



Interim Report 2017

# 匯融



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



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





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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Directors

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

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

### Internet Finance Business Committee

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

## 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 East Baodai Road, Suzhou  
Jiangsu Province, the PRC

## PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

## CORPORATE INFORMATION (CONTINUED)

### PRINCIPAL BANKS

Jiangsu Bank, Suzhou Branch  
Suzhou Bank, Suzhou Branch

### AUDITOR

PricewaterhouseCoopers

### LEGAL ADVISERS

Mayer Brown JSM  
Haiwen & Partners

### COMPANY'S WEBSITE

[www.cnhuirong.com](http://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

Financial summary for the six months ended 30 June 2017 is set out as follows:

|                                       | Six months ended 30 June            |   |             |
|---------------------------------------|-------------------------------------|---|-------------|
|                                       | 2017<br>RMB'000                     | 2016<br>RMB'000                         | Change<br>% |
| <b>Operating Results</b>              |                                     |   |             |
| Revenue                               | 134,016                             | 120,424                                 | 11.29       |
| Net revenue                           | 102,924                             | 93,444                                  | 10.15       |
| Profit attributable to equity holders | 19,939                              | 3,257                                   | 512.19      |
| Basic earnings per share (RMB)        | 0.019                               | 0.003                                   | 533.33      |
|                                       |                                     |   |             |
|                                       | As at<br>30 June<br>2017<br>RMB'000 | As at<br>31 December<br>2016<br>RMB'000 | Change<br>% |
| <b>Financial Position</b>             |                                     |   |             |
| Total assets                          | 3,134,833                           | 3,136,179                               | -0.04       |
| Loans to customers                    | 2,091,565                           | 2,024,425                               | 3.32        |
| Cash at bank and on hand              | 862,057                             | 912,349                                 | -5.51       |
| Net assets                            | 1,814,312                           | 1,800,138                               | 0.79        |

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. BUSINESS REVIEW AND DEVELOPMENT

We are principally engaged in lending business.

### 1.1 Loans

The following table sets out the details of new loans and renewed loans, including loans secured by real estate, equity interest and personal property and inventory collateral we granted during the indicated periods:

|   | Loans<br>Six months ended 30 June |      |
|---|-----------------------------------|------|
|   | 2017                              | 2016 |
| Total new loan amount granted (RMB in millions) | 807                               | 645  |
| Total number of new loans granted               | 141                               | 53   |
| Total loan amount renewed (RMB in millions)     | 158                               | 95   |
| Total number of loans renewed                   | 42                                | 8    |
| Average loan repayment period (days)            | 19                                | 28   |

For the six months ended 30 June 2017, the new loans secured by real estate collateral, equity interest collateral and personal property collateral we granted increased slightly as compared with the same period of last year. The renewed loans we granted also increased as compared with the same period of last year.

For the six months ended 30 June 2017, the average repayment period for loans secured by real estate collateral, equity interest collateral and personal property and inventory collateral reduced as compared with the same period of last year.

### 1.2 Entrusted loans

According to the Contractual Arrangements between Wuzhong Pawnshop and Huifang Tongda, Huifang Tongda charges the exclusive management and consultation service fees on Wuzhong Pawnshop. To improve its capital efficiency, Huifang Tongda provides entrusted loans business to its customers. The following table sets out the details of the entrusted loans we granted during the indicated periods:

|   | Entrusted loans<br>Six months ended 30 June |      |
|---|---|------|
|   | 2017  | 2016 |
| Total new loan amount granted (RMB in millions) | 30  | 195  |
| Total number of new loans granted               | 1   | 5    |

For the six months ended 30 June 2017, the entrusted loans we granted decreased as compared with the same period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 1.3 Online P2P lending business

The Group earns a commission through the provision of an online “peer to peer” lending (“P2P lending”) platform. The following table sets out the details of lending business on the online P2P lending platform during the indicated periods:

|   | Lending business on the online<br>P2P lending platform<br>Six months ended 30 June |      |
|---|--|------|
|   | 2017   | 2016 |
| Total lending business amount (RMB in millions) | 1,272  | 743  |
| Total number of lending business                | 1,111  | 169  |

For the six months ended 30 June 2017, the total number of lending business of Suzhou Qian Dai increased significantly as compared with the same period of last year. However, subject to government regulations, the amount of each individual transaction of lending business significantly decreased.

### 1.4 Business of Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. (“Dongshan Micro-finance”)

For the six months ended 30 June 2017, the following table sets out the details of total new loans, including loans secured by real estate collateral, guaranteed and unsecured loans we granted during the indicated periods:

|   | Business of<br>Dongshan Micro-finance<br>Six months ended 30 June |      |
|---|---|------|
|   | 2017  | 2016 |
| Total new loan amount granted (RMB in millions) | 271   | 109  |
| Total number of new loans granted               | 95  | 42   |

## 2. FINANCIAL REVIEW

For the six months ended 30 June 2017, profit attributable to equity holders was RMB19,939 thousand (for the same period of last year: RMB3,257 thousand), representing an increase of 512.2% as compared with the same period of last year.

The increase in profit was primarily attributed to (i) an increase in the amount of interest income generated through Suzhou Qian Dai ([www.suzhoumoney.com](http://www.suzhoumoney.com)), an online P2P lending platform launched by the Group in February 2015; and (ii) a substantial decrease in net charge of impairment allowance on loans to customers by approximately 78.0% from approximately RMB69.1 million for the six months ended 30 June 2016 to approximately RMB15.2 million for the six months ended 30 June 2017, partially offset by the negative impact of the exchange variations of Renminbi against United States dollars.



# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The key financial review for the six months ended 30 June 2017 is summarised as follows:

## 2.1 Interest and consultancy fee income, interest costs and net interest margin

Interest and consultancy fee income:

- (i) Interest income: For the six months ended 30 June 2017, our interest income increased 11.3% from the same period of last year to RMB134,016 thousand.

For the six months ended 30 June 2017, interest income from the top five customers accounted for 23.1% of total interest income (for the same period of last year: 28.1%).

- (ii) Consultancy fee income: For the six months ended 30 June 2017, consultancy fee income earned by the Group through the online P2P lending platform was RMB1,560 thousand (for the same period of last year: RMB1,210 thousand).

Interest costs: For the six months ended 30 June 2017, interest costs were RMB40,390 thousand (for the same period of last year: RMB29,322 thousand).

Net interest margin: Net interest margin equals to annual net interest income divided by the average of the balances of interest earning assets at the beginning of the year and by the end of June, which equals to the sum of the balances of loans to customers and deposits with banks. Net interest margin (not annualized) was 3.3% for the six months ended 30 June 2017 (for the same period of last year: 3.3%), which was comparable to the same period of last year.

## 2.2 Administrative expenses

The administrative expenses for the six months ended 30 June 2017 amounted to RMB33,665 thousand, representing an increase of RMB1,343 thousand or 4.2% from that of the same period of last year.

The ratio of administrative expenses to net revenue was 32.7% for the six months ended 30 June 2017, as compared with 34.6% for the same period of last year.

For the six months ended 30 June 2017, administrative expenses increased by RMB1,343 thousand as compared with that of the same period of last year, mainly due to an increase of employee remuneration and benefits of RMB4,678 thousand from the same period of last year, and partially offset by the negative impact of the decrease of business tax and surcharge.

For the six months ended 30 June 2017, business tax and surcharges decreased by RMB3,919 thousand.

## 2.3 Net charge of impairment allowance

For the six months ended 30 June 2017, net charge of impairment allowance was RMB15,223 thousand (for the same period of last year: RMB69,088 thousand), the impairment losses on loans to customers in the first half of 2017 decreased by approximately 78.0% as compared with the same period of last year. The impairment losses on individually assessed impairment loans is approximately RMB31,107 thousand for the six months ended 30 June 2017, representing a decrease by approximately 55.5% from RMB69,974 thousand of the same period of last year. There is a reverse of impairment losses on collectively assessed impairment loans of RMB16,097 thousand, compared to a reverse of impairment losses on collectively assessed impairment loans of RMB886 thousand of the same period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Net charge of impairment allowance for the six months ended 30 June 2017 significantly decreased mainly because there were no additional overdue loans of equity interest backed loans, and a small proportion of additional overdue loans of real estate backed loans in the first half of 2017.

### 2.4 Income Tax Expenses

For the six months ended 30 June 2017, the income tax expenses amounted to RMB9,759 thousand, representing an increase of 233.8% as compared with the same period of last year (for the same period of last year: the income tax expenses included a reversal of withholding tax amounting to RMB2,913 thousand).

### 2.5 Profit attributable to equity holders

For the six months ended 30 June 2017, profit attributable to equity holders was RMB19,939 thousand.

## 3. LOANS TO CUSTOMERS

### 3.1 Loan portfolios

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

|  | 30 June<br>2017  | 31 December<br>2016 | Increase<br>% |
|--|------------------|---------------------|---------------|
| <b>Gross loans to customers, inclusive of principal and interest (RMB'000)</b> |                  |                     |               |
| Loans secured by real estate collateral  | 1,128,805        | 1,089,431           | 3.61%         |
| Loans secured by equity interest collateral                                    | 379,774          | 419,901             | -9.56%        |
| Loans secured by personal property and inventory collateral                    | 60,002           | 16,197              | 270.45%       |
| Guaranteed loans   | 182,850          | 273,729             | -33.20%       |
| Unsecured loans  | 593,762          | 485,400             | 22.32%        |
| <b>Total</b>   | <b>2,345,193</b> | <b>2,284,658</b>    | <b>2.65%</b>  |
| <b>Number of loans outstanding</b>   |                  |                     |               |
| Loans secured by real estate collateral  | 215              | 134                 |               |
| Loans secured by equity interest collateral                                    | 38               | 35                  |               |
| Loans secured by personal property and inventory collateral                    | 963              | 853                 |               |
| Guaranteed loans   | 74               | 103                 |               |
| Unsecured loans  | 347              | 113                 |               |
| <b>Total</b>   | <b>1,637</b>     | <b>1,238</b>        |               |
| <b>Average loan amount (RMB'000)</b>   |                  |                     |               |
| Loans secured by real estate collateral  | 5,250            | 8,130               |               |
| Loans secured by equity interest collateral                                    | 9,994            | 11,997              |               |
| Loans secured by personal property and inventory collateral                    | 62               | 19                  |               |
| Guaranteed loans   | 2,471            | 2,658               |               |
| Unsecured loans  | 1,711            | 4,296               |               |

## 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 30 June 2017 |            | As at 31 December 2016 |            |
|-----------------------------------|--------------------|------------|------------------------|------------|
|                                   |                    | Percentage |                        | Percentage |
| Neither past due nor impaired     | 1,227,575          | 52.35%     | 1,043,847              | 45.69%     |
| Past due but not impaired (i)     | 750,755            | 32.01%     | 880,398                | 38.54%     |
| Individually impaired (ii)        | 366,863            | 15.64%     | 360,413                | 15.78%     |
| Gross                             | 2,345,193          | 100.0%     | 2,284,658              | 100.0%     |
| Less: Impairment allowances (iii) | (253,628)          | -10.81%    | (260,233)              | -11.39%    |
| Net                               | 2,091,565          | —          | 2,024,425              | —          |

- (i) The decreased percentage of loans that were past due but not impaired was primarily attributed to a decrease of RMB111,541 thousand on loans secured by real estates.

As at 30 June 2017, loans that were past due but not impaired amounted to RMB750,755 thousand, including loans secured by real estate collateral of RMB725,750 thousand, representing 96.67%. The loans are secured by real estate collateral with a reasonably ascertainable market value, and there has not been a significant change in the customers' credit quality, thus the balances are considered fully recoverable.

- (ii) Loans to customers which were individually impaired as at 30 June 2017 amounted to RMB366,863 thousand, with an estimated loss of RMB207,089 thousand.
- (iii) In light of the changes in market environment, impairment allowances were made to adequately reflect the Group's market risk exposure. As at 30 June 2017, the impairment allowance for loans secured by real estate collateral, loans secured by equity interest collateral, guaranteed loans and unsecured loans amounted to RMB253,628 thousand, representing 10.81% of the outstanding loans granted to customers before provision.

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

|  | 30 June<br>2017 | 31 December<br>2016 |
|--|-----------------|---------------------|
| Loans secured by real estate collateral                        | (73,719)        | (49,317)            |
| Loans secured by equity interest collateral                    | (140,258)       | (171,268)           |
| Loans secured by personal property and<br>inventory collateral | —               | —                   |
| Guaranteed loans   | (35,684)        | (33,342)            |
| Unsecured loans  | (3,967)         | (6,306)             |
|  | (253,628)       | (260,233)           |

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3.3 Loans under legal proceedings

As at 30 June 2017, among the loans to customers that were past due but not impaired, the Group was under legal proceedings in respect of the recovery of 37 loans, which were secured by real estate collateral that amounted to RMB428,384 thousand. No loss was expected to be incurred on such loans. The loans are 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 16 loans, which are secured by equity interest collateral that amounted to RMB152,971 thousand. Individually assessed impairment allowance of RMB101,794 thousand was provided on such loans.

## 4. CREDIT RISK MANAGEMENT

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

|   | 30 June<br>2017 | 31 December<br>2016 |
|---|-----------------|---------------------|
| Aggregate loan amount (RMB in millions)                                     |                 |                     |
| Real estate collateral  | 1,129           | 1,089               |
| Equity interest collateral  | 380             | 420                 |
| Appraised value of collateral at time of loan approval<br>(RMB in millions) |                 |                     |
| Real estate collateral  | 2,027           | 1,732               |
| Equity interest collateral  | 1,913           | 1,552               |
| Range of appraised loan-to-value ratios                                     |                 |                     |
| Real estate collateral  | 2%–70%          | 6%–69%              |
| Equity interest collateral  | 0.6%–48%        | 3%–48%              |
| Weighted average appraised loan-to-value ratio                              |                 |                     |
| Real estate collateral  | 54%             | 56%                 |
| Equity interest collateral  | 29%             | 34%                 |

## 5. MARKET RISK

For details of market risk, please refer to the paragraph headed “5.1.2 Market risk” as set out at the section headed “Notes to the Interim Condensed Consolidated Financial Statements”.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 6. TOTAL EQUITY AND CAPITAL MANAGEMENT

#### 6.1 Total Equity

The total equity as at 30 June 2017 was RMB1,814,312 thousand, representing an increase of RMB14,174 thousand or 0.79% as compared with that as at 31 December 2016. The increase was due to the profit of RMB28,777 thousand earned during the six months ended 30 June 2017. The profit attributable to equity holders for the six months ended 30 June 2017 amounted to RMB19,939 thousand.

#### 6.2 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 interim condensed consolidated statement of financial position. Total capital is the sum of net debt and total equity.

Our gearing ratio as at 30 June 2017 was 38.09%, as compared with 37.87% as at 31 December 2016.

### 7. BANK BORROWINGS AND PLEDGE OF ASSETS

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

|   | 30 June<br>2017 | 31 December<br>2016 |
|---|-----------------|---------------------|
| Bank borrowings (a)   | 901,128         | 888,422             |
| Borrowings from micro-credit company (b)                          | 68,000          | —                   |
| Borrowings from securities company (c)                            | 20,242          | 20,249              |
| Interests of holders of consolidated SEs<br>— Suzhan Qian Dai (d) | 284,799         | 379,635             |
|   | 1,274,169       | 1,288,306           |

- (a) Bank borrowings are due within one year. For the six months ended 30 June 2017, bank borrowings bear fixed interest rates ranging from 4.4% to 6.2% per annum (2016: 4.4% to 5.9%).

As at 30 June 2017, bank borrowings with principal amount of RMB312,000 thousand were secured by the Group's restricted term deposits of US\$49,493 thousand (equivalent to approximately RMB335,283 thousand) (31 December 2016: bank borrowings with principal amount of RMB290,000 thousand were secured by the Group's restricted term deposits of US\$48,149 thousand (equivalent to approximately RMB334,010 thousand)).

As at 30 June 2017, bank borrowings with principal amount of RMB48,000 thousand were secured by the Group's restricted term deposits of RMB52,000 thousand (31 December 2016: bank borrowings with principal amount of RMB57,000 thousand were secured by the Group's restricted term deposits of RMB60,000 thousand).

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 30 June 2017, bank borrowings with principal amount of RMB370,000 thousand were guaranteed by Wuzhong Jiaye and the Ultimate Controller (31 December 2016: same). As at 30 June 2017, bank borrowings with principal amount of RMB50,000 thousand were guaranteed by Wuzhong Group (31 December 2016: same). As at 30 June 2017, bank borrowings with principal amount of RMB120,000 thousand were guaranteed by Huifang Technology (31 December 2016: same).

As at 30 June 2017, the Group had no undrawn borrowing facilities (31 December 2016: same).

- (b) As at 30 June 2017, borrowings from micro-credit companies with principal amount of RMB68,000 thousand were guaranteed by Wuzhong Group (31 December 2016: Nil).
- (c) As at 30 June 2017, securities company borrowings with principal amount of RMB20,200 thousand were pledged by 2,383,474 shares of Huifang Tongda (31 December 2016: Same).
- (d) (i) As at 30 June 2017, interest of holders of platform loans was borrowings from individual investors through the P2P platform of Suzhou Qian Dai (31 December 2016: Same).
- (ii) As at 30 June 2017, the principal of loans were funded by the borrowings through Suzhou Qian Dai and guaranteed by Dongshan Micro-finance and were consolidated by the Group amounted to RMB281,000 thousand (31 December 2016: RMB375,198 thousand).

## 8. CAPITAL EXPENDITURE

Our capital expenditure consists primarily of purchases of property, plant and equipment. Our capital expenditure was RMB1,029 thousand for the six months ended 30 June 2017, as compared with RMB1,210 thousand for the same period of last year.

## 9. SIGNIFICANT INVESTMENTS, ACQUISITION AND DISPOSAL

In June and November 2016, Huifang Tongda set up wholly-owned subsidiaries Suzhou Dang Tian Xia Technology Company Limited\* (蘇州當天下網絡科技有限公司) (“**Dang Tian Xia**”) and Suzhou Huifang Sihai Regulation Company Limited\* (蘇州匯方四海調劑有限公司) (“**Huifang Sihai**”) with paid-up capital of RMB150 thousand and RMB200 thousand, respectively. In June 2017, Huifang Tongda transferred its 100% equity interest in Dang Tian Xia and Huifang Sihai to Suzhou Xunlian Business Information Consulting Company Limited\* (蘇州訊聯商務資訊諮詢有限公司) at a price of RMB7,000 thousand and RMB1,500 thousand, respectively. The transfer price had been fully received after the period.

## 10. CONTINGENCIES, CONTRACTUAL OBLIGATIONS, LIQUIDITY AND FINANCIAL RESOURCES

### 10.1 Contingencies

The Group did not have any significant contingent liabilities as at 30 June 2017 (31 December 2016: Nil).

### 10.2 Commitments

#### (a) Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|   | 30 June<br>2017 | 31 December<br>2016 |
|---|-----------------|---------------------|
| No later than 1 year                        | 5,232           | 3,443               |
| Later than 1 year and no later than 5 years | 5,604           | 3,535               |
| Later than 5 years                          | —               | 31                  |
| Total                                       | 10,836          | 7,009               |

### (b) Capital commitments

|  | 30 June<br>2017 | 31 December<br>2016 |
|--|-----------------|---------------------|
| Suzhou Huifang Jiada Information Technology Company Limited<br>("Huifang Jiada") | 50,000          | —                   |
| Dang Tian Xia  | —               | 5,000               |
| Huifang Sihai  | —               | 1,000               |

## 10.3 Liquidity and capital resources

### a. Cash Flow Analysis

As at 30 June 2017, the Group's cash and cash equivalents amounted to RMB862,057 thousand, representing a decrease of RMB50,292 thousand as compared with that at the beginning of the period. The following table sets forth a summary of our cash flows for the indicated periods:

|  | Six months ended 30 June |           |
|--|--------------------------|-----------|
|  | 2017                     | 2016      |
| Net cash outflow from operating activities           | (919)                    | (166,707) |
| Net cash outflow from investing activities           | (1,029)                  | (1,210)   |
| Net cash (outflow)/inflow from financing activities  | (31,198)                 | 149,443   |
| Net decrease in cash and cash equivalents            | (33,146)                 | (18,474)  |
| Exchange (losses)/gains on cash and cash equivalents | (366)                    | 12,976    |

### Net Cash Flow from Operating Activities

During the Reporting Period, net cash outflow from operating activities amounted to RMB919 thousand, mainly due to a slight increase in loans our Group granted to customers.

### Net Cash Flow from Financing Activities

During the Reporting Period, net cash outflow from financing activities amounted to RMB31,198 thousand, mainly due to (i) dividends paid to non-controlling interests of RMB18,000 thousand; (ii) proceeds from borrowings of RMB2,041,269 thousand; and (iii) repayment of borrowings of RMB2,054,467 thousand.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### b. 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 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.

|                                    | Repayable<br>on demand<br>or within<br>1 month | 1–6 months       | 6–12<br>months | Past due       | Total            |
|------------------------------------|--|------------------|----------------|----------------|------------------|
| <b>As at 30 June 2017</b>          |  |                  |                |                |                  |
| Cash at bank and on hand           | 165,042  | 307,505          | 402,936        | —              | 875,483          |
| Loans to customers                 | 141,813  | 782,774          | 325,387        | 882,504        | 2,132,478        |
| <b>Total financial assets</b>      | <b>306,855</b>                                 | <b>1,090,279</b> | <b>728,323</b> | <b>882,504</b> | <b>3,007,961</b> |
| Borrowings                         | 80,150   | 333,337          | 980,203        | —              | 1,321,690        |
| Amounts due to related parties     | 27,633   | —                | —              | —              | 27,633           |
| Other financial liabilities        | 404  | —                | —              | —              | 404              |
| <b>Total financial liabilities</b> | <b>108,187</b>                                 | <b>333,337</b>   | <b>980,203</b> | <b>—</b>       | <b>1,349,727</b> |
| <b>As at 31 December 2016</b>      |  |                  |                |                |                  |
| 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            |
| <b>Total financial liabilities</b> | <b>240,500</b>                                 | <b>709,807</b>   | <b>370,094</b> | <b>—</b>       | <b>1,320,401</b> |

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



# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## 11. HUMAN RESOURCE AND EMPLOYEE BENEFITS

As at 30 June 2017, the Group had a total of 158 full-time employees, with an increase in number of 10 from 148 as at 31 December 2016. The increase was mainly due to the further expansion of online P2P Lending business which required more human resources. 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.

For the six months ended 30 June 2017, employee remuneration and benefits increased by RMB4,678 thousand to RMB18,578 thousand from the same period of last year.

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 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 PERIOD

Save as disclosed in this report, no significant event has happened after 30 June 2017.

## PROSPECTS

The improvement in a number of operating indicators as showed in the first half of the year was a result of standardized and improved internal management. However, as the market condition remains largely unchanged, we are still facing significant operating pressure for an extended period of time.

Looking forward, we will further accelerate the collection and disposal of our stock assets, strengthen cash reserves, and repay loans to reduce financing costs. We will actively adjust our product structure, namely, to maintain or reduce large-scale pledge loans made to companies with poor liquidity, while providing more individual collateral products and rapid turnover products. With the adjustment made to online P2P Lending business having been completed, we will build self-managed operating team and increase the intensity and scope of pipeline cooperation in accordance with regulatory requirements, so as to maintain the regional leadership of Suzhou Qian Dai. With respect to our civilian goods business, we will put more efforts on product diversification and flexibility, and try and seek an appropriate product structure for making a breakthrough in our business scale.

We will further strengthen our leadership in the regional market and expand our operational area and scope as appropriate. By accepting innovative businesses, we will explore new revenue sources and bring return to our shareholders.

# OTHER INFORMATION

## 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 six months ended 30 June 2017.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this report, no 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 any time during the six months ended 30 June 2017.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, 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)<br>(Note 2)              | 0.39%                                 |
|                  | Interest in controlled corporation | Ordinary shares  | 65,000,000(L)<br>(Note 3)             | 6.34%                                 |
| Wu Min           | Beneficial owner                   | Share options    | 4,000,000(L)<br>(Note 2)              | 0.39%                                 |
|                  | Beneficial owner                   | Ordinary shares  | 640,000(L)                            | 0.06%                                 |
| Zhang Changsong  | Beneficial owner                   | Share options    | 3,200,000(L)<br>(Note 2)              | 0.31%                                 |
|                  | Beneficial owner                   | Ordinary shares  | 550,000(L)                            | 0.05%                                 |
| Zhuo You         | Beneficial owner                   | Share options    | 1,000,000(L)<br>(Note 2)              | 0.10%                                 |
|                  | Interest in controlled corporation | Ordinary shares  | 39,000,000(L)<br>(Note 4)             | 3.80%                                 |

## OTHER INFORMATION (CONTINUED)

| Name of Director | Nature of Interest | Type of Interest | Number of Shares or Underlying Shares | Percentage of the Total Issued Shares |
|------------------|--------------------|------------------|---------------------------------------|---------------------------------------|
| Zhang Shu        | Beneficial owner   | Share options    | 1,000,000(L)<br>(Note 2)              | 0.10%                                 |
|                  | Beneficial owner   | Ordinary shares  | 300,000(L)                            | 0.03%                                 |
| Zhang Cheng      | Beneficial owner   | Share options    | 1,000,000(L)<br>(Note 2)              | 0.10%                                 |
| Zhang Huaqiao    | Beneficial owner   | Share options    | 2,000,000(L)<br>(Note 2)              | 0.20%                                 |
|                  | Beneficial owner   | Ordinary shares  | 5,880,000(L)                          | 0.57%                                 |
| Feng Ke          | Beneficial owner   | Share options    | 2,000,000(L)<br>(Note 2)              | 0.20%                                 |
| Tse Yat Hong     | Beneficial owner   | Share options    | 2,000,000(L)<br>(Note 2)              | 0.20%                                 |

Note:

- (L) represents long position.
- 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.
- 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.
- 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.

## OTHER INFORMATION (CONTINUED)

### (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<br>(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<br>(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<br>(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<br>(Suzhou Xinqu Hengyue Management Consulting Co., Ltd. *) | Beneficial owner   | RMB12,000,000(L)             | 6%   |

Note:

- (L) represents long position.

Save as disclosed above, as at 30 June 2017, 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.



## OTHER INFORMATION (CONTINUED)

### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 30 June 2017, 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 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long positions in shares of the Company:

| 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)<br>(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)<br>(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)<br>(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)<br>(Note 5) | 11.47%                                |

Notes:

- (L) represents long position.
- 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.
- 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.
- 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.
- 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.

## OTHER INFORMATION (CONTINUED)

Save as disclosed above, as at 30 June 2017, no persons 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, 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, 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 30 June 2017, 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 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 other 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.

## OTHER INFORMATION (CONTINUED)

### 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.

## OTHER INFORMATION (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 2017 | Granted during the period | Exercised during the period | Lapsed during the period | No. of Shares involved in the options outstanding as at 30 June 2017 |
|----------------------------------|--|---------------------------|-----------------------------|--------------------------|--|
| <b>Directors</b>                 |  |                           |                             |                          |  |
| Chen Yannan                      | 4,000,000  | —                         | —                           | —                        | 4,000,000  |
| Wu Min                           | 4,000,000  | —                         | —                           | —                        | 4,000,000  |
| Zhang Changsong                  | 3,200,000  | —                         | —                           | —                        | 3,200,000  |
| Zhuo You                         | 1,000,000  | —                         | —                           | —                        | 1,000,000  |
| Zhang Cheng                      | 1,000,000  | —                         | —                           | —                        | 1,000,000  |
| Zhang Shu                        | 1,000,000  | —                         | —                           | —                        | 1,000,000  |
| Zhang Huaqiao                    | 2,000,000  | —                         | —                           | —                        | 2,000,000  |
| Feng Ke                          | 2,000,000  | —                         | —                           | —                        | 2,000,000  |
| Tse Yat Hong                     | 2,000,000  | —                         | —                           | —                        | 2,000,000  |
| <b>Subtotal</b>                  | <b>20,200,000</b>  | <b>—</b>                  | <b>—</b>                    | <b>—</b>                 | <b>20,200,000</b>  |
| <b>Employees</b>                 |  |                           |                             |                          |  |
| Employees                        | 29,800,000   | —                         | —                           | —                        | 29,800,000   |
| <b>Total</b>                     | <b>50,000,000</b>  | <b>—</b>                  | <b>—</b>                    | <b>—</b>                 | <b>50,000,000</b>  |

### 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 24 to the interim condensed 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.



## OTHER INFORMATION (CONTINUED)

### CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions set forth 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 Board, the Company has complied with the applicable principles and code provisions set out in the CG Code during the six months ended 30 June 2017, except for Code Provision A.2.1 which requires that the role of chairman and chief executive officer should be separate and should not be performed by the same person. Given that Mr. WU Min assumes the roles of both chairman and chief executive officer, the Company deviates from this code provision. The Board considers that this management structure is effective in terms of the formulation and implementation of the Company's strategies and the Company's operations. Notwithstanding the deviation, the Board is of the view that it is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Group and its shareholders. The Board will review the management structure from time to time and the need to separate the roles of the chairman of the Board and the chief executive officer to two individuals.

### 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 of the Company.

Specific enquiry has been made of all Directors, and the Directors have confirmed that they had complied with all relevant requirements as set out in the Model Code during the six months ended 30 June 2017.

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 during the six months ended 30 June 2017.

### CHANGE IN DIRECTORS' INFORMATION

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

Mr. ZHANG Huaqiao, an independent non-executive Director of the Company, was appointed as an independent non-executive director of China Rapid Finance Ltd. (the shares of which are listed on the New York Stock Exchange, stock code: XRF) with effect from 28 April 2017.

Mr. CHEN Yannan has resigned as the chairman of the Board and the chairman of the nomination committee of the Company (the "**Nomination Committee**") with effect from 1 June 2017.

Mr. WU Min has been appointed as the chairman of the Board and the chairman of the Nomination Committee with effect from 1 June 2017.

## OTHER INFORMATION (CONTINUED)

### REVIEW OF INTERIM RESULTS

The audit committee of the Company (the “**Audit Committee**”) consists of three Directors, namely, Mr. TSE Yat Hong, independent non-executive Director, Mr. FENG Ke, independent non-executive Director and Mr. ZHANG Cheng, non-executive Director, and is chaired by Mr. TSE Yat Hong. Our Company has adopted written terms of reference of the Audit Committee, which set out clearly the constitution, authority, duties, powers and functions of the Audit Committee. Our Group’s interim condensed consolidated results for the six months ended 30 June 2017 were reviewed by the members of the Audit Committee prior to the submission to the Board for approval.

The audit committee of the Company together with the management of the Company have reviewed the accounting policies and practices adopted by the Group and discussed, among other things, internal controls and financial reporting matters including a review of the unaudited interim results for the six months ended 30 June 2017. In addition, the independent auditor of the Company has reviewed the unaudited interim results for the six months ended 30 June 2017 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

### DIVIDEND

The Board does not recommend an interim dividend for the six months ended 30 June 2017.

# REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS



羅兵咸永道

## TO THE BOARD OF DIRECTORS OF CHINA HUIRONG FINANCIAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the interim financial information set out on pages 26 to 66, which comprise the interim condensed consolidated statements of financial position of China Huirong Financial Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

#### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 25 August 2017

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# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

|  | Note | Unaudited<br>Six months ended 30 June |               |
|--|------|---------------------------------------|---------------|
|  |      | 2017                                  | 2016          |
| Interest income  | 7    | 134,016                               | 120,424       |
| Interest expense   | 8    | (40,390)                              | (29,322)      |
| <b>Net interest income</b>   |      | <b>93,626</b>                         | <b>91,102</b> |
| Net investment gain  | 9    | 7,129                                 | —             |
| Other operating income, net  | 10   | 2,169                                 | 2,342         |
| <b>Net revenue</b>   |      | <b>102,924</b>                        | <b>93,444</b> |
| Administrative expenses  | 11   | (33,665)                              | (32,322)      |
| Net charge of impairment allowance   | 13   | (15,223)                              | (69,088)      |
| Other (losses)/gains, net  | 14   | (15,500)                              | 12,996        |
| <b>Profit before income tax</b>  |      | <b>38,536</b>                         | <b>5,030</b>  |
| Income tax expense   | 15   | (9,759)                               | 7,296         |
| <b>Profit for the period</b>   |      | <b>28,777</b>                         | <b>12,326</b> |
| <b>Attributable to:</b>  |      |                                       |               |
| — Equity holders of the Company  |      | 19,939                                | 3,257         |
| — Non-controlling interests  |      | 8,838                                 | 9,069         |
| <b>Other comprehensive income for the period, net of tax</b>   |      | <b>—</b>                              | <b>—</b>      |
| <b>Total comprehensive income for the period</b>   |      | <b>28,777</b>                         | <b>12,326</b> |
| <b>Attributable to:</b>  |      |                                       |               |
| — Equity holders of the Company  |      | 19,939                                | 3,257         |
| — Non-controlling interests  |      | 8,838                                 | 9,069         |
| <b>Earnings per share from profit attributable to the equity holders of the Company (expressed in RMB)</b> |      |                                       |               |
| — Basic earnings per share   | 16   | 0.019                                 | 0.003         |
| — Diluted earnings per share   | 16   | 0.019                                 | 0.003         |

The notes on pages 31 to 66 are an integral part of these financial information.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

|  | Note  | As at<br>30 June<br>2017<br>Unaudited | As at<br>31 December<br>2016<br>Audited |
|--|-------|---------------------------------------|---|
| <b>ASSETS</b>  |       |                                       |   |
| <b>Non-current assets</b>  |       |                                       |   |
| Property, plant and equipment                                    |       | 2,774                                 | 2,236                                   |
| Intangible assets  |       | 957                                   | 1,021                                   |
| Deferred income tax assets                                       | 18    | 76,238                                | 72,494                                  |
|  |       | 79,969                                | 75,751                                  |
| <b>Current assets</b>  |       |                                       |   |
| Other assets   | 19    | 21,373                                | 22,657                                  |
| Loans to customers   | 20    | 2,091,565                             | 2,024,425                               |
| Financial assets designated at fair value through profit or loss | 21    | 79,869                                | 100,997                                 |
| Cash at bank and on hand   | 22    | 862,057                               | 912,349                                 |
|  |       | 3,054,864                             | 3,060,428                               |
| <b>Total assets</b>  |       | <b>3,134,833</b>                      | <b>3,136,179</b>                        |
| <b>EQUITY AND LIABILITIES</b>                                    |       |                                       |   |
| <b>Equity attributable to the equity holders of the Company</b>  |       |                                       |   |
| Share capital  | 23    | 8,111                                 | 8,111                                   |
| Share premium  | 24    | 548,237                               | 548,237                                 |
| Other reserves   | 24    | 588,136                               | 584,739                                 |
| Retained earnings  |       | 474,282                               | 454,343                                 |
|  |       | 1,618,766                             | 1,595,430                               |
| <b>Non-controlling interests</b>                                 |       | <b>195,546</b>                        | <b>204,708</b>                          |
| <b>Total equity</b>  |       | <b>1,814,312</b>                      | <b>1,800,138</b>                        |
| <b>Liabilities</b>   |       |                                       |   |
| <b>Current liabilities</b>                                       |       |                                       |   |
| Other liabilities  | 25    | 6,648                                 | 16,742                                  |
| Current income tax liabilities                                   |       | 12,071                                | 30,360                                  |
| Amounts due to related parties                                   | 29(c) | 27,633                                | 633                                     |
| Borrowings   | 26    | 1,274,169                             | 1,288,306                               |
| <b>Total liabilities</b>   |       | <b>1,320,521</b>                      | <b>1,336,041</b>                        |
| <b>Total equity and liabilities</b>                              |       | <b>3,134,833</b>                      | <b>3,136,179</b>                        |

The notes on pages 31 to 66 are an integral part of these financial information.

The financial information were approved by the Board of the Company on 25 August 2017 and signed on its behalf.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

|  | Note | Unaudited<br>Attributable to the equity holders of the company |                  |                   |                      |           | Non-<br>controlling<br>Interests | Total<br>equity |
|--|------|--|------------------|-------------------|----------------------|-----------|----------------------------------|-----------------|
|  |      | Share<br>Capital   | Share<br>premium | Other<br>reserves | Retained<br>earnings | Total     |                                  |                 |
| <b>As at 1 January 2017</b>  |      | 8,111  | 548,237          | 584,739           | 454,343              | 1,595,430 | 204,708                          | 1,800,138       |
| <b>Comprehensive income</b>  |      |  |                  |                   |                      |           |                                  |                 |
| Profit for the period  |      | —  | —                | —                 | 19,939               | 19,939    | 8,838                            | 28,777          |
| Other comprehensive income   |      | —  | —                | —                 | —                    | —         | —                                | —               |
| <b>Total comprehensive income for the period</b>                     |      | —  | —                | —                 | 19,939               | 19,939    | 8,838                            | 28,777          |
| Employee share option — value of employee services                   |      | —  | —                | 3,397             | —                    | 3,397     | —                                | 3,397           |
| Dividends paid to non-controlling interests                          | 17   | —  | —                | —                 | —                    | —         | (18,000)                         | (18,000)        |
| <b>Total transactions with owners, recognised directly in equity</b> |      | —  | —                | 3,397             | —                    | 3,397     | (18,000)                         | (14,603)        |
| <b>As at 30 June 2017</b>  |      | 8,111  | 548,237          | 588,136           | 474,282              | 1,618,766 | 195,546                          | 1,814,312       |
| <b>As at 1 January 2016</b>  |      | 8,111  | 548,237          | 578,319           | 418,078              | 1,552,745 | 214,076                          | 1,766,821       |
| <b>Comprehensive income</b>  |      |  |                  |                   |                      |           |                                  |                 |
| Profit for the period  |      | —  | —                | —                 | 3,257                | 3,257     | 9,069                            | 12,326          |
| Other comprehensive income   |      | —  | —                | —                 | —                    | —         | —                                | —               |
| <b>Total comprehensive income for the period</b>                     |      | —  | —                | —                 | 3,257                | 3,257     | 9,069                            | 12,326          |
| Dividends paid to non-controlling interests                          |      | —  | —                | —                 | —                    | —         | (24,008)                         | (24,008)        |
| <b>Total transactions with owners, recognised directly in equity</b> |      | —  | —                | —                 | —                    | —         | (24,008)                         | (24,008)        |
| <b>As at 30 June 2016</b>  |      | 8,111  | 548,237          | 578,319           | 421,335              | 1,556,002 | 199,137                          | 1,755,139       |

The notes on pages 31 to 66 are an integral part of these financial information.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

|  | Note  | Unaudited<br>Six months ended 30 June |           |
|--|-------|---------------------------------------|-----------|
|  |       | 2017                                  | 2016      |
| <b>Cash flows from operating activities</b>  |       |                                       |           |
| Profit before income tax   |       | 38,536                                | 5,030     |
| <b>Adjustments for:</b>  |       |                                       |           |
| Interest expense   | 8     | 40,390                                | 29,322    |
| Net investment gain of disposal of subsidiaries                                    | 9     | (8,150)                               | —         |
| Net charge of impairment allowance   | 13    | 15,223                                | 69,088    |
| Depreciation and amortization  | 11    | 555                                   | 365       |
| Net foreign currency losses/(gains)  |       | 366                                   | (12,976)  |
| Share-based payments   |       | 3,397                                 | —         |
|  |       | 90,137                                | 90,829    |
| <b>Change in operating assets and liabilities:</b>                                 |       |                                       |           |
| — Other assets   |       | 1,071                                 | 1,296     |
| — Loans to customers   |       | (82,150)                              | (164,606) |
| — Net decrease in financial assets designated at fair value through profit or loss |       | 21,128                                | —         |
| — Term deposits with banks   |       | 16,780                                | (23,808)  |
| — Other liabilities  |       | (10,094)                              | (4,832)   |
| — Amounts due to related parties   | 29(c) | 27,000                                | 546       |
| <b>Cash generated from/(used in) operating activities</b>                          |       | 64,052                                | (100,575) |
| Interest paid  |       | (41,329)                              | (34,242)  |
| Income tax paid  |       | (31,792)                              | (31,890)  |
| <b>Net cash outflow from operating activities</b>                                  |       | (9,069)                               | (166,707) |
| <b>Cash flows from investing activities</b>  |       |                                       |           |
| Net Proceeds on disposal of subsidiaries   | 9     | 8,150                                 | —         |
| Purchases of property, plant and equipment   |       | (1,029)                               | (640)     |
| Purchases of intangible assets   |       | —                                     | (570)     |
| <b>Net cash inflow/(outflow) from investing activities</b>                         |       | 7,121                                 | (1,210)   |
| <b>Cash flows from financing activities</b>  |       |                                       |           |
| Dividends paid to non-controlling interests  |       | (18,000)                              | (24,008)  |
| Proceeds from borrowings   |       | 2,041,269                             | 853,302   |
| Repayments of borrowings   |       | (2,054,467)                           | (679,851) |
| <b>Net cash (outflow)/inflow from financing activities</b>                         |       | (31,198)                              | 149,443   |

The notes on pages 31 to 66 are an integral part of these financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

|   | Note | Unaudited<br>Six months ended 30 June |          |
|---|------|---------------------------------------|----------|
|   |      | 2017                                  | 2016     |
| <b>Net decrease in cash and cash equivalents</b>      |      | <b>(33,146)</b>                       | (18,474) |
| Cash and cash equivalents at beginning of the period  |      | <b>191,216</b>                        | 65,946   |
| Exchange (losses)/gains on cash and cash equivalents  |      | <b>(366)</b>                          | 12,976   |
| <b>Cash and cash equivalents at end of the period</b> | 22   | <b>157,704</b>                        | 60,448   |

The notes on pages 31 to 66 are an integral part of these financial information.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(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 (2010 revision) 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 undertook 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. (蘇州吳中區東山農村小額貸款有限公司) (“**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). Therefore Dongshan Micro-finance has become a subsidiary of the Group, which 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 a 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.

On 15 December 2016, the Group set up a 100% owned subsidiary, Suzhou Huifang Jiada Information Technology Company Limited (蘇州匯方嘉達信息科技有限公司) (“**Huifang Jiada**”) to engage in technology development and consulting in the PRC. The business has not yet started to operate as at 30 June 2017.

In June 2016 and November 2016 respectively, the Group set up two 100% owned subsidiaries, Suzhou Dang Tian Xia Technology Company Limited (蘇州當天下網絡科技有限公司) (“**Dang Tian Xia**”) and Suzhou Huifang Sihai Regulation Company Limited (蘇州匯方四海調劑有限公司) (“**Huifang Sihai**”), to engage in technology development and regulating services in the PRC. In June 2017, the Group sold the two subsidiaries to a third party (Note 9(b)).

The interim condensed consolidated financial information are presented in thousands of Renminbi (RMB’000), unless otherwise stated.

These interim condensed consolidated financial information have been approved and authorised for issue by the board of directors (the “**Board**”) of the Company on 25 August 2017.





# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2017 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with HKFRSs.

### 2.1 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 principal and interest 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 enquiries, 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 interim condensed consolidated financial information. Further information on the Group's borrowings is given in Note 26.

## 3 ACCOUNTING POLICIES

The accounting policies applied in preparing these interim condensed consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

- (a) Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 3 ACCOUNTING POLICIES (Continued)

- (b) Impact of new standards issued but not yet applied by the entity

| Standards | Key requirements   | Effective from financial years starting on or after |
|-----------|--|---|
| HKFRS 15  | <p>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 goods or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.</p> <p>The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018.</p> <p>At this stage, the Group estimates that the impact of the new rules on the Group's financial statements is limited. The Group will make more detailed assessments of the impact over the next six months.</p>                                      | 1 January 2018                                      |
| HKFRS 9   | <p>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.</p> <p>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.</p> <p>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.</p> | 1 January 2018                                      |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 3 ACCOUNTING POLICIES (Continued)

- (b) Impact of new standards issued but not yet applied by the entity (Continued)

| Standards | Key requirements   | Effective from financial years starting on or after |
|-----------|--|---|
| HKFRS 9   | <p>There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.</p> <p>The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.</p> <p>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.</p> <p>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 HKFRS 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.</p> <p>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.</p> <p>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.</p> | 1 January 2018                                      |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 3 ACCOUNTING POLICIES (Continued)

(b) Impact of new standards issued but not yet applied by the entity (Continued)

| Standards | Key requirements   | Effective from financial years starting on or after |
|-----------|--|---|
| HKFRS 16  | <p>HKFRS 16 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.</p> <p>The accounting for lessors will not significantly change.</p> <p>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 RMB10,836 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.</p> <p>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.</p> <p>The new standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.</p> | 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

## 5 FINANCIAL RISK MANAGEMENT

### 5.1 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.

#### 5.1.1 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.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### 5.1.1 Credit risk (Continued)

##### (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 and inventory, 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.

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. Dongshan Micro-finance takes into consideration the borrower's repayment ability, repayment records, collateral status, 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### 5.1.1 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 interim condensed consolidated statement of financial position at period end is derived from each of the three loan categories by credit type. The majority of the impairment provision is from equity interest backed loans, real estate backed 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:

|  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|--|------------------------------|--------------------------------|
| Loans to customers, gross                      |                              |                                |
| Collateral-backed loans                        | 1,568,581                    | 1,525,529                      |
| — Real estate backed loans                     | 1,128,805                    | 1,089,431                      |
| — Equity interest backed loans                 | 379,774                      | 419,901                        |
| — Personal property and inventory backed loans | 60,002                       | 16,197                         |
| Guaranteed loans                               | 182,850                      | 273,729                        |
| Unsecured loans                                | 593,762                      | 485,400                        |
|  | 2,345,193                    | 2,284,658                      |
| Less: Impairment allowances                    |                              |                                |
| Collateral-backed loans                        | (213,977)                    | (220,585)                      |
| — Real estate backed loans                     | (73,719)                     | (49,317)                       |
| — Equity interest backed loans                 | (140,258)                    | (171,268)                      |
| — Personal property and inventory backed loans | —                            | —                              |
| Guaranteed loans                               | (35,684)                     | (33,342)                       |
| Unsecured loans                                | (3,967)                      | (6,306)                        |
|  | (253,628)                    | (260,233)                      |
|  | 2,091,565                    | 2,024,425                      |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### 5.1.1 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 and inventory 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 and inventory 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 six months ended 30 June 2017, there has been no incurred credit loss on the loans secured by personal property or inventory 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 20 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

|  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|--|------------------------------|--------------------------------|
| Credit risk exposures relating to assets are as follows: |                              |                                |
| Other receivables  | 16,920                       | 16,990                         |
| Loans to customers                                       | 2,091,565                    | 2,024,425                      |
| Deposit with banks                                       | 860,255                      | 910,919                        |
|  | 2,968,740                    | 2,952,334                      |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### 5.1.1 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 30 June 2017 and 31 December 2016, 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:

|  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|--|------------------------------|--------------------------------|
| Neither past due nor impaired            | 1,227,575                    | 1,043,847                      |
| Past due but not impaired                | 750,755                      | 880,398                        |
| Individually impaired                    | 366,863                      | 360,413                        |
| Gross                                    | 2,345,193                    | 2,284,658                      |
| Less: Impairment allowances (Note 20(c)) | (253,628)                    | (260,233)                      |
| Net                                      | 2,091,565                    | 2,024,425                      |

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### 5.1.1 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. No impairment allowance is considered 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 and guaranteed loans, there have been no significant changes in the customers' credit quality and the balances are considered fully recoverable. Gross amount of loans to customers that are past due but not impaired is analysed by aging as follows:

|                                     | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|-------------------------------------|------------------------------|--------------------------------|
| Real estate backed loans, gross     |                              |                                |
| Past due up to 1 month              | 3,153                        | —                              |
| Past due 1–3 months                 | 104                          | 6,884                          |
| Past due 4–6 months                 | 797                          | —                              |
| Past due over 6 months              | 721,696                      | 830,407                        |
|                                     | 725,750                      | 837,291                        |
| Equity interest backed loans, gross |                              |                                |
| Past due over 6 months              | —                            | 7,247                          |
|                                     | —                            | 7,247                          |
| Guaranteed loans, gross             |                              |                                |
| Past due up to 1 month              | —                            | 1,335                          |
| Past due 1–3 months                 | 6,600                        | 6,230                          |
| Past due 4–6 months                 | 6,345                        | 3,000                          |
| Past due over 6 months              | 8,990                        | 22,225                         |
|                                     | 21,935                       | 32,790                         |
| Unsecured loans, gross              |                              |                                |
| Past due over 6 months              | 3,070                        | 3,070                          |
|                                     | 3,070                        | 3,070                          |
| Past due but not impaired, total    | 750,755                      | 880,398                        |



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### 5.1.1 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 RMB1,660,376 thousand for real estate backed loans that were past due but not impaired as at 30 June 2017 (31 December 2016: RMB1,384,947 thousand).

##### (iii) Loans to customers individually impaired

|   | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|---|------------------------------|--------------------------------|
| Gross individually impaired loans                     |                              |                                |
| — Real estate backed loans                            | 143,369                      | 117,131                        |
| — Equity interest backed loans                        | 175,623                      | 199,648                        |
| — Guaranteed loans                                    | 47,871                       | 43,634                         |
|   | 366,863                      | 360,413                        |
| Impairment allowance made in respective of such loans |                              |                                |
| — Real estate backed loans                            | (57,506)                     | (32,780)                       |
| — Equity interest backed loans                        | (120,911)                    | (139,684)                      |
| — Guaranteed loans                                    | (28,672)                     | (25,266)                       |
|   | (207,089)                    | (197,730)                      |
| Net individually impaired loans                       | 159,774                      | 162,683                        |

##### (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 28.1% of the total loans to customers as at 30 June 2017 (31 December 2016: 29.1%). Interest income from the top five customers accounted for 23.1% of total interest income for the six months ended 30 June 2017 (2016: 28.1%).

#### 5.1.2 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 to interest rate risk arising from loans to customers, bank balances and bank and other borrowings. The Group has established policies and procedures for monitoring and managing market risk.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### 5.1.2 Market risk (Continued)

##### (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 and other 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 and other borrowings. As at respective balance sheet dates, maturity dates of loans to customers are all within 12 months, whilst maturity dates of bank and other borrowings are also 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 and other 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 RMB2,205 thousand for the six months ended 30 June 2017 (for the six months ended 30 June 2016: approximately RMB2,655 thousand), mainly as a result of higher/lower interest income on term deposits with banks and interest expense on fixed-rate bank and other borrowings arising from interest rate repricing.

Interest rates on other 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.

##### (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 30 June 2017, other than deposits with banks denominated in US dollar and Hong Kong dollar totaling RMB653,806 thousand (31 December 2016: RMB661,953 thousand) (Note 22), 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 lower/higher of RMB6,538 thousand for the six months ended 30 June 2017 (for the six months ended 30 June 2016: lower/higher of RMB6,297 thousand).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### 5.1.3 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, the Group monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) along with cash and cash equivalents on the basis of expected cash flow, expecting 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 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.

|   | Repayable<br>on demand<br>or within<br>1 month | 1-6<br>months    | 6-12 months      | Past due       | Total              |
|---|--|------------------|------------------|----------------|--------------------|
| <b>Unaudited<br/>As at 30 June 2017</b> |  |                  |                  |                |                    |
| Cash at bank and on hand                | 165,042  | 307,505          | 402,936          | —              | 875,483            |
| Loans to customers                      | 141,813  | 782,774          | 325,387          | 882,504        | 2,132,478          |
| <b>Total financial assets</b>           | <b>306,855</b>                                 | <b>1,090,279</b> | <b>728,323</b>   | <b>882,504</b> | <b>3,007,961</b>   |
| Borrowings                              | (80,150)                                       | (333,337)        | (908,203)        | —              | (1,321,690)        |
| Amounts due to related parties          | (27,633)                                       | —                | —                | —              | (27,633)           |
| Other financial liabilities             | (404)  | —                | —                | —              | (404)              |
| <b>Total financial liabilities</b>      | <b>(108,187)</b>                               | <b>(333,337)</b> | <b>(908,203)</b> | <b>—</b>       | <b>(1,349,727)</b> |
| <b>Net liquidity gap</b>                | <b>198,668</b>                                 | <b>756,942</b>   | <b>(179,880)</b> | <b>882,504</b> | <b>1,658,234</b>   |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Financial risk factors (Continued)

#### 5.1.3 Liquidity risk (Continued)

|   | Repayable<br>on demand<br>or within<br>1 month | 1–6 months       | 6–12<br>months   | Past due         | Total              |
|---|--|------------------|------------------|------------------|--------------------|
| <b>Audited<br/>As at 31 December 2016</b> |  |                  |                  |                  |                    |
| 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          |
| <b>Total financial assets</b>             | <b>710,807</b>                                 | <b>721,642</b>   | <b>521,180</b>   | <b>1,021,133</b> | <b>2,974,762</b>   |
| Borrowings                                | (234,104)                                      | (709,807)        | (370,094)        | —                | (1,314,005)        |
| Amounts due to related parties            | (633)  | —                | —                | —                | (633)              |
| Other financial liabilities               | (5,763)  | —                | —                | —                | (5,763)            |
| <b>Total financial liabilities</b>        | <b>(240,500)</b>                               | <b>(709,807)</b> | <b>(370,094)</b> | <b>—</b>         | <b>(1,320,401)</b> |
| <b>Net liquidity gap</b>                  | <b>470,307</b>                                 | <b>11,835</b>    | <b>151,086</b>   | <b>1,021,133</b> | <b>1,654,361</b>   |

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

### 5.2 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 30 June 2017 (31 December 2016: same). Management designated all equity investments held as "Financial assets designated at fair value through profit or loss".

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.2 Fair value of financial assets and liabilities (Continued)

#### (a) Fair value

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2017 and 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  |
|--|---------|---------|---------|--------|
| <b>As at 30 June 2017</b>  |         |         |         |        |
| Financial assets at fair value through profit or loss            |         |         |         |        |
| Financial assets designated at fair value through profit or loss |         |         |         |        |
| — Equity Investments   | —       | 55,868  | 24,001  | 79,869 |

|  | Level 1 | Level 2 | Level 3 | Total   |
|--|---------|---------|---------|---------|
| <b>As at 31 December 2016</b>                                    |         |         |         |         |
| 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 Levels 1 and 2 financial assets during the period. Transfer between Levels 2 and 3 is addressed in the Level 3 reconciliation below.

There were no other changes in valuation techniques during the period.

#### Valuation techniques used to derive Level 2 fair values

The fair value of Level 2 equity investments in public sector entities is based on the current bid price as at 30 June 2017. The fair value of Level 2 equity investments in unlisted entities is based on valuation techniques that maximize the use of observable market data.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

### 5.2 Fair value of financial assets and liabilities (Continued)

#### (a) Fair value (Continued)

##### Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in Level 3 financial instruments for the six months ended 30 June 2017.

| 30 June 2017  | Equity Investments |
|---|--------------------|
| Opening balance at 1 January  | —                  |
| Transfers to Level 3 (a)  | 34,550             |
| Purchases   | 10,000             |
| Settlements   | (30,000)           |
| Gains recognised in comprehensive income  | 9,451              |
| Closing balance at 30 June  | 24,001             |
| Total unrealised gains for the assets held at the end of the reporting period recognised in comprehensive income for the period | 9,451              |

- (a) In 2017, the Group transferred an equity investment in unlisted entity that has been fair valued using an observable market price from Level 2 to Level 3, because the Group changed the exit way of such equity investment and the quoted market price is no longer applicable. The investment is then fair valued using a discounted cash flow approach as at 30 June 2017, with a discount rate equals to a contractual rate of return. The main Level 3 input used by the Group for the equity investment pertains to the discount rate, which is not based on observable market data.

Of the total gains (For the six months ended 30 June 2016: Nil) recognised in comprehensive income in these periods, all amounts are attributable to the change in unrealised gains (For the six months ended 30 June 2016: Nil) relating to those assets or liabilities held at the end of the reporting period.

Unrealised gains of RMB9,451 thousands relating to the equity investments are recognised within 'Net investment gain' in the interim condensed consolidated statement of comprehensive income (For the six months ended 30 June 2016: Nil).

## 6 SEGMENT INFORMATION

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

The Group's operation is primarily located in the PRC under three legal entities, i.e., Wuzhong Pawnshop, Suzhou Huifang Tongda Information Technology Company Limited ("Huifang Tongda") and Dongshan Micro-finance. The principal business activity of the three entities is to grant loans to customers and provide financing guarantee in the Greater Suzhou Area.

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 six months ended 30 June 2017 and 2016.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 7 INTEREST INCOME

|  | Unaudited<br>Six months ended 30 June |         |
|--|---------------------------------------|---------|
|  | 2017                                  | 2016    |
| Interest income from loans to customers        |                                       |         |
| Collateral backed loans                        |                                       |         |
| – Real estate backed loans                     | 44,370                                | 50,430  |
| – Equity interest backed loans                 | 27,760                                | 19,996  |
| – Personal property and inventory backed loans | 4,389                                 | 7,092   |
| Unsecured loans                                | 34,394                                | 20,014  |
| Guaranteed loans                               | 16,439                                | 17,735  |
| Interest income from bank deposits             | 6,664                                 | 5,157   |
|  | 134,016                               | 120,424 |

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.

## 8 INTEREST EXPENSE

|  | Unaudited<br>Six months ended 30 June |        |
|--|---------------------------------------|--------|
|  | 2017                                  | 2016   |
| Interest expense on bank borrowings                  | 23,268                                | 22,982 |
| Interest expense on micro-finance company borrowings | 746                                   | —      |
| Other interest expenses                              | 16,376                                | 6,340  |
|  | 40,390                                | 29,322 |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 9 NET INVESTMENT GAIN

|   | Unaudited<br>Six months ended 30 June |      |
|---|---------------------------------------|------|
|   | 2017                                  | 2016 |
| Fair value losses — listed equity securities (a)  | (10,079)                              | —    |
| Fair value gains — unlisted equity securities (a) | 8,951                                 | —    |
| Net gains from disposal of subsidiaries (b)       | 8,150                                 | —    |
| Cash dividend of listed equity securities         | 107                                   | —    |
|   | 7,129                                 | —    |

- (a) For the six months ended 30 June 2017, fair value losses or gains are fair value change from financial instruments designated at fair value through profit and loss (For the six months ended 30 June 2016: Nil) (Note 21).
- (b) In 2017, the Group disposed two 100% owned subsidiaries, Dang Tian Xia and Huifang Sihai and realised net gains of RMB8,150 thousand (2016: Nil).

## 10 OTHER OPERATING INCOME, NET

|   | Unaudited<br>Six months ended 30 June |       |
|---|---------------------------------------|-------|
|   | 2017                                  | 2016  |
| Consultancy fee income — Suzhou Qian Dai (a)  | 1,560                                 | 1,210 |
| Net gains from disposal of repossessed assets | 567                                   | 947   |
| Guarantee fee income — Dongshan Micro-finance | 24                                    | 185   |
| Other income                                  | 18                                    | —     |
|   | 2,169                                 | 2,342 |

- (a) In February 2015, the Group established an internet finance platform named Suzhou Qian Dai, which acted as an intermedia agent between borrowers and lenders to earn a consultancy fee income. For the six months ended 30 June 2017, Suzhou Qian Dai charged a fixed consultancy fee at rates ranging from 1.5% to 8.0% per annum to the borrowers (For the six months ended 30 June 2016: from 1.5% to 8.6%).



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 11 ADMINISTRATIVE EXPENSES

|  | Unaudited<br>Six months ended 30 June |        |
|--|---------------------------------------|--------|
|  | 2017                                  | 2016   |
| Employee benefit expenses (Note 12)      | 18,578                                | 13,900 |
| Advertising costs                        | 3,663                                 | 3,413  |
| Operating lease payments                 | 2,428                                 | 2,190  |
| Transportation, meal and accommodation   | 2,014                                 | 2,601  |
| Professional and consultancy fees        | 1,698                                 | 1,741  |
| Telephone, utilities and office expenses | 1,106                                 | 1,290  |
| Commission fee                           | 876                                   | 563    |
| Value-added tax and surcharges (b)       | 714                                   | 1,597  |
| Depreciation and amortization            | 492                                   | 365    |
| Auditors' remuneration                   | 300                                   | —      |
| Business tax and surcharges (a)          | —                                     | 3,919  |
| Other costs                              | 1,796                                 | 743    |
|  | 33,665                                | 32,322 |

- (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) 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. Such value-added tax was not deductible and was recognised into administrative expenses before 1 May 2016.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 12 EMPLOYEE BENEFIT EXPENSES

|                                   | Unaudited<br>Six months ended 30 June |        |
|-----------------------------------|---------------------------------------|--------|
|                                   | 2017                                  | 2016   |
| Wages and salaries                | 6,862                                 | 5,988  |
| Discretionary bonuses             | 5,528                                 | 6,156  |
| Other social security obligations | 2,003                                 | 1,016  |
| Pension                           | 788                                   | 740    |
| Share-based payments (Note 24(b)) | 3,397                                 | —      |
|                                   | 18,578                                | 13,900 |

## 13 NET CHARGE OF IMPAIRMENT ALLOWANCE

|  | Unaudited<br>Six months ended 30 June |        |
|--|---------------------------------------|--------|
|  | 2017                                  | 2016   |
| Net charge of impairment allowance on loans to customers<br>(Note 20(c)) | 15,010                                | 69,088 |
| Net charge of impairment other assets (Note 19)                          | 213                                   | —      |
|  | 15,223                                | 69,088 |



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 14 OTHER (LOSSES)/GAINS, NET

|                                     | Unaudited<br>Six months ended 30 June |        |
|-------------------------------------|---------------------------------------|--------|
|                                     | 2017                                  | 2016   |
| Net foreign currency (losses)/gains | (15,650)                              | 12,976 |
| Government grants                   | 150                                   | 20     |
|                                     | (15,500)                              | 12,996 |

## 15 INCOME TAX EXPENSE

|                     | Unaudited<br>Six months ended 30 June |          |
|---------------------|---------------------------------------|----------|
|                     | 2017                                  | 2016     |
| Current income tax  | 13,503                                | 10,621   |
| Deferred income tax | (3,744)                               | (17,917) |
|                     | 9,759                                 | (7,296)  |

The difference between the actual income tax charge in the interim condensed 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:

|   | Unaudited<br>Six months ended 30 June |         |
|---|---------------------------------------|---------|
|   | 2017                                  | 2016    |
| Profit before income tax  | 38,536                                | 5,030   |
| Tax calculated at tax rates applicable to profits in the respective area  | 9,758                                 | 1,289   |
| Tax effect of:  |                                       |         |
| — Expenses not deductible for tax purposes                                | 463                                   | 306     |
| — Effect of different tax rates in countries in which the entity operates | (460)                                 | —       |
| — Adjustment in respect of prior years                                    | (2)                                   | (5,978) |
| — PRC withholding tax   | —                                     | (2,913) |
| Tax charge  | 9,759                                 | (7,296) |

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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 15 INCOME TAX EXPENSE (Continued)

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 estimated assessable profits.

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.

## 16 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 six months ended 30 June 2017 and 2016.

|  | Unaudited<br>Six months ended 30 June |           |
|--|---------------------------------------|-----------|
|  | 2017                                  | 2016      |
| Profit attributable to equity holders of the Company (RMB'000)     | 19,939                                | 3,257     |
| Weighted average number of ordinary shares in issue (in thousands) | 1,025,237                             | 1,025,237 |
| Basic earnings per share (RMB)                                     | 0.019                                 | 0.003     |

### (b) Diluted earnings per share

|   | Unaudited<br>Six months ended 30 June |           |
|---|---------------------------------------|-----------|
|   | 2017                                  | 2016      |
| Profit attributable to equity holders of the Company (RMB'000)                  | 19,939                                | 3,257     |
| Weighted average number of ordinary shares in issue (in thousands)              | 1,025,237                             | 1,025,237 |
| Adjustments for:  |                                       |           |
| — Share options (in thousands)  | 19,363                                | —         |
|   | 1,044,600                             | 1,025,237 |
| Weighted average number of ordinary shares for diluted earnings per share (RMB) | 0.019                                 | 0.003     |



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 17 DIVIDENDS

No interim dividends in respect of the six months ended 30 June 2017 has been declared by the Board of Directors by the release date of this financial information.

A total dividend of RMB30,000 thousand in respect of the year ended 31 December 2016 was approved by the Board of Directors of Dongshan Micro-finance on 20 January 2017. The amount paid to non-controlling interests was RMB18,000 thousand.

## 18 DEFERRED INCOME TAX

The movement in deferred income tax assets and liabilities for the six months ended 30 June 2017 and the year ended 31 December 2016, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

|  | Impairment<br>charge on<br>loans to<br>customers | Impairment<br>charge on<br>other assets | Net loss<br>from<br>financial<br>instruments<br>designated<br>at fair value<br>through<br>profit or loss | Recoverable<br>tax losses | Share-based<br>payments | Total  |
|--|--|---|--|---------------------------|-------------------------|--------|
| <b>Deferred income tax assets</b>                                  |  |   |  |                           |                         |        |
| <b>Unaudited</b>   |  |   |  |                           |                         |        |
| <b>At 1 January 2017</b>   | 69,135   | —                                       | 116  | 2,862                     | 381                     | 72,494 |
| Credited to the consolidated statements<br>of comprehensive income | (1,781)  | 53                                      | 282  | 4,341                     | 849                     | 3,744  |
| <b>At 30 June 2017</b>   | 67,354   | 53                                      | 398  | 7,203                     | 1,230                   | 76,238 |
| <b>Audited</b>   |  |   |  |                           |                         |        |
| <b>At 1 January 2016</b>   | 46,514   | —                                       | —  | 747                       | —                       | 47,261 |
| Credited to the consolidated statements<br>of comprehensive income | 22,621   | —                                       | 116  | 2,115                     | 381                     | 25,233 |
| <b>At 31 December 2016</b>   | 69,135   | —                                       | 116  | 2,862                     | 381                     | 72,494 |

As at 30 June 2017, no deferred income tax liabilities have been recognised for the PRC withholding tax which would be paid upon remittance (31 December 2016: same).

As at 30 June 2017, it is estimated that deferred income tax assets will be reversed over one year (31 December 2016: same).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 19 OTHER ASSETS

|  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|--|------------------------------|--------------------------------|
| Interest receivable from bank deposits         | 5,366                        | 6,144                          |
| Reposessed assets — personal properties, gross | 4,666                        | 5,667                          |
| Less: Impairment allowances                    | (213)                        | —                              |
| Reposessed assets — personal properties, net   | 4,453                        | 5,667                          |
| Other receivables                              | 11,554                       | 10,846                         |
|  | 21,373                       | 22,657                         |

## 20 LOANS TO CUSTOMERS

|  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|--|------------------------------|--------------------------------|
| Loans to customers, gross                      |                              |                                |
| Collateral backed loans                        | 1,568,581                    | 1,525,529                      |
| — Real estate backed loans                     | 1,128,805                    | 1,089,431                      |
| — Equity interest backed loans                 | 379,774                      | 419,901                        |
| — Personal property and inventory backed loans | 60,002                       | 16,197                         |
| Guaranteed loans                               | 182,850                      | 273,729                        |
| Unsecured loans                                | 593,762                      | 485,400                        |
|  | 2,345,193                    | 2,284,658                      |
| Less: Impairment allowances                    |                              |                                |
| — Individually assessed                        | (207,089)                    | (197,730)                      |
| — Collectively assessed                        | (46,539)                     | (62,503)                       |
|  | (253,628)                    | (260,233)                      |
| Loans to customers, net                        | 2,091,565                    | 2,024,425                      |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 20 LOANS TO CUSTOMERS (Continued)

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 8.0% to 30.0% per annum in the six months ended 30 June 2017 (2016: from 12.0% to 36.7%).

Guaranteed loans granted to customers bear fixed interest rates from 8.0% to 18.0% per annum in the six months ended 30 June 2017 (2016: from 8.0% to 18.0%).

Unsecured loans granted to customers bear fixed interest rates from 8.0% to 18.0% per annum in the six months ended 30 June 2017 (2016: from 6.0% to 18.0%).

Loans to customers are all denominated in RMB.

As at 30 June 2017, renewed loans amounted to RMB 157,543 thousand (31 December 2016: RMB 109,980 thousand), all are real estate backed loans (31 December 2016: same). No renewed loans had substantially modified their original contractual terms for the six months ended 30 June 2017 (2016: same).

### (a) Aging analysis of loans to customers

The aging analysis of loans to customers net of impairment allowances are set out below:

|                 | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|-----------------|------------------------------|--------------------------------|
| Within 3 months | 734,095                      | 713,123                        |
| 3–6 months      | 148,801                      | 188,504                        |
| 6–12 months     | 316,759                      | 93,313                         |
| 12–24 months    | 42,649                       | 615,558                        |
| Over 24 months  | 849,261                      | 413,927                        |
|                 | 2,091,565                    | 2,024,425                      |

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

|  | Individually<br>assessed | 30 June 2017<br>Collectively<br>assessed | Total    |
|--|--------------------------|--|----------|
| At beginning of period                             | 197,730                  | 62,503                                   | 260,233  |
| Impairment losses recognised                       | 58,358                   | 81                                       | 58,439   |
| Net write back of loan provision                   | (27,251)                 | (16,178)                                 | (43,429) |
| Unwind of discount on allowances during the period | (21,615)                 | —  | (21,615) |
| Other transfer (out)/in                            | (133)                    | 133                                      | —        |
| At end of period                                   | 207,089                  | 46,539                                   | 253,628  |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 20 LOANS TO CUSTOMERS (Continued)

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

|  | 31 December 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/(out)                            | 11,674                | (11,674)              | —        |
| At end of year                                     | 197,730               | 62,503                | 260,233  |

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

|                                    | Unaudited<br>Six months ended 30 June |        |
|------------------------------------|---------------------------------------|--------|
|                                    | 2017                                  | 2016   |
| Net charge of impairment allowance |                                       |        |
| Individually assessed              | 31,107                                | 69,974 |
| Collectively assessed              | (16,097)                              | (886)  |
|                                    | 15,010                                | 69,088 |

## 21 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|--|------------------------------|--------------------------------|
| Equity securities designated at fair value are analysed by issuers as follows: |                              |                                |
| Listed — Public sector entities  | 55,868                       | 66,447                         |
| Unlisted entities  | 24,001                       | 34,550                         |
|  | 79,869                       | 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 21 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Changes in fair value of the above equity investments are recorded in "Net investment gain" in the interim condensed consolidated statement of comprehensive income (Note 9(a)).

The fair value of equity investments in public sector entities is based on the current bid price as at 30 June 2017 and 31 December 2016.

The fair value of equity investments in unlisted entities is based on valuation techniques (Note 5.2).

Listed equity securities with fair value of RMB41,901 thousand (31 December 2016: RMB49,835 thousand) have been pledged with a securities company to secure borrowings with principal amount of RMB20,200 thousand (31 December 2016: same) from the securities company (Note 26(d)).

## 22 CASH AT BANK AND ON HAND

|   | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|---|------------------------------|--------------------------------|
| Cash on hand  | 1,802                        | 1,430                          |
| Demand deposits with banks                                      | 155,902                      | 189,786                        |
| Term deposits with banks with original maturities over 3 months | 704,353                      | 721,133                        |
|   | <b>862,057</b>               | 912,349                        |

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

|                  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|------------------|------------------------------|--------------------------------|
| RMB              | 208,251                      | 250,396                        |
| US dollar        | 652,444                      | 661,231                        |
| Hong Kong dollar | 1,362                        | 722                            |
|                  | <b>862,057</b>               | 912,349                        |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 22 CASH AT BANK AND ON HAND (Continued)

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

|  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|--|------------------------------|--------------------------------|
| Cash at bank and on hand   | 862,057                      | 912,349                        |
| Less: Unrestricted term deposits with banks with original maturities over 3 months | (317,070)                    | (327,123)                      |
| Restricted term deposits pledged with banks  | (387,283)                    | (394,010)                      |
|  | 157,704                      | 191,216                        |

As at 30 June 2017, restricted term deposits of US\$49,493 thousand (31 December 2016: US\$48,149 thousand), which is equivalent to approximately RMB335,283 thousand (31 December 2016: equivalent to approximately RMB334,010 thousand), were pledged with banks to secure bank borrowings with principal amount of RMB312,000 thousand (31 December 2016: RMB290,000 thousand) (Note 26).

As at 30 June 2017, restricted term deposits of RMB52,000 thousand (31 December 2016: RMB60,000 thousand) were pledged with banks to secure bank borrowings with principal amount of RMB48,000 thousand (31 December 2016: RMB57,000 thousand) (Note 26).

## 23 SHARE CAPITAL

|   | Number of<br>shares | Ordinary<br>shares<br>HK\$ | Ordinary<br>shares<br>RMB |
|---|---------------------|----------------------------|---------------------------|
| <b>Issued and fully paid</b>            |                     |                            |                           |
| As at 30 June 2017 and 31 December 2016 | 1,025,237,000       | 10,252,370                 | 8,111,008                 |



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 24 SHARE PREMIUM AND OTHER RESERVES

|                               | Other reserves |                 |                   |                 |                              | Total     |
|-------------------------------|----------------|-----------------|-------------------|-----------------|------------------------------|-----------|
|                               | Share premium  | Capital reserve | Statutory reserve | General reserve | Share-based payments reserve |           |
| At 1 January 2017             | 548,237        | 500,000         | 77,715            | 4,417           | 2,607                        | 1,132,976 |
| Share-based payments (b)      | —              | —               | —                 | —               | 3,397                        | 3,397     |
| At 30 June 2017               | 548,237        | 500,000         | 77,715            | 4,417           | 6,004                        | 1,136,373 |
| 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 |

### (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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 24 SHARE PREMIUM AND OTHER RESERVES (Continued)

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

|              | 2017  |                                     |
|--------------|---|-------------------------------------|
|              | Average exercise price in HK\$ per share option | Number of share options (thousands) |
| At 1 January | 0.62  | 50,000                              |
| Granted      | —   | —                                   |
| At 30 June   | 0.62  | 50,000                              |

  

|                | 2016  |                                     |
|----------------|---|-------------------------------------|
|                | Average exercise price in HK\$ per share option | Number of share options (thousands) |
| At 1 January   | —   | —                                   |
| Granted        | 0.62  | 50,000                              |
| At 31 December | 0.62  | 50,000                              |

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

The weighted average fair value of options granted during 2016 determined using the Black-Scholes valuation model was HK\$0.82 per option. The significant inputs into the model were weighted average share price of HK\$0.62 at the grant date, exercise price shown above, volatility of 51.79%, no dividend yield, an expected option life of five years, and an annual risk-free interest rate of 0.66%. 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 RMB3,397 thousand was recognised for share options granted to directors and employees for the six months ended 30 June 2017 (For the six months ended 30 June 2016: Nil).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 25 OTHER LIABILITIES

|                                    | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|------------------------------------|------------------------------|--------------------------------|
| Accrued employee benefits          | 5,029                        | 10,088                         |
| Turnover tax and other tax payable | 1,215                        | 891                            |
| Other financial liabilities        | 404                          | 5,763                          |
|                                    | 6,648                        | 16,742                         |

As at 30 June 2017, the Group's other financial liabilities were non-interest bearing (31 December 2016: same). The fair value approximates their carrying amounts due to their short maturities.

## 26 BORROWINGS

|  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|--|------------------------------|--------------------------------|
| Bank borrowings (a)  | 901,128                      | 888,422                        |
| Interests of holders of consolidated structured entities — Suzhou Qian Dai (b) | 284,799                      | 379,635                        |
| Borrowings from micro-finance company (c)                                      | 68,000                       | —                              |
| Borrowings from securities company (d)   | 20,242                       | 20,249                         |
|  | 1,274,169                    | 1,288,306                      |

- (a) Bank borrowings are with maturity within one year and bear fixed interest rates ranging from 4.4% to 6.2% per annum in the six months ended 30 June 2017 (2016: 4.4% to 5.9%).

As at 30 June 2017, bank borrowings with principal amount of RMB312,000 thousand (31 December 2016: RMB 290,000 thousand) were secured by restricted term deposits of US\$49,493 thousand (31 December 2016: US\$48,149 thousand) (Note 22).

As at 30 June 2017, bank borrowings with principal amount of RMB48,000 thousand (31 December 2016: RMB 57,000 thousand) were secured by restricted term deposits of RMB52,000 thousand (31 December 2016: RMB 60,000 thousand) (Note 22).

As at 30 June 2017, bank borrowings with principal amount of RMB370,000 thousand are guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (31 December 2016: same). As at 30 June 2017, bank borrowings with principal amount of RMB50,000 thousand are guaranteed by Jiangsu Wuzhong Group Co. Ltd ("Wuzhong Group") (31 December 2016: same). As at 30 June 2017, bank borrowings with principal amount of RMB120,000 thousand are guaranteed by Suzhou Huifang Technology Company Limited ("Huifang Technology") (31 December 2016: same).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 26 BORROWINGS (Continued)

(a) (Continued)

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 30 June 2017, the Group had no undrawn borrowing facilities (31 December 2016: same).

(b) As at 30 June 2017, interests of holders of consolidated structured entities are borrowings from individuals investors through the platform of Suzhou Qian Dai (31 December 2016: same).

As at 30 June 2017, the loans funded by the above borrowings through Suzhou Qian Dai and guaranteed by Dongshan Micro-finance were consolidated by the Group. Principal of such loans amounted to RMB281,000 thousand (31 December 2016: RMB375,198 thousand).

(c) As at 30 June 2017, borrowings from micro-finance company with principal amount of RMB68,000 thousand are guaranteed by Wuzhong Group (31 December 2016: nil).

(d) As at 30 June 2017, borrowings from a securities company with principal amount of RMB20,200 thousand are pledged by listed equity investment held by the Group (31 December 2016: same) (Note 21).

## 27 CONTINGENCIES

As at 30 June 2017, the Group did not have any significant contingent liabilities (31 December 2016: same).

## 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:

|   | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|---|------------------------------|--------------------------------|
| No later than 1 year                        | 5,232                        | 3,443                          |
| Later than 1 year and no later than 5 years | 5,604                        | 3,535                          |
| Later than 5 years                          | —                            | 31                             |
|   | 10,836                       | 7,009                          |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 28 COMMITMENTS (Continued)

### (b) Capital commitments

|                   | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|-------------------|------------------------------|--------------------------------|
| Huifang Jiada (a) | 50,000                       | 50,000                         |
| Dang Tian Xia     | —                            | 5,000                          |
| Huifang Sihai     | —                            | 1,000                          |
|                   | 50,000                       | 56,000                         |

- (a) The Group set up Huifang Jiada on 15 December 2016. The registered capital is RMB50,000 thousand and has not been paid up by the Group as at 30 June 2017.

## 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 exercise 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<br>Wuzhong Group   | Direct equity holder of Wuzhong Pawnshop<br>Controlling shareholder of Wuzhong Jiaye before Reorganisation |
| Jiangsu Wuzhong Real Estate Group Co., Ltd.<br>(江蘇吳中地產集團有限公司) (“ <b>Wuzhong Real Estate</b> ”)                               | A related party controlled by Wuzhong Group  |
| Wuzhong America Services for Cultural Education and Communication Ltd (“ <b>Wuzhong America</b> ”)                           | A related party controlled by Wuzhong Group  |
| BVI companies wholly owned by each of the Ultimate Shareholders (“ <b>BVI entities owned by the Ultimate Shareholders</b> ”) | Related parties controlled by each of the Ultimate shareholders  |
| Tricor Services Limited (卓佳專業商務有限公司) (“ <b>Tricor</b> ”)   | Company Secretary  |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(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:

|  | Unaudited<br>Six months ended 30 June |         |
|--|---------------------------------------|---------|
|  | 2017                                  | 2016    |
| Office rental payable to Wuzhong Real Estate by the Group  | —                                     | 772     |
| Borrowings guaranteed by Wuzhong Jiaye and Ultimate Shareholders (in principal amount at period end) (Note 26) | 370,000                               | 370,000 |
| Borrowings guaranteed by Wuzhong Group (in principal amount at period end) (Note 26)                           | 118,000                               | 60,000  |
| Interest expenses paid to Directors and key management on P2P platform   | 214                                   | 239     |

### (c) Balances with related parties

|  | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|--|------------------------------|--------------------------------|
| <b>Amounts due to related parties</b>                  |                              |                                |
| Due to Wuzhong Jiaye                                   | 27,000                       | —                              |
| Due to BVI entities owned by the Ultimate Shareholders | 633                          | 633                            |
|  | 27,633                       | 633                            |

Balances with related parties were interest-free.

|   | 30 June<br>2017<br>Unaudited | 31 December<br>2016<br>Audited |
|---|------------------------------|--------------------------------|
| Borrowings provided by Directors and key management on P2P platform | 512                          | 4,204                          |



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2017

(All amounts in RMB thousands unless otherwise stated)

## 29 RELATED PARTY TRANSACTIONS (Continued)

### (d) Key management compensation

Key management comprises six members including executive directors, chief risk officer and vice presidents. The compensation paid or payable to key management for employee services is shown below:

|   | Unaudited<br>Six months ended 30 June |       |
|---|---------------------------------------|-------|
|   | 2017                                  | 2016  |
| Basic salaries                                | 2,180                                 | 1,290 |
| Discretionary bonuses                         | 1,325                                 | 845   |
| Pension and other social security obligations | 243                                   | 122   |
| Share-based payments                          | 1,181                                 | —     |
|   | 4,929                                 | 2,257 |

### (e) Key management personnel services provided by management entity

For the six months ended 30 June 2017, the Group paid RMB36 thousand to Tricor for the company secretary services (2016: RMB37 thousand).

# DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below.

|  |   |
|--|---|
| "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 report, Hong Kong, Macau and Taiwan   |
| "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  |
| "Director(s)"                                | the director(s) of our Company  |
| "Contractual Arrangements"                   | A series of contracts entered into by Huifang Tongda, Huifang Technology, PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and PRC Shareholders (as the case may be), details of which are set out in the section headed "Our History and Reorganisation — Contractual Arrangement" in the Prospectus  |
| "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",<br>"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 Xingqu 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   |
| "HKICPA"                                     | Hong Kong Institute of Certified Public Accountants   |
| "HK\$"                                       | Hong Kong dollars, the lawful currency of Hong Kong   |
| "HKFRS"                                      | Hong Kong Financial Reporting Standards issued by HKICPA  |
| "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 Commerce of Suzhou, Jiangsu                       |

## DEFINITIONS (CONTINUED)

|                    |   |
|--------------------|---|
| “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 Commerce of Wuzhong, Suzhou |
| “Listing”          | the listing of the Shares of the Company on the Main Board of 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   |
| “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 Wuxian Wuzhong Pawnshop Co., Ltd.* (吳縣市吳中典當行有限公司), 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 members of the senior management 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   |
| “Reporting Period” | For the six months ended 30 June 2017   |
| “RMB”              | Renminbi, the lawful currency in the PRC  |
| “SFO”              | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time   |
| “Stock Exchange”   | The Stock Exchange of Hong Kong Limited   |
| “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) |

In this report, the terms “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.

\* For identification purpose only

# GLOSSARY

The glossary contains explanations of certain terms and definitions used in this 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 and 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%  |