting principle which is similar to that of a reverse acquisition. Upon the restructuring, the financial statements of the Group have been prepared on a consolidated basis and are presented using the carrying values of the assets, liabilities and operating results of the companies comprising the Group including Wuzhong Pawnshop. The Company's shares were listed on the Stock Exchange on 28 October 2013.

On 1 July 2015, the Group acquired 40% of the equity interests in Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. ("Dongshan Micro-finance") from Jiangsu Wuzhong Jiaye Investment Co., Ltd. (江蘇吳中嘉業投資有限公司) ("Wuzhong Jiaye") for a cash consideration of RMB126,414,800 (equivalent to approximately HK$158,018,500). Dongshan Micro-finance then became a subsidiary of the Group. Dongshan Micro-finance is mainly engaged in granting small amount loans and providing financing guarantee to customers in the PRC.

On 30 May 2016, the Group set up an 100% owned subsidiary, Suzhou Huida Commercial Factoring Company Limited (蘇州匯達商業保理有限公司) ("Huida Factoring") to engage in factoring business in the PRC.

The consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated.

These consolidated financial statements set out on pages 75 to 143 have been approved and authorised for issue by the Board on 17 March 2017.

(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Going-concern basis

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of customer demand for the Group's collateral-backed loans, guaranteed loans, unsecured loans and guarantee services; (b) the collection of loan interest and principal upon maturity; and (c) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in operational performance, show that the Group should be able to operate within the level of its current facilities. After making assessments, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 26.

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation
HKAS 1 (Amendment)	Disclosure initiative

Amendments from annual improvements to HKFRSs — 2012–2014 Cycle:

HKFRS 5 (Amendment)	Non-current assets held for sale and discontinued operations
HKFRS 7 (Amendment)	Financial instruments: Disclosures
HKAS 19 (Amendment)	Employee benefits
HKAS 34 (Amendment)	Interim financial reporting

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Standards	Key requirements	Effective from financial years starting on or after
HKAS15 — Revenue from Contracts with Customers	The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months. HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.	1 January 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted by the Group (Continued)

Standards	Key requirements	Effective from financial years starting on or after
HKFRS 9 — Financial Instruments	The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has yet to undertake a detailed assessment of the classification and measurement of financial assets. Currently, the Group does not hold debt instruments classified as available-for-sale (AFS) financial assets, that would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and equity instruments classified as AFS for which a FVOCI election is available. The other financial assets held by the Group are equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under HKFRS 9. At this stage, the Group is not able to estimate the impact of the new guidance on the classification and measurement of its financial assets and financial liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.	1 January 2018

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted by the Group (Continued)

Standards	Key requirements	Effective from financial years starting on or after
HKFRS 9 — Financial Instruments	The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group is yet to undertake a detailed assessment on potential hedge relationships upon the adoption of HKFRS 9. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKIFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.	1 January 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted by the Group (Continued)

Standards	Key requirements	Effective from financial years starting on or after
HKFRS 16 Leases	HKFRS 16 Leases will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HKD7,009 thousand, see note 28(a). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16. The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.	1 January 2019

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation of subsidiaries

A subsidiary is an entity (including a structured entity ("SE") over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances, and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the accounting policies adopted by the Group.

For combination with a company under common control, the merger accounting method will be applied. The principle of merger accounting is a way to combine companies under common control as though the business of the acquiree had always been carried out by the acquirer. The Group's consolidated financial statements represent the consolidated results, consolidated cash flows and consolidated financial position of the Group as if any such combination had occurred from the date when the Company and the acquiree first came under common control (i.e. no fair value adjustment on the date of combination is required). The difference between the consideration and carrying amount at the time of combination is recognised in equity. The effects of all transactions between the Group and the acquiree, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the Group. Comparative amounts are presented as if the acquiree had been combined at the end of the previous reporting period. The transaction costs for the combination will be expensed in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation of subsidiaries (Continued)

(a) **Subsidiary from Reorganisation**

The wholly owned subsidiary, Suzhou Huifang Tongda Information Technology Company Limited (蘇州匯方同達資訊科技有限公司), previously named as Suzhou Huifang Tongda Management Consulting Company Limited (蘇州匯方同達管理諮詢有限公司) (collectively "Huifang Tongda"), has entered a series of Contractual Agreements with Wuzhong Pawnshop, Wuzhong Pawnshop's direct equity holders namely Jiangsu Wuzhong Jiaye Investment Co., Ltd. (江蘇吳中嘉業投資有限公司) ("Wuzhong Jiaye") and Suzhou New District Hengyue Management Consulting Co., Ltd. (蘇州新區恒悦管理諮詢有限公司) ("Hengyue Consulting"), and their respective equity holders, which enables the Group to:

- exercise effective control over Wuzhong Pawnshop;
- exercise equity holders' voting rights of Wuzhong Jiaye and Hengyue Consulting during the general meetings of Wuzhong Pawnshop;
- receive a majority of the economic benefits of Wuzhong Pawnshop through service fees in consideration for the management and consulting services provided by Huifang Tongda;
- receive the residual economic benefits of Wuzhong Pawnshop by exercising an exclusive option to purchase the entire equity interest in Wuzhong Pawnshop when and to the extent permitted under PRC laws; and
- obtain a pledge over the entire equity interest of Wuzhong Jiaye and Hengyue from their respective equity holders.

The Group does not have any equity interest in Wuzhong Pawnshop. However, as a result of the Contractual Agreements, the Group controls Wuzhong Pawnshop and is considered to be the primary beneficiary of the results, assets and liabilities of Wuzhong Pawnshop. Consequently, the Company treats Wuzhong Pawnshop as an indirect subsidiary under HKFRS. The Group has included the financial position and results of Wuzhong Pawnshop in the consolidated financial statements.

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation of subsidiaries (Continued)

(b) Subsidiaries other than from Reorganisation

Except for the Reorganisation as described in Note 1, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 2.12).

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the consolidated statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition. The Group currently only holds financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss:

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss upon initial recognition.

2 Summary of significant accounting policies (Continued)

2.4 Financial assets (Continued)

(a) *Classification (Continued)*

Financial assets at fair value through profit or loss: (Continued)

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identifiable financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. The Group does not recognize any Financial assets held for trading in the consolidated statements of financial position as at 31 December 2016 and 2015.

The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to HKAS 39, the fair value option is only applied when the following conditions are met:

- the application on the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consists of debt host and an embedded derivatives that must be separated.

The Group managed and reported the risk of equity investments to the senior management on a fair value basis. Thus, the Group designated equity investments held at 31 December 2016 as at fair value through profit or loss (2015: Nil).

Financial assets for which fair value option is applied are recognized in the consolidated statement of financial position as “Financial assets designated at fair value through profit or loss”. Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in “Net gain or loss from financial instruments designated at fair value through profit or loss”.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Group’s loans and receivables mainly comprise “loans to customers” and “other receivables” in the consolidated statements of financial position. Loans and receivables are classified as current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

(b) *Recognition and measurement*

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on the trade-date, the date on which the group commits to purchase or sell the asset.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies (Continued)

2.4 Financial assets (Continued)

(b) *Recognition and measurement (Continued)*

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value by using valuation techniques. These include the use of recent arms-length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statements of comprehensive income within 'net gain or loss from financial instruments designated at fair value through profit or loss' in the period in which they arise.

Loans and receivables are initially recognised at fair value, which is the cash given to originate the loans including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Substantial modifications to the contractual terms of a renewed loan would result in derecognition of the original loan and the recognition of a new loan on the revised terms.

2.5 Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Filing of a lawsuit against the borrower.

2 Summary of significant accounting policies (Continued)

2.5 Impairment of financial assets (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statements of comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.6 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

The Group only assumed financial liabilities classified as "other financial liabilities" for the years ended 31 December 2015 and 2016.

Other financial liabilities are recognised initially at fair value net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the profit or loss over the period of the other financial liabilities using the effective interest method.

The Group's other financial liabilities mainly comprise "borrowings" and "amount due to related parties" in the consolidated statement of financial position. Other financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

The interests of interest holders of SEs within the Group's consolidation scope are classified in financial liabilities, as payments to those interests are determinable.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.8 Repossessed collateral assets

Repossessed collateral assets are accounted for as "non-current assets held for sale" and reported under "other assets" upon derecognition of relevant loans. The repossessed collateral assets are measured at lower of carrying amount and fair value less costs to sell. Foreclosed assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting period. When the fair value, less costs to sell, is lower than a foreclosed asset's carrying amount, an impairment loss is recognized in the consolidated income statement.

Any gain or loss arising on the disposal of the foreclosed asset is included in the consolidated income statement in the period in which the item is disposed.

2.9 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group of person who allocates resources to and assesses the performance of the operating segments. The Group has determined the Company's Board of Directors as its chief operating decision maker.

2 Summary of significant accounting policies (Continued)

2.10 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "other gains/(losses), net".

(c) *Group Company*

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

2 Summary of significant accounting policies (Continued)

2.11 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	3–5 years
Vehicles	5 years
Furniture and equipment	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "other gains, net" in the consolidated statement of comprehensive income.

2.12 Intangible asset

(a) Computer Software

Intangible assets comprise computer software, which are initially recognised at cost. The cost less estimated residual values (if any) of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Depreciation on Intangible asset is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Computer softwares	10 years

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.13.

2 Summary of significant accounting policies (Continued)

2.13 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 Summary of significant accounting policies (Continued)

2.14 Current and deferred income tax (Continued)

(b) *Deferred income tax (Continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Employee benefits

(a) *Pension obligations*

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made.

Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves the Group.

(b) *Other social security obligations*

The PRC employees of the Group are entitled to participate in various government-sponsored social security funds, including medical, housing and other welfare benefits. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries and the contributions are recognised in the consolidated statements of comprehensive income for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contributions payable in the reporting period.

2 Summary of significant accounting policies (Continued)

2.16 Share-based payments

(a) *Equity-settled share-based payment transactions*

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.17 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to an entity within the Group with no future related costs are recognised as income of the period in which they become receivable.

2.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2.20 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.21 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. The Group regularly reviews its risk management policies and procedures to reflect changes in markets and products.

Risk management is carried out by a Central Risk Management Department under policies approved by the Board of Directors. Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk and interest rate risk, etc.

The most important types of financial risk are credit risk, liquidity risk and market risk. Market risk primarily includes interest rate risk, foreign exchange risk and other price risk.

3.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge on obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from loans to customers in the Group's asset portfolio.

(a) Credit risk mitigation policies

The Group employs a range of policies and practices to mitigate credit risk. For lending services, the most traditional of these is the taking of specific classes of collateral from customers. The principal collateral types for loans to customers are:

- Real estate, including residential and commercial properties;
- Equity instruments, mainly equity interest in unlisted companies which are typically related to the borrowers; and
- Personal properties, including but not limited to inventory, vehicles, luxury bags, watches, precious metal and jewellery.

The Group also focuses on ascertaining legal ownership and the valuation of the real estate collaterals. A loan granted is based on the value of the collaterals, which is generally lower than the estimated value of the real estate collaterals. The Group monitors the value of the real estate collaterals throughout the loan period.

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

(a) Credit risk mitigation policies (Continued)

Further to collateral held as security for loans, the Group introduces other credit enhancement measures for equity interest backed loans, primarily third party guarantee against the security of loan repayment, taking into consideration the borrower's repayment ability, repayment records, collateral status, financial performance, leverage ratio, industry outlook and market competition, etc.

For guaranteed loans, the Group takes into consideration the third party guarantor's repayment ability, financial performance, leverage ratio and business performance, etc.

In addition to collateral-backed loans and guaranteed loans, the Group also grants unsecured loans to customers. The Group evaluates the credit status of individual customers, including the customers' business performance, financial information, repayment ability, as well as industrial outlook in which the customers operate.

Dongshan Micro-finance, a subsidiary of the Company, provides financing guarantee services to customers. Donshan Micro-finance takes into consideration the borrower's repayment ability, repayment records, collateral status, financial performance, leverage ratio, industry outlook and market competition, etc. Dongshan Micro-finance also requires a credit re-guarantee company to provide re-guarantee on the guarantee issued.

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

(b) *Impairment and provisioning policies*

Impairment provisions are recognised for financial reporting purposes only for losses that have incurred at the balance sheet date based on objective evidence of impairment.

The impairment provision shown in the consolidated statement of financial position at year end is derived from each of the three loan categories by credit type. The majority of the impairment provision is from equity interest backed pawn loans, real estate backed pawn loans, guaranteed loans and unsecured loans. The table below shows the Group's gross amount of loans to customers and the associated impairment allowances for each of the three loan categories by credit type:

	As at 31 December	
	2016	2015
Loans to customers, gross		
Collateral-backed loans	**1,525,529**	1,626,651
— Real estate backed loans	**1,089,431**	1,059,644
— Equity interest backed loans	**419,901**	553,810
— Personal property backed loans	**16,197**	13,197
Guaranteed loans	**273,729**	261,941
Unsecured loans	**485,400**	321,082
	2,284,658	2,209,674
Less: Impairment allowances		
Collateral-backed loans	**(220,585)**	(161,823)
— Real estate backed loans	**(49,317)**	(40,832)
— Equity interest backed loans	**(171,268)**	(120,991)
— Personal property backed loans	**—**	—
Guaranteed loans	**(33,342)**	(13,595)
Unsecured loans	**(6,306)**	(4,203)
	(260,233)	(179,621)
	2,024,425	2,030,053

Management determines whether objective evidence of impairment exists, based on the criteria set out by the Group in Note 2.5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

(b) *Impairment and provisioning policies (Continued)*

The Group's credit risk management policies require the review of individual outstanding guaranteed and unsecured loans and loans secured by real estate and equity interest collateral at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis. The assessment normally encompasses collateral held and the anticipated receipts for that individual account, taking into account the customer's financial standing, current ability to pay, quality and value of collateral, past experience, the financial standing of the third party guarantor, and information specific to the customer as well as pertaining to the economic environment in which the customer operates. Personal property backed loans are not individually significant so as to warrant an individual assessment.

Collectively assessed impairment allowances are provided for: (i) portfolios of outstanding loans that have been individually assessed with no objective evidence of impairment by homogenous collateral type; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

Personal property backed loans have less credit exposure as the Group physically takes possession or entrust an independent third-party to take possession of the collateral till loan repayment. For the years ended 31 December 2016 and 2015, there has been no incurred credit loss on the loans secured by personal property collateral after considering the amount recovered through repossessed assets. Consequently no collectively assessed impairment allowances were provided for loans secured by this collateral type.

Please refer to Note 19 for individually assessed and collectively assessed impairment allowances arising from equity interest backed loans, real estate backed loans, guaranteed loans and unsecured loans.

(c) *Maximum exposure to credit risk before collateral held or other credit enhancements*

	As at 31 December	
	2016	2015
Credit risk exposures relating to assets are as follows:		
Other receivables	**16,990**	13,946
Loans to customers	**2,024,425**	2,030,053
Deposit with banks	**910,919**	669,147
	2,952,334	2,713,146

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

(c) *Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)*

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2016 and 2015, without taking into account of any collateral held for or other credit enhancements attached. The exposures set out above for assets are based on net carrying amounts as reported in the consolidated statement of financial position. The Group's cash at banks are mainly deposited in large commercial banks.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loan portfolio. The Group's bank balances are mainly deposited with major commercial banks in the PRC, which management believes are of high credit quality. The Group considers the risk associated with the bank balances held at major commercial banks is insignificant.

(d) *Loans to customers*

Loans to customers are summarised as follows:

	As at 31 December	
	2016	2015
Neither past due nor impaired	**1,043,847**	1,150,290
Past due but not impaired	**880,398**	850,137
Individually impaired	**360,413**	209,247
Gross	**2,284,658**	2,209,674
Less: Impairment allowances	**(260,233)**	(179,621)
Net	**2,024,425**	2,030,053

(i) Loans to customers neither past due nor impaired

Loans to customers that are neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Personal property backed loans are included in this category as their repayments can be effected by disposal of forfeited personal property collateral, which normally carries higher values than the carrying amount of the loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

(d) Loans to customers (Continued)

(ii) Loans to customers past due but not impaired

Loans that are past due but not impaired relate to the customers which have good borrowing records with the Group. The directors believe that no individual impairment allowance is necessary in respect of these balances either because the loans are fully secured by real estate collateral with a reasonably ascertainable market value, or in the case of equity interest backed loans, guaranteed loans and unsecured loans, there has been no significant change in the customers' and third party guarantors' credit quality and the balances are considered fully recoverable. Gross amount of loans to customers that were past due but not impaired are analysed by aging as follows:

	As at 31 December	
	2016	2015
Real estate backed loans, gross		
Past due up to 1 month	**—**	317,754
Past due 1–3 months	**6,884**	21,480
Past due 4–6 months	**—**	—
Past due over 6 months	**830,407**	285,434
	837,291	624,668
Equity interest backed loans, gross		
Past due up to 1 month	**—**	180,256
Past due 1–3 months	**—**	6,126
Past due 4–6 months	**—**	—
Past due over 6 months	**7,247**	18,816
	7,247	205,198
Guaranteed loans, gross		
Past due up to 1 month	**1,335**	17,180
Past due 1–3 months	**6,230**	3,091
Past due 4–6 months	**3,000**	—
Past due over 6 months	**22,225**	—
	32,790	20,271
Unsecured loans, gross		
Past due over 6 months	**3,070**	—
	3,070	—
Past due but not impaired, total	**880,398**	850,137

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

(d) Loans to customers (Continued)

(ii) Loans to customers past due but not impaired (Continued)

The Group accepted real estate collateral at fair value of approximately RMB1,384,947 thousand for real estate backed loans that were past due but not impaired as at 31 December 2016 (2015: RMB924,460 thousand).

(iii) Loans to customers individually impaired

	As at 31 December	
	2016	2015
Gross individually impaired loans		
— Real estate backed loans	**117,131**	67,847
— Equity interest backed loans	**199,648**	117,861
— Guaranteed loans	**43,634**	23,539
	360,413	209,247
Impairment allowance made in respective of such loans		
— Real estate backed loans	**(32,780)**	(29,483)
— Equity interest backed loans	**(139,684)**	(86,866)
— Guaranteed loans	**(25,266)**	(10,769)
	(197,730)	(127,118)
Net individually impaired loans	**162,683**	82,129

(e) Concentration of risks of financial assets with credit risk exposure

The Group maintains a comprehensive client base. Loans receivable from the top five customers accounted for 29.1% of the total loans to customers as at 31 December 2016 (2015: 28.2%). Interest income from the top five customers accounted for 27.4% of total interest income for the year ended 31 December 2016 (2015: 28.9%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management (Continued)

3.3 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity investments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's exposure to market risk is primarily attributable interest rate risk arising from loans to customers, bank balances and bank borrowings. The Group has established policies and procedures for monitoring and managing market risk.

(a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The most significant interest-bearing assets and liabilities are loans to customers and bank borrowings, which both bear fixed interest rates to generate cash flows independent from market interest rates. Contractual interest rate re-pricing is matched with maturity date of each loan granted to customer, or maturity date of bank borrowings. As at respective balance sheet dates, maturity dates of loans to customers are all within 12 months, whilst maturity dates of bank borrowings are within 12 months. The Group regularly calculates the impact on profit or loss of a possible interest rate shift on its portfolio of loans to customers, bank borrowings and interest bearing bank deposits.

Based on the simulations performed and with other variables held constant, should the benchmark interest rate had been 100 basis points higher/lower, the profit before income tax would have been decreased/increased by approximately RMB2,841 thousand for the year ended 31 December 2016 (2015: decreased/increased by approximately RMB1,051 thousand), mainly as a result of higher/lower interest income on term deposits with banks and interest expense on fixed-rate bank borrowings arising from interest rate repricing.

Interest rates on interest-bearing financial assets, mainly loans to customers, are not primarily affected by the changes in the benchmark rate in the market. Instead, they are much more influenced by demand and supply as well as bilateral negotiation, which makes a quantitative sensitivity analysis based on the benchmark rate unrepresentative.

3 Financial risk management (Continued)

3.3 Market risk (Continued)

(b) *Foreign exchange risk*

The Group operates principally in the PRC. The majority of recognised assets and liabilities are denominated in RMB and the majority of transactions are settled in RMB. The Group does not hold or issue any derivative financial instruments to manage its exposure to foreign currency risk.

As at 31 December 2016, other than deposits with banks denominated in US dollar and Hong Kong dollar totaling RMB 661,953 thousand (2015: RMB607,216 thousand)(Note 21), the Group did not have significant assets or liabilities that were denominated in currencies other than RMB. Should US dollar had weakened/strengthened by 1% against RMB with all other variables held constant, the profit before income tax would have been RMB6,620 thousand (2015: RMB6,072 thousand) lower/higher for the year ended 31 December 2016, mainly as a result of foreign exchange losses/gains on translation of US dollar and Hong Kong dollar denominated balances.

3.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of cash requirements from contractual commitments. Such outflows would deplete available cash resources for customer lending. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets.

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management (Continued)

3.4 Liquidity risk (Continued)

	Repayable on demand or within 1 month	1–6 months	6–12 months	Past due	Total
As at 31 December 2016					
Cash at bank and on hand	510,169	146,580	261,255	—	918,004
Loans to customers	200,638	575,062	259,925	1,021,133	2,056,758
Total financial assets	710,807	721,642	521,180	1,021,133	2,974,762
Borrowings	(234,104)	(709,807)	(370,094)	—	(1,314,005)
Amounts due to related parties	(633)	—	—	—	(633)
Other financial liabilities	(5,763)	—	—	—	(5,763)
Total financial liabilities	(240,500)	(709,807)	(370,094)	—	(1,320,401)
Net liquidity gap	470,307	11,835	151,086	1,021,133	1,654,361
As at 31 December 2015					
Cash at bank and on hand	286,951	75,124	314,364	—	676,439
Loans to customers	58,999	693,922	393,944	908,543	2,055,408
Total financial assets	345,950	769,046	708,308	908,543	2,731,847
Borrowings	(88,629)	(655,112)	(295,980)	—	(1,039,721)
Amounts due to related parties	(684)	—	—	—	(684)
Other financial liabilities	(2,611)	—	—	—	(2,611)
Total financial liabilities	(91,924)	(655,112)	(295,980)	—	(1,043,016)
Net liquidity gap	254,026	113,934	412,328	908,543	1,688,831

Sources of liquidity are regularly reviewed by the Finance Department to ensure the availability of sufficient liquid funds to meet all obligations.

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management (Continued)

3.5 Fair value of financial assets and liabilities

The Group's financial assets and liabilities are categorised as "loans and receivables", "financial assets at fair value through profit or loss" and "other financial liabilities" respectively.

"Loans and receivables" and "other financial liabilities" are stated at amortised cost. As these financial assets and liabilities mature within one year, the carrying amounts approximate to their fair value at each balance sheet date.

Financial assets at fair value through profit or loss are equity investments held by the Group as at 31 December 2016 (2015: Nil). Management designated all equity investments held as "Financial assets designated at fair value through profit or loss".

(a) Fair value

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1	Level 2	Level 3	Total
As at 31 December 2016				
Financial assets at fair value through profit or loss				
Financial assets designated at fair value through profit or loss				
— Equity Investments	—	100,997	—	100,997

There were no transfers between level 1 and level 2 financial assets during the year.

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These equity investments are included in level 1.

3 Financial risk management (Continued)

3.5 Fair value of financial assets and liabilities (Continued)

(a) Fair value (Continued)

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There was no level 3 financial instruments for the year ended 31 December 2016 (2015: same).

3.6 Capital risk management

The Groups objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the development of its business, and to support the Group's stability and growth. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The liquid capital is monitored regularly by the Finance Department. The Group monitors capital risk on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as bank borrowings balance net of cash and cash equivalent balance. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position plus net debt.

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management (Continued)

3.6 Capital risk management (Continued)

The Group's strategy is to maintain the gearing ratio below 50% and meet the compliance requirements of Wuzhong Pawnshop on aggregate amount of loans to customers at all times. The gearing ratio as at 31 December 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
Borrowings *(Note 26)*	**1,288,306**	950,572
Less: Cash and cash equivalents *(Note 21)*	**(191,216)**	(65,946)
Net debt	**1,097,090**	884,626
Total equity	**1,800,138**	1,766,821
Total capital	**2,897,228**	2,651,447
Gearing ratio	**38%**	33%

4 Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group's consolidated financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgment which necessarily have to be made in the course of preparation of the consolidated financial statements.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial situation due to their materiality in amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

4 Critical Accounting Estimates and Judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(a) *Impairment allowances on loans to customers*

The Group reviews its loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) *Income taxes*

The Group is subject to income taxes in a number of jurisdictions. Significant judgment is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) *Consolidated SEs*

The Group has consolidated loans facilitated certain SEs involving raising funds from various investors and granting loans through Suzhou Qian Dai ("蘇州錢袋"), which are guaranteed by Dongshan Micro-finance. When assessing whether to consolidate those SEs, the Group takes into consideration of all facts and circumstances of whether the Group, as the loan facilitator and guarantor, is acting as agent or principle. These factors considered mainly include: (a) power over the loan generating process; (b) exposure, or rights, to variable returns from involvement with the loans; and (c) the ability to use power over the borrowers to affect the amount of lenders' returns. The Group reassesses whether or not it controls an loan if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

4 Critical Accounting Estimates and Judgements (Continued)

4.2 Critical judgements in applying the company's accounting policies

(a) *Contractual Agreements*

Under the relevant rules and regulations prevailing in the PRC, wholly foreign-owned enterprises are not allowed to operate pawn-loan business in China. The current registered equity holders of Wuzhong Pawnshop are Wuzhong Jiaye and Hengyue Consulting. As described in Note 2.2.1 above, the Group's wholly owned subsidiary Huifang Tongda entered into a series of Contractual Agreements with Wuzhong Pawnshop, Wuzhong Jiaye, Hengyue Consulting and the equity holders of Wuzhong Jiaye and Hengyue Consulting. Such Contractual Agreements include: (i) a proxy agreement where Wuzhong Jiaye and Hengyue Consulting have irrevocably and unconditionally undertaken to authorise Huifang Tongda to exercise their shareholders' rights under the articles of association of the Wuzhong Pawnshop and applicable PRC laws and regulations; (ii) an exclusive management and consultation service agreement pursuant to which Wuzhong Pawnshop engaged Huifang Tongda on an exclusive basis to provide consultation and other ancillary services, and in return Wuzhong Pawnshop agreed to pay Huifang Tongda the consultancy service fee; (iii) exclusive call option agreement pursuant to which Wuzhong Jiaye and Hengyue Consulting irrevocably and unconditionally granted Huifang Tongda an option to acquire the entire equity interest held by Wuzhong Jiaye and Hengyue Consulting in the Wuzhong Pawnshop and/or all assets of the Wuzhong Pawnshop at a price equivalent to the minimum amount as may be permitted by applicable PRC laws and regulations; and (iv) equity pledge agreement pursuant to which the Ultimate Shareholders granted first priority security interests over their respective equity interests in Wuzhong Jiaye and Hengyue Consulting to Huifang Tongda for guaranteeing the performance of the above the proxy agreement, exclusive management and consultation service agreement, and the exclusive call option agreement. Pursuant to these agreements and undertakings, notwithstanding the fact that the Group does not hold direct equity interest in Wuzhong Pawnshop, management considers that the Group has power over the financial and operating policies of Wuzhong Pawnshop and receive a majority of the economic benefits from its business activities. Accordingly, Wuzhong Pawnshop has been treated as an indirect subsidiary of the Company.

5 Segment Information

The Company's Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

The Board of Directors considers the business from both a geographic and product perspective. Geographically, the Group only provides lending services in the PRC. From a product perspective, the Group principally engaged in lending services through granting collateral-backed loans, guaranteed loans and unsecured loans to customers.

The Group managed its business under one operating and reportable segment in accordance with the definition of a reportable segment under HKFRS 8 for the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

6 Interest Income

	Year ended 31 December	
	2016	2015
Interest income from loans to customers		
Collateral backed loans		
— *Real estate backed loans*	**87,167**	175,070
— *Equity interest backed loans*	**53,331**	122,704
— *Personal property backed loans*	**13,686**	13,917
Guaranteed loans	**34,697**	17,631
Unsecured loans	**48,745**	29,577
Interest income from bank deposits	**10,708**	16,637
	248,334	375,536

Interest income from loans to customers represents all fees received from customers that are an integral part of the effective interest rate, including interest income and administration fee income.

7 Interest Expense

	Year ended 31 December	
	2016	2015
Interest expense on bank borrowings	**44,703**	52,901
Other interest expenses *(Note 26)*	**20,936**	1,754
	65,639	54,655

8 Net Loss from Financial Instruments Designated at Fair Value Through Profit or Loss

	As at 31 December	
	2016	2015
Fair value losses — unlisted equity securities	**(6,909)**	—
Fair value gains — listed equity securities	**6,447**	—
	(462)	—

As at 31 December 2016, net loss arising on financial instruments designated at fair value through profit or loss are fair value change from financial instruments designated at fair value (2015: Nil) (Note 20).

(All amounts in RMB thousands unless otherwise stated)

9 Other Operating Income

	Year ended 31 December	
	2016	2015
Consultancy fee income — Suzhou Qian Dai (a)	**4,136**	775
Net gains from disposal of repossessed assets	**1,298**	1,615
Guarantee fee income — Dongshan Micro-finance	**146**	63
Others	**3**	—
	5,583	2,453

(a) The Group launched Suzhou Qian Dai, an internet finance platform, in February 2015, to act as an intermedia agent between borrowers and lenders to earn consultancy fee income. Suzhou Qian Dai charges a fixed consultancy fee at rates ranging from 1.5% to 8.6% per annum to the borrowers (2015: 0.2% to 5.0%).

10 Administrative Expenses

	Year ended 31 December	
	2016	2015
Employee benefit expenses *(Note 11)*	**28,950**	17,259
Advertising costs	**7,586**	2,137
Operating lease payments	**4,342**	3,439
Business tax and surcharges (a)	**4,064**	19,797
Transportation, meal and accommodation	**4,048**	4,592
Depreciation and amortisation	**1,023**	1,113
Professional and consultancy fees	**3,697**	3,396
Telephone, utilities and office expenses	**2,406**	2,430
Value-added tax and surcharges (b)	**1,787**	7,955
Auditors' remuneration		
— Audit services	**2,192**	3,800
— Non-audit services	**—**	—
Commission fee	**1,366**	168
Other expenses	**2,537**	1,494
	63,998	67,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

10 Administrative Expenses (Continued)

(a) The Group's lending businesses are subject to business tax and surcharges before 1 May 2016. Business tax was levied at 5% of interest income from loans to customers, while surcharges are 12% of business tax payable. Starting from 1 May 2016, interest income on loans to customers of the Group is subject to value-added tax at 6% while surcharges are 12% of value-added tax payable.

(b) As at 31 December 2016, under the Exclusive Management and Consultation Service Agreement, Wuzhong Pawnshop has engaged Huifang Tongda on an exclusive basis to provide consultation and other ancillary services. Such consultancy service fee income is subject to output value-added tax at 6% while surcharges are 12% of value-added tax payable (2015: same).

11 Employee Benefit Expenses

	Year ended 31 December	
	2016	2015
Wages and salaries	**12,806**	9,793
Discretionary bonuses	**10,054**	9,072
Other social security obligations	**2,028**	1,822
Pension	**1,455**	1,343
Share-based payments *(Note 23(b))*	**2,607**	(4,771)
	28,950	17,259

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three executive directors for the year ended of December 2016 (2015: same), whose emoluments are reflected in the analysis presented in Note 31. The emoluments payable to the remaining two individuals for the year ended 31 December 2016 (2015: two) are as follows:

	Year ended 31 December	
	2016	2015
Basic salaries	**565**	321
Discretionary bonuses	**1,029**	834
Pension	**44**	48
Other social security obligations	**57**	20
Share-based payment	**205**	(344)
	1,900	879

(All amounts in RMB thousands unless otherwise stated)

11 Employee Benefit Expenses (Continued)

(a) Five highest paid individuals (Continued)

The emoluments to the two individuals fell within the following bands:

	Number of employee Year ended 31 December	
	2016	2015
Emoluments band		
Nil — HK$1,000,000	**2**	2

For the years ended 31 December 2016 and 2015, no director or any of the five highest paid individuals received any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

12 Other Gains, Net

	Year ended 31 December	
	2016	2015
Net foreign currency gains	**42,217**	34,517
Government grants	**3,552**	3,609
Others	**—**	159
	45,769	38,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

13 Subsidiaries

(i) The following is a list of the principal subsidiaries at 31 December 2016:

Name of subsidiary	Country/ place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Interest directly held	Interest indirectly held	Principal activities	*Note*
Sifang Investment Limited	BVI	22 November 2011	Limited company	1 share of US$1	100%	–	investment holding	*(a)*
Tongda Investment Limited	BVI	22 November 2011	Limited company	1 share of US$1	–	100%	investment holding	*(a)*
Rongda Investment Limited ("Rongda Investment")	Hong Kong	05 December 2011	Limited company	1 share of US$1	–	100%	investment holding	*(a)*
Huifang Investment Limited ("Huifang Investment")	Hong Kong	05 December 2011	Limited company	1 share of US$1	–	100%	investment holding	*(a)*
Suzhou Huifang Technology Company Limited ("Huifang Technology")	The PRC	29 December 2011	Limited company	US$96,100,000 /US$98,100,000	–	100%	management and marketing consulting	*(b)*
Suzhou Huifang Tongda Information Technology Company Limited ("Huifang Tongda")	The PRC	10 February 2012	Limited company	RMB105,000,000	–	100%	management and marketing consulting	*(c)*
Suzhou Huifang Rongda Internet Technology Company Limited ("Huifang Rongda")	The PRC	8 May 2015	Limited company	RMB3,000,000	–	100%	management and marketing consulting	*(d)*
Suzhou Wuzhong Pawnshop Co., Ltd. ("Wuzhong Pawnshop")	The PRC	21 December 1999	Limited company	RMB1,000,000,000	–	100%	pawnshop services	*(e)*
Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. ("Dongshan Micro-finance")	The PRC	26 December 2012	Limited company	RMB300,000,000	40%	–	Micro-financing and guarantee services	*(f)*
Suzhou Huida Commercial Factoring Company Limited ("Huida Factoring")	The PRC	30 May 2016	Limited company	RMB50,000,000	100%	–	Factoring services	*(g)*

13 Subsidiaries (Continued)

(i) (Continued)

(a) Statutory financial statements of Huifang Investment for the year ended 31 December 2015 were audited by FTW& Partners CPA Co., Ltd for tax filling with Hong Kong Inland Revenue Department. Statutory financial statements for the year ended 31 December 2016 were not audited.

Except for the PRC and Hong Kong companies, no statutory financial statements were prepared for other subsidiaries as they were not required to issue audited financial statements under the respective local statutory requirements.

(b) Statutory financial statements of Suzhou Huifang Technology Company Limited (蘇州匯方科技有限公司), previously named as Suzhou Huifang Management Consulting Company Limited (蘇州匯方管理諮詢有限公司) (collectively "Huifang Technology") for the years ended 31 December 2016 and 2015 were audited by Suzhou Changcheng CPA Co., Ltd.

(c) Statutory financial statements of Suzhou Huifang Tongda Information Technology Company Limited (蘇州匯方同達資訊科技有限公司), previously named as Suzhou Huifang Tongda Management Consulting Company Limited (蘇州匯方同達管理諮詢有限公司) (collectively "Huifang Tongda") for the years ended 31 December 2016 and 2015 were audited by PricewaterhouseCoopers Zhong Tian LLP.

(d) Statutory financial statements of Suzhou Huifang Rongda Internet Technology Company Limited (蘇州匯方融達網路科技有限公司), ("Huifang Rongda") for the years ended 31 December 2016 and 2015 were audited by Suzhou Changcheng CPA Co., Ltd.

(e) Although the Group does not have any equity interest in Wuzhong Pawnshop, the Group effectively controls Wuzhong Pawnshop as Huifang Tongda has the power to govern the financial and operating policies of Wuzhong Pawnshop so as to derive benefits from its business activities.

(f) Although the Group owns less than half of the equity interests in Dongshan Micro-finance, it is able to take up the majority of the voting rights in Dongshan Micro-finance's shareholders' meeting. Consequently, the Group consolidates Dongshan Micro-finance. Statutory financial statements of Dongshan Micro-finance for the years ended 31 December 2015 and 2016 were audited by Suzhou Deheng CPA Co., Ltd.

(g) Statutory financial statements of Huida Factoring for the years ended 31 December 2016 were audited by Suzhou Changcheng CPA Co., Ltd.

(All amounts in RMB thousands unless otherwise stated)

13 Subsidiaries (Continued)

(ii) Material non-controlling interests

The total non-controlling interest as at 31 December 2016 is RMB 204,708 thousand (2015: RMB214,076 thousand), of which is all attributed to Dongshan Micro-finance.

Summarised financial information on subsidiaries with material non-controlling interests

On 1 July 2015, the Group acquired 40% of the share capital of Dongshan Micro-finance. After the completion of the acquisition, the Group then own 40% of the equity interests in Dongshan Micro-finance. Pursuant to the purchase agreement, the Group took up the majority of the board seats of Dongshan Micro-finance. The Group also signed "Concerted Action Agreement" with two minority shareholders who hold 20% of equity interests in total in Dongshan Micro-finance and thus obtained majority voting rights in Dongshan Micro-finance's shareholders' meeting. Thus the financial results of Dongshan Micro-finance are consolidated and accounted for as a subsidiary of the Group upon completion of the acquisition.

Set out below are the summarised financial information for Dongshan Micro-finance, that has material non-controlling interests to the group.

Summarised balance sheet:

	Dongshan Micro-finance	
	2016	2015
Current		
Assets	**343,003**	421,726
Liabilities	**12,818**	80,625
Total current net assets	**330,185**	341,101
Non-current		
Assets	**9,791**	4,475
Liabilities	**—**	—
Total non-current net assets	**9,791**	4,475
Net assets	**339,976**	345,576

(All amounts in RMB thousands unless otherwise stated)

13 Subsidiaries (Continued)

(ii) Material non-controlling interests (Continued)

Summarised income statement:

	Dongshan Micro-finance	
	2016	2015
Interest Income	**47,903**	28,858
Other income and expenses	**(22,543)**	(8,846)
Profit before income tax	**25,360**	20,012
Income tax expense	**(960)**	(3,187)
Total comprehensive income	**24,400**	16,825
Total comprehensive income allocated to Non-Controlling Interests	**14,640**	10,095
Dividends paid to Non-Controlling Interests(a)	**24,008**	—

(a) A total dividend of RMB30,000 thousand in respect of the year ended 31 December 2015 was approved by the Board of Directors of Dongshan Micro-finance on 24 January 2016. The amount paid to non-controlling interests was RMB24,008 thousand.

Summarised cash flows:

	Dongshan Micro-finance	
	2016	2015
Cash flows from operating activities		
Cash generated from operations	**154,926**	10,015
Interest paid	**(29,390)**	(5,356)
Income tax paid	**(10,084)**	5,080
Net cash generated from operating activities	**115,452**	9,739
Net cash used in investing activities	**—**	—
Net cash used in financing activities	**(71,000)**	(6,500)
Net increase in cash and cash equivalents	**44,452**	3,239
Cash and cash equivalents at end of year	**50,811**	6,359

The information above is the amount before inter-company eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

14 Income Tax Expense

	Year ended 31 December	
	2016	2015
Current income tax	**36,405**	72,581
Deferred income tax	**(28,146)**	(30,976)
	8,259	41,605

The difference between the actual income tax charge in the consolidated statements of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2016	2015
Profit before income tax	**62,977**	151,119
Tax calculated at domestic tax rates applicable to profits in the respective areas	**16,359**	38,028
Tax effect of:		
— Expenses not deductible for tax purposes	**834**	(121)
— Effect of different tax rates in countries in which the entity operates	**(668)**	—
— PRC withholding tax (a)	**(2,913)**	2,823
— Adjustment in respect of prior years (b)	**(5,353)**	875
Tax charge	**8,259**	41,605

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Enterprises incorporated in the British Virgin Islands are not subject to any income tax according to relevant rules and regulations.

The applicable Hong Kong profits tax rate is 16.5% on the assessable profits earned or derived in Hong Kong for the year ended 31 December 2016.

According to the Corporate Income Tax Law of the PRC (the “CIT Law”), the income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable corporate tax rate of 25% on the estimated assessable profits based on existing legislations, interpretations and practices.

14 Income Tax Expense (Continued)

(a) Pursuant to the CIT Law, a 10% withholding tax is levied on the dividends declared by the foreign investment enterprise established in Mainland China to its immediate holding company incorporated outside Mainland China. The Group controls the dividend policies of its PRC subsidiaries and accrued for PRC withholding tax in 2015.

Pursuant to the Board Meeting of the Company held on 23 March 2016, no dividends with respect of 2015 is declared by the Company. Therefore, the Group reversed the PRC withholding tax accrued for 2015.

(b) Adjustment in respect of prior years is mainly consisted of the difference between income tax outcome and estimated income tax of Dongshan Micro-finance. As stipulated by local tax bureau, Dongshan Micro-finance was eligible for a preferential income tax rate of 12.5%, lower than that of 25% originally applied by the Group in calculating the income tax in prior year.

15 Earnings Per Share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit of the Group attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	**40,078**	101,886
Weighted average number of ordinary shares in issue (in thousands)	**1,025,237**	1,025,237
Basic earnings per share (RMB)	**0.04**	0.10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

15 Earnings Per Share (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share options under share-based payment scheme (Note 23(b)). For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	**40,078**	101,886
Weighted average number of ordinary shares in issue (in thousands)	**1,025,237**	1,025,237
Adjustments for:		
— Share options (in thousands)	**37,971**	—
Dilutive earnings per share (RMB)	**0.04**	0.10

16 Dividends

No annual dividends in respect of the year ended 31 December 2016 is to be declared by the Board of Directors by the release date of this financial statement.

(All amounts in RMB thousands unless otherwise stated)

17 Deferred Income Tax

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

	Impairment charge on loans to customers	Net loss from financial instruments designated at fair value through profit or loss	Recoverable tax losses	Share-based payments	Total
Deferred income tax assets					
At 1 January 2016	46,514	—	747	—	47,261
Credited to the consolidated statements of comprehensive income	22,621	116	2,115	381	25,233
At 31 December 2016	69,135	116	2,862	381	72,494
At 1 January 2015	10,049	—	90	—	10,139
Acquisition of subsidiaries	3,323	—	—	—	3,323
Credited to the consolidated statements of comprehensive income	33,142	—	657	—	33,799
At 31 December 2015	46,514	—	747	—	47,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

17 Deferred Income Tax (Continued)

	PRC withholding tax *(Note 14)*	Total
Deferred income tax liabilities		
At 1 January 2016	2,913	2,913
Utilization of withholding tax	(2,913)	(2,913)
At 31 December 2016	—	—
At 1 January 2015	5,202	5,202
Charged to the consolidated statements of comprehensive income	2,823	2,823
Utilization of withholding tax	(5,112)	(5,112)
At 31 December 2015	2,913	2,913

As at 31 December 2016, no deferred income tax liabilities have been recognised for the PRC withholding tax which would be paid upon remittance (2015: RMB2,913 thousand).

As at 31 December 2016, it is estimated that deferred income tax liabilities will be reversed within one year (2015: same) while deferred income tax assets will be reversed over one year (2015: within one year).

18 Other Assets

	As at 31 December	
	2016	2015
Interest receivable from bank deposits	**6,144**	7,762
Repossessed assets — Personal properties	**5,667**	5,930
Other receivables	**10,846**	6,184
	22,657	19,876

(All amounts in RMB thousands unless otherwise stated)

19 Loans to Customers

	As at 31 December	
	2016	2015
Loans to customers, gross		
Collateral backed loans	**1,525,529**	1,626,651
— *Real estate backed loans*	**1,089,431**	1,059,644
— *Equity interest backed loans*	**419,901**	553,810
— *Personal property backed loans*	**16,197**	13,197
Guaranteed loans	**273,729**	261,941
Unsecured loans	**485,400**	321,082
	2,284,658	2,209,674
Less: Impairment allowances		
— Individually assessed	**(197,730)**	(127,118)
— Collectively assessed	**(62,503)**	(52,503)
	(260,233)	(179,621)
Loans to customers, net	**2,024,425**	2,030,053

Loans to customers arise from the Group's lending services. The loan periods granted to customers are within one year. The real estate backed and equity interest backed loans provided to customers bear fixed interest rates ranging from 12.00% to 36.72% per annum in the year ended 31 December 2016 (2015: from 12.00% to 37.99%).

Guaranteed loans granted to customers bear fixed interest rates from 8.04% to 18% per annum in the year ended 31 December 2016 (2015: from 7.8% to 18%).

Unsecured loans granted to customers bear fixed interest rates from 6% to 18% per annum in the year ended 31 December 2016 (2015: same).

Loans to customers are all denominated in RMB. The impairment allowances are related to loans secured by equity interest backed loans, real estate backed loans, guaranteed loans and unsecured loans (Note 3.2(b)).

As at 31 December 2016, renewed loans amounted to RMB109,980 thousand (2015: RMB64,480 thousand), all are real estate backed pawn loans (2015: same). No renewed loans had substantially modified their original contractual terms for the year ended 31 December 2016 (2015: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

19 Loans to Customers (Continued)

(a) Aging analysis of loans to customers

The aging of the loans to customers are calculated starting from the original granting date without considering the subsequent renewal of the loans. The aging analysis of loans to customers net of impairment allowances are set out below:

	As at 31 December	
	2016	2015
Within 3 months	**713,123**	604,184
3–6months	**188,504**	131,067
6–12 months	**93,313**	846,798
12–24 months	**615,558**	268,672
Over 24 months	**413,927**	179,332
	2,024,425	2,030,053

(b) Reconciliation of allowance account for losses on loans to customers

		2016	
	Individually assessed	**Collectively assessed**	**Total**
At beginning of year	**127,118**	**52,503**	**179,621**
Impairment losses recognised	**104,446**	**44,981**	**149,427**
Net write back of loan provision	**(19,510)**	**(23,307)**	**(42,817)**
Unwind of discount on allowances during the period	**(25,998)**	**—**	**(25,998)**
Other transfer in	**11,674**	**(11,674)**	**—**
At end of year	**197,730**	**62,503**	**260,233**

		2015	
	Individually assessed	Collectively assessed	Total
At beginning of year	19,633	20,563	40,196
Acquire of subsidiaries	13,535	3,789	17,324
Impairment losses recognised	93,291	59,072	152,363
Net write back of loan provision	(332)	(9,111)	(9,443)
Loans written off as un-collectible	(20,819)	—	(20,819)
Other transfer in	21,810	(21,810)	—
At end of year	127,118	52,503	179,621

(All amounts in RMB thousands unless otherwise stated)

19 Loans to Customers (Continued)

(c) Net charge of impairment allowance on loans to customers

	Year ended 31 December	
	2016	2015
Net charge of impairment allowance		
Individually assessed	**84,936**	92,959
Collectively assessed	**21,674**	49,961
	106,610	142,920

20 Financial Assets Designated at Fair Value through Profit or Loss

	Year ended 31 December	
	2016	2015
Financial assets designated at fair value are analysed by issuers as follows:		
Listed — Public sector entities	**66,447**	—
Unlisted entities	**34,550**	—
	100,997	—

The above equity investments are managed and their performance are evaluated on a fair value basis in accordance with a documented risk management strategy, and where information about the equity investments are reported to the senior management on a fair value basis.

Changes in fair value of the above equity investments are recorded in "Net loss from financial instruments designated at fair value through profit or loss" in the consolidated statement of comprehensive income (Note 8).

The fair value of equity investments in public sector entities is based on the current bid price as at 31 December 2016.

The fair value of equity investments in unlisted entities is based on valuation techniques that maximize the use of observable market data.

Listed equity securities with fair value of RMB49,835 thousand have been pledged with a securities company to secure borrowings with principal amount of RMB20,200 thousand from the securities company (2015: Nil) (Note 26(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

21 Cash at Bank and on Hand

	As at 31 December	
	2016	2015
Cash on hand	**1,430**	1,400
Demand deposits with banks	**189,786**	64,546
Term deposits with banks with original maturities over 3 months	**721,133**	604,601
	912,349	670,547

Cash at bank and on hand were denominated in the following currencies:

	As at 31 December	
	2016	2015
RMB	**250,396**	63,250
US dollar	**661,231**	607,219
Hong Kong dollar	**722**	78
	912,349	670,547

Cash and cash equivalents of the Group were determined as follows:

	As at 31 December	
	2016	2015
Cash at bank and on hand	**912,349**	670,547
Less: Unrestricted term deposits with banks with original maturities over 3 months	**(327,123)**	(294,721)
Restricted term deposits pledged with banks	**(394,010)**	(309,880)
	191,216	65,946

As at 31 December 2016, restricted term deposits of US$48,149 thousand (2015: US$47,721 thousand), which is equivalent to approximately RMB334,010 thousand (2015: approximately RMB309,880 thousand), were pledged with banks to secure bank borrowings with principal amount of RMB290,000 thousand (2015: RMB267,000 thousand) (Note 26).

As at 31 December 2016, restricted term deposits of RMB60,000 thousand (2015: Nil) were pledged with banks to secure bank borrowings with principal amount of RMB57,000 thousand (2015: Nil) (Note 26).

(All amounts in RMB thousands unless otherwise stated)

22 Share Capital

	Number of shares	Ordinary shares HK$	Ordinary shares RMB
Issued and fully paid:			
As at 31 December 2016 and 31 December 2015	1,025,237,000	HK$10,252,370	8,111,008

23 Share Premium and Other Reserves

		Other reserves				
	Share premium	Capital reserve	Statutory reserve	General reserve	Share-based payments reserve	Total
At 1 January 2016	548,237	500,000	73,902	4,417	—	1,126,556
Appropriation to reserves (a)	—	—	3,813	—	—	3,813
Share-based payments (b)	—	—	—	—	2,607	2,607
At 31 December 2016	548,237	500,000	77,715	4,417	2,607	1,132,976
At 1 January 2015	592,720	500,000	51,942	—	4,771	1,149,433
Appropriation to reserves (a)	—	—	18,797	442	—	19,239
Share-based payments	—	—	—	—	(4,771)	(4,771)
Non-controlling interests arising on business combination	—	—	3,163	3,975	—	7,138
Distribution of dividend relating to 2014	(44,483)	—	—	—	—	(44,483)
At 31 December 2015	548,237	500,000	73,902	4,417	—	1,126,556

23 Share Premium and Other Reserves (Continued)

(a) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC comprising the Group (the “PRC Subsidiaries”), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years’ losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years’ losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

(b) Share-based payments — Value of employee services

The grant of share options to enable eligible participants as incentives or rewards for their contribution or potential contribution to the Group was approved on 13 September 2016. Under the share option scheme, the Company granted 50,000,000 share options to directors and selected employees on 13 September 2016 with an exercise price of HK$0.62 per share. Options are conditional on the employee completing one or two years’ service (the vesting period). The options become exercisable starting one or two years from the grant date, subject to whether the Group achieved 60% or above of the target profit attributable to equity holders of the Company approved by the Board of Directors in 2016 and 2017 separately, or whether the Group achieved 60% or above of the cumulative target profit attributable to equity holders of the Company approved by the Board of Directors in 2016 and 2017 together. The options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

	2016	
	Average exercise price in HK$ per share option	**Number of share options** (thousands)
At 1 January	—	—
Granted	0.62	50,000
	0.62	50,000

(All amounts in RMB thousands unless otherwise stated)

23 Share Premium and Other Reserves (Continued)

(b) Share-based payments — Value of employee services (Continued)

Share options outstanding at the end of the year will expire on 12 September 2018.

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was HK$0.82 per option (2015: Nil). The significant inputs into the model were weighted average share price of HK$0.62 (2015: Nil) at the grant date, exercise price shown above, volatility of 51.79% (2015: Nil), no dividend yield(2015: same), an expected option life of five years, and an annual risk-free interest rate of 0.66% (2015: Nil). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices from the listing date. Employee benefit expense of RMB2,607 thousand (2015: Nil) was recognised for share options granted to directors and employees for the year ended 31 December 2016.

24 Retained Earnings

At 1 January 2016	418,078
Profit for the year	40,078
Appropriation to statutory reserves (Note23(a))	(3,813)
At 31 December 2016	454,343
At 1 January 2015	342,569
Profit for the year	101,886
Non-controlling interests arising on business combination	(7,138)
Appropriation to statutory reserves (Note23(a))	(19,239)
At 31 December 2015	418,078

(All amounts in RMB thousands unless otherwise stated)

25 Other Liabilities

	As at 31 December	
	2016	2015
Accrued employee benefits	**10,088**	11,431
Turnover tax and other tax payable	**891**	1,963
Accrued expenses	**—**	10
Other financial liabilities	**5,763**	2,611
	16,742	16,015

As at 31 December 2016, the Group's other financial liabilities were non-interest bearing. The fair value approximates their carrying amounts due to their short maturities (2015: same).

26 Borrowings

	As at 31 December	
	2016	2015
Bank borrowings (a)	**888,422**	859,442
Interests of holders of consolidated SEs — Suzhou Qian Dai (b)	**379,635**	63,382
Borrowings from securities company (c)	**20,249**	—
SME bonds issued	**—**	27,748
	1,288,306	950,572

26 Borrowings (Continued)

(a) Bank borrowings are with maturity within one year and bear fixed interest rates ranging from 4.35% to 6.20% per annum in the year ended 31 December 2016 (2015: 4.35% to 6.50%).

As at 31 December 2016, bank borrowings with principal amount of RMB290,000 thousand (31 December 2015: RMB267,000 thousand) were secured by restricted term deposits of US$48,149 thousand (31 December 2015: US$47,721 thousand) (Note 21).

As at 31 December 2016, bank borrowings with principal amount of RMB57,000 thousand were secured by restricted term deposits of RMB60,000 thousand (2015: Nil) (Note 21).

As at 31 December 2016, bank borrowings with principal amount of RMB370,000 thousand (2015: same) were guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (Note 29(b)). As at 31 December 2016, bank borrowings with principal amount of RMB50,000 thousand are guaranteed by Jiangsu Wuzhong Group Co. Ltd (2015: RMB60,000 thousand). As at 31 December 2016, bank borrowings with principal amount of RMB120,000 thousand are guaranteed by Huifang Technology (2015: same).

The fair values of bank borrowings approximate their carrying amounts as the discounting impact is not significant.

The Group's borrowings are denominated in RMB.

As at 31 December 2016, the Group had no undrawn borrowing facilities (2015: same).

(b) As at 31 December 2016, interests of holders of consolidated SEs are borrowings from individual investors through the internet financing platform of Suzhou Qian Dai.

As at 31 December 2016, the loans funded by the above borrowings through Suzhou Qian Dai and guaranteed by Dongshan Micro-finance were consolidated by the Group. The consolidated loans and interest receivables was amounted to RMB 375,198 thousand (2015:RMB62,886 thousand).

(c) As at 31 December 2016, borrowings from a securities company with principal amount of RMB20,200 thousand are pledged by listed equity investment held by the Group (2015: Nil) (Note 20).

27 Contingencies

As at 31 December 2016, the Group did not have any significant contingent liabilities (2015: Dongshan Micro-finance had guarantees commitments of RMB1,060 thousand (Note 28(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

28 Commitments

(a) Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016	2015
No later than 1 year	**3,443**	3,354
Later than 1 year and no later than 5 years	**3,535**	4,956
Later than 5 years	**31**	—
	7,009	8,310

(b) Capital commitments

	As at 31 December	
	2016	2015
Suzhou Dang Tian Xia Technology Company Limited (a)	**5,000**	—
Suzhou Huifang Sihai Regulation Company Limited (b)	**1,000**	—
	6,000	—

(a) The Group set up a new 100% owned legal entity Suzhou Dang Tian Xia Technology Company Limited (蘇州當天下網路科技有限公司) ("Dang Tian Xia") on 17 June 2016. The registered capital is RMB5,000 thousand and has not been paid up by the Group as at 31 December 2016.

(b) The Group set up a new 100% owned legal entity Suzhou Huifang Sihai Regulation Company Limited (蘇州匯方四海調劑有限公司) ("Huifang Sihai") on 30 November 2016. The registered capital is RMB1,000 thousand and has not been paid up by the Group as at 31 December 2016.

28 Commitments (Continued)

(c) Guarantees commitments

	As at 31 December	
	2016	2015
Guarantees	–	1,060

29 Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or excise significant influence over the other party in making financial and operating decisions of the Group. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member are also considered as related parties.

(a) Name and relationship with related parties

Names of related parties	**Nature of relationship**
Wuzhong Jiaye	Direct equity holder of Wuzhong Pawnshop
Wuzhong Group	Controlling shareholder of Wuzhong Jiaye before Reorganisation
Jiangsu Wuzhong Real Estate Group Co., Ltd. (江蘇吳中地產集團有限公司) ("Wuzhong Real Estate")	A related party controlled by Wuzhong Group
Wuzhong America Services for Cultural Education and Communication Ltd ("Wuzhong America")	A related party controlled by Wuzhong Group
BVI companies wholly owned by each of the Ultimate Shareholders ("BVI entities owned by the Ultimate Shareholders")	Related parties controlled by each of the Ultimate shareholders
Tricor Services Limited ("卓佳專業商務有限公司") ("Tricor")	Company Secretary

(All amounts in RMB thousands unless otherwise stated)

29 Related Party Transactions (Continued)

(b) Significant transactions with related parties

The Group had the following significant transactions with related parties:

	Year ended 31 December	
	2016	2015
Office rental paid to Wuzhong Real Estate by the Group	**797**	1,144
Bank borrowings guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (in principal amount at year-end) *(Note 26(a))*	**370,000**	370,000
Bank borrowings guaranteed by Wuzhong Group (in principal amount at year-end) *(Note 26(a))*	**50,000**	60,000
Interest expenses paid to Directors and key management on P2P platform	**419**	—
The acquisition of Dongshan Micro-finance from Wuzhong Jiaye	**—**	126,415

(c) Balances with related parties

	As at 31 December	
	2016	2015
Amounts due to related parties		
Due to BVI entities owned by the Ultimate Shareholders	**633**	633

Balances with related parties were interest-free.

	As at 31 December	
	2016	2015
Borrowings provided by Directors and key management on P2P platform	**4,204**	—

(All amounts in RMB thousands unless otherwise stated)

29 Related Party Transactions (Continued)

(d) Key management compensation

Key management comprises six members including the executive directors, the vice president, the assistant to the president and the risk control director. The compensation paid or payable to key management for employee services is shown below:

	As at 31 December	
	2016	2015
Basic salaries	**2,369**	2,035
Discretionary bonuses	**2,938**	2,599
Pension and other social security obligations	**325**	356
Share based payments	**906**	(1,915)
	6,538	3,075

(e) Key management personnel services provided by management entity

For the year ended 31 December 2016, the Group paid RMB73 thousand to Tricor Services Limited for the company secretary services (2015: RMB70 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

30 Balance Sheet and Reserve Movement of the Company

	As at 31 December	
	2016	2015
ASSETS		
Non-current assets		
Investments in subsidiaries	**357,492**	357,492
Current assets		
Amounts due from related parties	**585,523**	588,088
Cash at bank and on hand	**209**	159
	585,732	588,247
Total assets	**943,224**	945,739
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the Company		
Share capital	**8,111**	8,111
Share premium	**950,210**	950,210
Other reserves	**1,081**	—
Accumulated losses	**(26,917)**	(23,259)
Total equity	**932,485**	935,062
Liabilities		
Current liabilities		
Amounts due to related parties	**9,272**	9,121
Other liabilities	**1,467**	1,556
Total liabilities	**10,739**	10,677
Total equity and liabilities	**943,224**	945,739

The balance sheet of the Company was approved by the Board of Directors on 17 March 2017 and was signed on its behalf.

Chen, Yannan
Director

Wu, Min
Director

(All amounts in RMB thousands unless otherwise stated)

30 Balance Sheet and Reserve Movement of the Company (Continued)

	Share Premium	Other Reserves	Retained earnings
At 1 January 2015	950,210	4,771	(23,176)
Loss for the year	—	—	(83)
Employee share option — Forfeiture of the scheme	—	(4,771)	—
At 31 December 2015	950,210	—	(23,259)
At 1 January 2016	**950,210**	**—**	**(23,259)**
Loss for the year			**(3,658)**
Employee share option — Forfeiture of the scheme	**—**	**1,081**	**—**
At 31 December 2016	**950,210**	**1,081**	**(26,917)**

31 Emoluments and Interests of Directors

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

	Salaries	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Estimated money value of other benefits *(Note (a))*	Fees	Total
Year ended 31 December 2016						
Executive directors:						
CHEN Yan'nan (陳雁南) (b)	**702**	**498**	**—**	**214**	**—**	**1,414**
WU Min (吳敏)	**746**	**374**	**40**	**265**	**—**	**1,425**
ZHANG Chang'song (張長松) (c)	**206**	**603**	**31**	**212**	**—**	**1,052**
Independent non-executive directors:						
ZHANG Hua'qiao (張化橋)	**—**	**—**	**—**	**107**	**268**	**375**
TSE Yat Hong (謝日康)	**—**	**—**	**—**	**107**	**268**	**375**
FENG Ke (馮科)	**—**	**—**	**—**	**107**	**268**	**375**
Non- executive directors:						
ZHUO You	**—**	**—**	**—**	**54**	**—**	**54**
ZHANG SHU (d)	**—**	**—**	**—**	**54**	**—**	**54**
ZHANG Cheng	**—**	**—**	**—**	**54**	**—**	**54**
	1,654	**1,475**	**71**	**1,174**	**804**	**5,178**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

31 Emoluments and Interests of Directors (Continued)

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2015:

	Salaries	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Estimated money value of other benefits *(Note (a))*	Fees	Total
Year ended 31 December 2015						
Executive directors:						
CHEN Yan'nan (陳雁南)	672	583	—	(362)	—	893
WU Min (吳敏)	545	559	64	(337)	—	831
MAO Zhu'chun (毛竹春) (c)	370	384	64	(204)	—	614
Independent non-executive directors:						
ZHANG Hua'qiao (張化橋)	—	—	—	(191)	168	(23)
TSE Yat Hong (謝日康)	—	—	—	(191)	168	(23)
FENG Ke (馮科)	—	—	—	(191)	168	(23)
Non- executive directors:						
ZHUO You	—	—	—	(95)	—	(95)
CAO Jian (d)	—	—	—	(95)	—	(95)
ZHANG Cheng	—	—	—	(95)	—	(95)
	1,587	1,526	128	(1,761)	504	1,984

Notes:

(a) Other benefits include share based payment and insurance premium.

(b) As at 31 December 2016 and 31 December 2015, CHEN Yan'nan is the Chairman of the Group.

(c) MAO Zhu'chun ceased to be an executive director and the CFO of the Group on 1 January 2016. ZHANG Chang'song was appointed as an executive director and the CFO of the Company effected on 1 January 2016.

(d) CAO Jian ceased to be a non-executive director of the Company on 18 March 2016. ZHANG Shu was appointed as a non-executive director of the Group effected on 18 March 2016.

DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the meaning set out below.

"Articles" or "Articles of Association"	the articles of association of our Company (as amended from time to time)
"Board" or "Board of Directors"	the board of directors of our Company
"China" or "the PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company" or "our Company"	China Huirong Financial Holdings Limited, a company incorporated in the Cayman Islands with limited liability on 11 November 2011, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
"Contractual Arrangements"	a series of contracts entered into by Huifang Tongda, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders (as the case may be), details of which are described in the section headed "Our History and Reorganisation — Contractual Arrangements" in the Prospectus
"Director(s)"	the director(s) of our Company
"EIT Law"	the Enterprise Income Tax Law of the People's Republic of China
"Global Offering" or "IPO"	the Hong Kong public offering and the international offering of Shares
"Greater Suzhou Area"	Suzhou city and the four county-level cities that are governed by the Suzhou city government, namely, Changshu, Kunshan,Taicang and Zhangjiagang
"Group", "our Group", "we", "our" or "us"	our Company, its subsidiaries and the PRC Operating Entity (the financial results of which have been consolidated and accounted for as the subsidiary of our Company by virtue of the Contractual Arrangements) or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries (or before such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be)
"Hengyue Consulting"	Suzhou Xinqu Hengyue Management Consulting Co., Ltd.* (蘇州新區恒悅管理諮詢有限公司), a limited liability company established under the laws of the PRC on 22 October 2007, one of the direct shareholders of the PRC Operating Entity

Definitions (Continued)

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huifang Technology"	Suzhou Huifang Management Consulting Co., Ltd.* (蘇州匯方管理諮詢有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on 29 December 2011, which is an indirect wholly owned subsidiary of our Company. On 12 December 2013, the name of Suzhou Huifang Management Consulting Co. Ltd.* (蘇州匯方管理諮詢有限公司) was changed to Suzhou Huifang Technology Co. Ltd.* (蘇州匯方科技有限公司) upon the approval from Administration for Industry and Commercial of Suzhou, Jiangsu
"Huifang Investment"	Huifang Investment Limited* (匯方投資有限公司), a limited liability company incorporated under the laws of Hong Kong on 5 December 2011 and a wholly-owned subsidiary of our Company
"Huifang Tongda"	Suzhou Huifang Tongda Management Consulting Co., Ltd* (蘇州匯方同達管理諮詢有限公司), a limited liability company established in the PRC on 10 February 2012 which is an indirect wholly-owned subsidiary of our Company. On 11 December 2013, the name of Suzhou Huifang Tongda Management Consulting Co., Ltd* (蘇州匯方同達管理諮詢有限公司) was changed to Suzhou Huifang Tongda Information Technology Co., Ltd* (蘇州匯方同達信息科技有限公司) upon the approval from Administration for Industry and Commercial of Wuzhong, Suzhou
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	28 October 2013 on which the Shares are listed on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC Operating Entity" or "Wuzhong Pawnshop"	Suzhou Wuzhong Pawnshop Co., Ltd.* (蘇州市吳中典當有限責任公司), a limited liability company established under the laws of the PRC on 21 December 1999, formerly known as 吳縣市吳中典當行有限公司 (Wuxian Wuzhong Pawnshop Co., Ltd.), a company which we do not own but the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements

“PRC Shareholders”	Mr. Zhu Tianxiao, Mr. Zhang Xiangrong, Mr. Ge Jian, Mr. Chen Yannan, Mr. Wei Xingfa, Mr. Yang Wuguan and Mr. Zhuo You, who are the ultimate and indirect shareholders of the Company. Except for Mr. Chen Yannan, who is an executive Director and the Chairman of the Company, and Mr. Zhuo You, who is a non-executive Director of the Company, none of the other PRC Shareholders is a director or chief executive member of the Company
“Prospectus”	prospectus of the Company dated 16 October 2013 in relation to the Global Offering
“Reorganisation”	the reorganisation of the Group in preparation of the Listing, details of which are set out in the section headed “Our History and Reorganisation — Reorganisation” in the Prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary shares(s) in the capital of the Company with normal value of HK$0.01 each
“Shareholder(s)”	holder(s) of the Shares
“Sifang Investment”	Sifang Investment Limited* (四方投資有限公司), a limited liability company incorporated under the laws of the British Virgin Islands on 22 November 2011 and a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tongda Investment”	Tongda Investment Limited* (同達投資有限公司), a limited liability company incorporated under the laws of the British Virgin Islands on 22 November 2011 and a wholly-owned subsidiary of the Company with no substantial business activity
“Track Record Period”	the four fiscal years of our Company ended 31 December 2011, 2012, 2013 and 2014
“Wuzhong Group”	Jiangsu Wuzhong Group Co., Ltd.* (江蘇吳中集團有限公司), a limited liability company established under the laws of the PRC on 26 May 1992, formerly known as Jiangsu Wuzhong Group Co.* (江蘇吳中集團公司)

Definitions (Continued)

"Wuzhong Jiaye"	Jiangsu Wuzhong Jiaye Group Co., Ltd.* (江蘇吳中嘉業集團有限公司), a limited liability company established under the laws of the PRC on 25 April 2005, formerly known as Jiangsu Wuzhong Jiaye Investment Co., Ltd.* (江蘇吳中嘉業投資有限公司), one of the direct shareholders of the PRC Operating Entity
"Wuzhong Real Estate"	Jiangsu Wuzhong Real Estate Group Co., Ltd.* (江蘇吳中地產集團有限公司), a limited liability company established under the laws of the PRC on 13 August 1992, formerly known as Jiangsu Wuzhong Dongwu Property Development Co.* (江蘇吳中東吳產業開發公司), Wuxian Dongwu Property Development Co.* (吳縣市東吳產業開發公司), and Jiangsu Wuzhong Dongwu Property Development Co., Ltd.* (江蘇吳中東吳產業開發有限公司)

* For identification purpose only

In this annual report, the terms "associate", "close associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

GLOSSARY

The glossary contains explanations of certain terms and definitions used in this annual report in connection with us and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"average loan amount"	the aggregate outstanding loan amount of a certain type of loans divided by the number of outstanding loans of that type as of an indicated date
"CAGR"	compound annual growth rate
"charge-off ratio"	impairment charge for an indicated period divided by ending balance of the gross amount of loans to customers of the same period and multiplied by 100%
"cost to income ratio"	administrative expenses of an indicated period divided by net revenue of the same period and multiplied by 100%
"gross loan yield"	interest income from loans to customers of an indicated period divided by the average of the beginning and the ending balances of gross loan amount multiplied by 100%
"impaired loan ratio"	the aggregate amount of individually impaired loans as of an indicated date divided by the gross amount of loans to customers as of the same date and multiplied by 100%
"appraised loan-to-value ratio"	the outstanding principal amount of a loan as of the calculation date divided by the appraised value of the underlying collateral securing such loan as decided in the loan application review process and multiplied by 100%
"net interest margin"	net interest income for an indicated period divided by the average of the beginning and the ending balance of interest earning assets of the same period, which equals the sum of the ending balances of (i) loans to customers and (ii) deposit with banks and multiplied by 100%
"return on average assets"	profit attributable to equity holders for an indicated period divided by the average of the beginning and the ending balances of total assets of the same period and multiplied by 100%
"return on average equity"	profit attributable to equity holders for an indicated period divided by the average of the beginning and the ending balances of total equity of the same period and multiplied by 100%

CHINA HUIRONG FINANCIAL HOLDINGS LIMITED
中國匯融金融控股有限公司