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

2017 ANNUAL REPORT

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

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

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

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Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

Committee Composition

Audit Committee

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

Remuneration Committee

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

Nomination Committee

Mr. 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 Baodai East Road, Suzhou
Jiangsu Province, the PRC

Principal Share Registrar

Conyers Trust Company (Cayman) Limited

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited

Principal Banks

Jiangsu Bank, Suzhou Branch
Suzhou Bank, Suzhou Branch

Auditors

PricewaterhouseCoopers

Legal Advisers

Mayer Brown JSM
Haiwen & Partners

Company's Website

www.cnhuirong.com

Stock Code

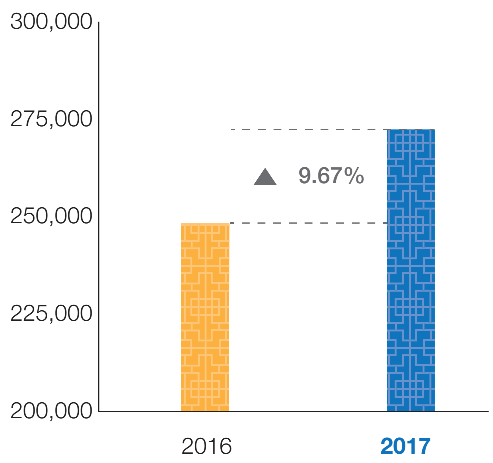
The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited

Stock Code 01290

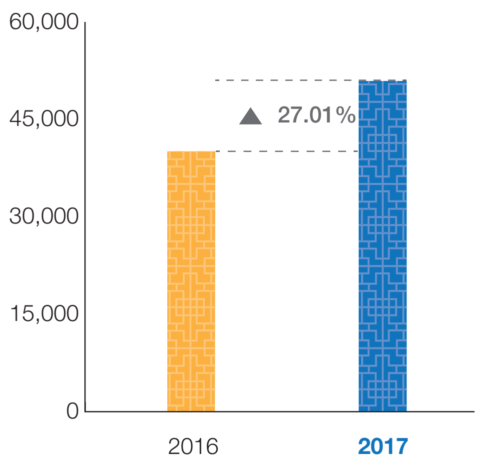
Financial Summary

	For the year ended or as at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Operating Results					
Revenue	**272,353**	248,334	375,536	388,832	236,664
Net revenue	**207,028**	187,816	323,334	335,967	218,743
Profit attributable to equity holders	**50,904**	40,078	101,886	165,003	126,731
Financial Position					
Total assets	**3,034,269**	3,136,179	2,769,417	2,380,204	2,074,946
Cash at bank and on hand	**941,645**	912,349	670,547	855,975	816,845
Loans to customers	**1,945,652**	2,024,425	2,030,053	1,494,248	750,114
Total liabilities	**1,180,304**	1,336,041	1,002,596	880,091	744,607
Net assets	**1,853,965**	1,800,138	1,766,821	1,500,113	1,330,339

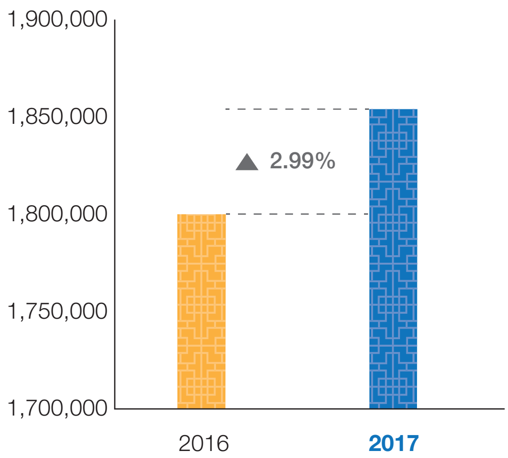
Revenue (RMB'000)



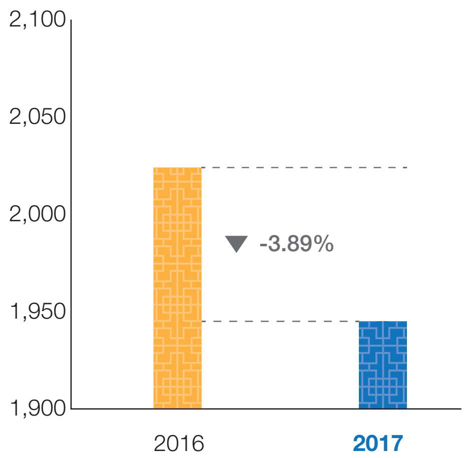
Profit attributable to equity holders (RMB'000)



Net assets (RMB'000)



Loans to customers (RMB in millions)



CHAIRMAN'S STATEMENT

Wu Min
Chairman of the Board

Chairman's Statement (Continued)

THE COMPANY IS COMMITTED TO THE CREATION OF FOUR BUSINESS DIVISIONS: THE FINANCE DIVISION FOR SMALL-AND-MEDIUM-SIZED ENTERPRISES AND INDIVIDUALS, THE INTERNET FINANCE DIVISION, THE CIVILIAN PRODUCTS AND PIPELINES COOPERATION DIVISION AND THE SUPPLY CHAIN FINANCE DIVISION. IT WILL STEP UP THE DISPOSAL OF EXISTING ASSETS, ACTIVELY ENTER THE FIELD OF SCIENCE AND TECHNOLOGY FINANCE, IMPROVE CORPORATE CAPITAL OPERATION EFFICIENCY, EXPAND BUSINESS AREAS AND PROVIDE CLIENT WITH COMPREHENSIVE AND ALL-AROUND FINANCIAL SERVICES.

On behalf of the board of directors of China Huirong Financial Holdings Limited, I am pleased to present the annual report for the year ended 31 December 2017.

In 2017, the Company adjusted its development strategies and continuously improved its internal management structure, responding to adverse economic and industrial environment positively. The Company achieved certain results in active recovery of overdue assets. In the meanwhile, it continued to increase its investment in internet finance and achieved a good reputation and social benefits in Suzhou. The Company also engaged in the on-lending business based on bank cooperation, providing loans for an especially short-term that mainly last from a few days to over ten days. Such service mitigated business risks and yielded good economic benefits. In addition, the Company attained certain achievement in its refined management, realizing product standardization and whole-process control step by step. This serves as a robust guarantee for controlling risks and sustaining business, and lays a solid foundation for business development in 2018.

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

In 2018, we will continue to work towards our goal of providing comprehensive financing services. We are recognized by banks and customers for our four business divisions that feature a transparent process and controllable risks. We predict that our business will embrace considerable development in 2018. In the new year, we will combine traditional businesses to explore and enter the area of science and technology finance and increase the internal value; we will also further intensify the collection and disposal of our stock assets and to lift the efficiency of our asset operation. In short, we will strive to expand our operation space and provide diversified financing services to our customers, so as to create a greater value for our shareholders.

The year 2018 is going to be an important year of innovation development for the Group.

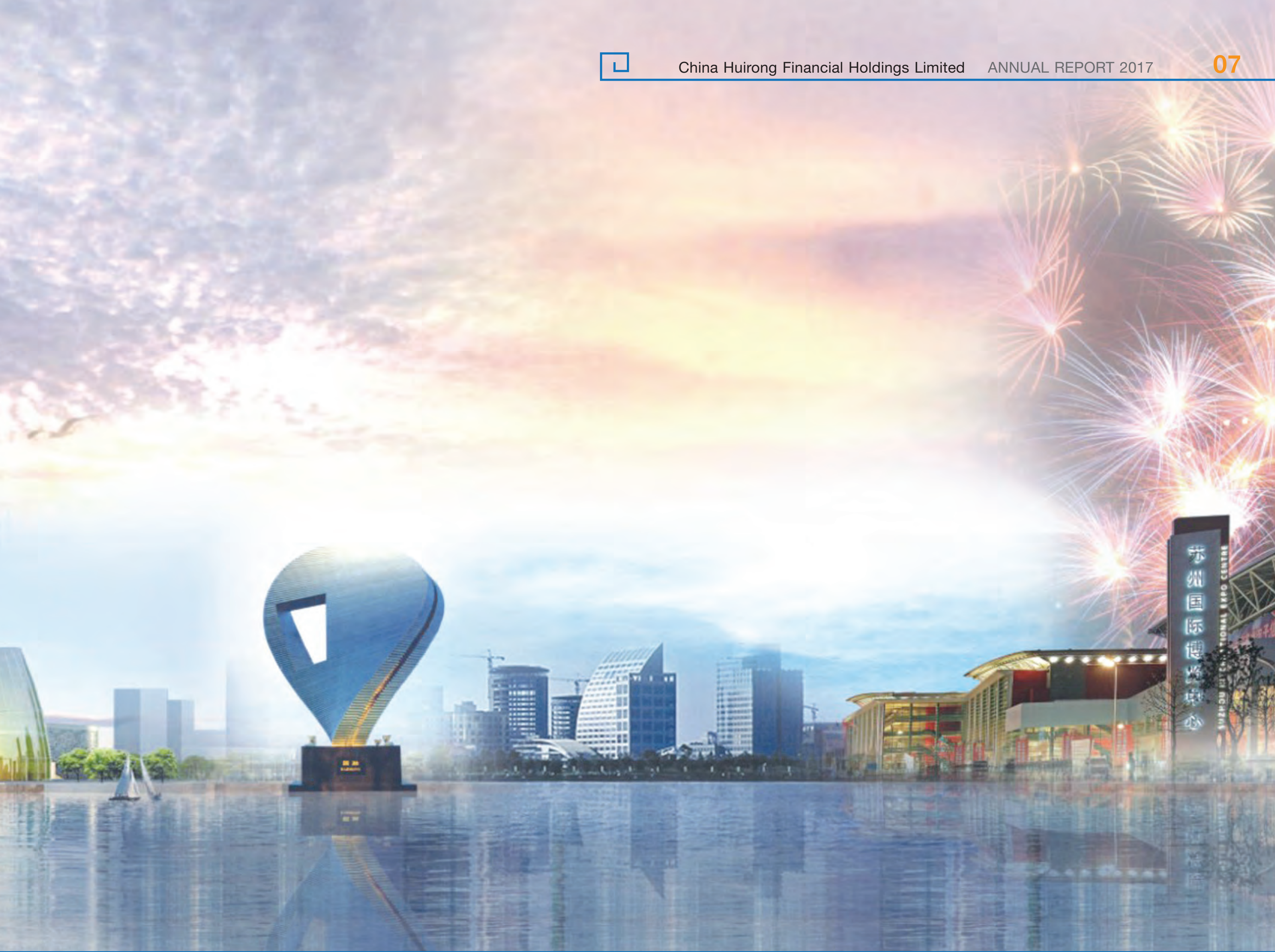
China Huirong Financial Holdings Limited
WU Min
Chairman of the Board of Directors

23 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

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

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



After two years of profound transformation and upgrading in 2016 and 2017, the Company has shown encouraging changes in its organizational structure, business philosophy and management methods. The Company has refocused its business on providing diversified and short-term inclusive financial services to small and medium-size companies and individuals. Its development orientation was generally correct and the organization was full of vitality; the comprehensive risk management was progressing intensively, and new problems and new requirements brought by the rapid development of new businesses, new products, and new channels require us to launch proper risk control measures in a timely manner without leaving any dead ends. The overall performance was steadily improving.

1 Business Review and Development

1.1 Loans to customers

The following table sets out the details of new loans and renewed loans, including loans secured by real estate collateral, equity interest collateral, unsecured loans and guaranteed loans we granted during the indicated periods as at 31 December 2017:

	Year ended 31 December	
	2017	2016
Total new loan amount granted (RMB in millions)	**3,624**	4,091
Total number of new loans granted	**1,280**	704
Total loan amount renewed (RMB in millions)	**129**	34
Total number of loans renewed	**81**	12
Average loan repayment period (days)	**140**	127

During the Reporting Year, the average loan repayment period increased by 13 days from 127 days for the year ended 31 December 2016 to 140 days.

Management Discussion and Analysis (Continued)

1.2 Outstanding loans to customers

As at 31 December 2017, our outstanding loans to customers were RMB2,154,893 thousand. The following table sets forth our gross amount of outstanding loans to customers for the indicated periods:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Loans to customers, gross		
Real estate backed loans	**1,172,861**	1,089,431
Equity interest backed loans	**254,837**	419,901
Personal property backed loans	**38,226**	16,197
Guaranteed loans	**205,783**	273,729
Unsecured loans	**483,186**	485,400
	2,154,893	2,284,658

As at 31 December 2017, the outstanding loans of Wuzhong Pawnshop were RMB1.40 billion, of which the outstanding loans secured by real estate collateral were RMB1.10 billion, which almost reached the statutory limit, and the outstanding loans secured by equity interest collateral were RMB260 million, which was due to management's effort on compressing large loans secured by equity interest collateral; the outstanding entrusted loans of Huifang Tongda were RMB70 million; the outstanding loans of Dongshan Micro-finance were RMB440 million; the outstanding loans granted through P2P platform by Huifang Rongda and guaranteed by Dongshan Micro-finance were RMB190 million; and the outstanding loans of Huida Factoring were RMB50 million. The gross amount of outstanding loans to customers was RMB2.15 billion, representing a decrease of RMB130 million, or 5.7%, as compared with 2016.

1.3 Online P2P lending business — Suzhou Qian Dai

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

During the Reporting Year, Suzhou Qian Dai launched 2,870 projects in total. The number of its registered users reached 47,690 and the outstanding balance of its projects amounted to RMB414,423 thousand as at 31 December 2017.

Management Discussion and Analysis (Continued)

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

	As at 31 December	
	2017	2016
Total lending business amount (RMB in millions)	**1,684**	2,352
Total number of lending business	**2,870**	661

In 2017, in order to meet the requirements imposed by regulatory agencies such as Jiangsu Provincial Office of Finance on the lending limit for online lending intermediaries, Suzhou Qian Dai platform rectified the situation in which the balance of loans of single borrower exceeded the limit, and the rectification was completed prior to the reporting date. The total loan amount of its lending business in the year decreased by 28% as compared to last year, and the total number of loan of its lending business increased by 334% as compared to last year, which showed a trend of decrease in the amount per transaction.

1.4 Effective yield of loans to customers

During the Reporting Year, the effective loan yield declined to 14.5% from that of last year (2016: 15.1%). The decline in loan yield was attributable to the increase of operating efficiency and lower rate charged to quality customers by the Company. To maintain our regional market leadership and competitiveness, the Company continued to lower the rates charged to our customers during the Reporting Year.

1.5 Impairment allowance

As at 31 December 2017, the Group had outstanding loans that individually impaired amounting to RMB401,563 thousand, representing 18.6% of the total outstanding loans granted to customers (before provision). The above loans are expected to incur impairment loss of RMB177,469 thousand. In light of the changes in market environment, impairment allowances were made to adequately reflect the Group's credit risk exposure. As at 31 December 2017, the gross impairment allowance made by the Group amounted to RMB209,241 thousand, representing 9.7% of the total outstanding loans granted to customers (before provision).

Management Discussion and Analysis (Continued)

2 Financial Review

During the Reporting Year, the net revenue of the Group was RMB207,028 thousand, representing an increase of 10.2% as compared with 2016. Profit attributable to equity holders was RMB50,904 thousand, representing an increase of 27% as compared with 2016.

The financial review is summarised as follows:

2.1 Interest income, interest costs and net interest margin

Interest income:

In 2017, the interest income increased by 9.7% as compared to that of last year, mainly due to the Group's reduction of non-interest-earning loans and granting the same to generate interest income; the business volume of P2P platforms increased, and an interest income of approximately RMB39.80 million was generated through loans on balance sheets, representing an increase of approximately 19.7% as compared to last year; the average daily balance of term deposits in banks increased, the interest rate of term deposits rose from 1.86% in 2016 to 1.93%, and the interest income of bank deposits increased by RMB23.51 million.

Interest income from the top five customers accounted for 19.9% of total interest income for the year ended 31 December 2017 (2016: 27.4%). The concentration on customers of our interest income has declined for four consecutive years.

Interest cost:

During the Reporting Year, our interest costs amounted to RMB74,237 thousand (2016: RMB65,639 thousand), representing an increase of 13.1% from that in 2016. The increase of interest cost was mainly due to the higher borrowing rates of Dongshan Micro-finance, a subsidiary of the Company, and the increase of P2P lending business, which resulted in an interest expense of approximately RMB25.38 million derived from loans on balance sheets, representing an increase of approximately 24.5% as compared with RMB20.39 million of last year.

Net interest margin:

Net interest margin equals net interest income for the year divided by the average of the beginning and the ending balances of interest-earning assets, which equals the sum of the balances of loans to customers and deposits with banks. Net interest margin was 6.8% during the Reporting Year (2016: 6.5%).

Management Discussion and Analysis (Continued)

2.2 Administrative expenses

The administrative expenses during the Reporting Year amounted to RMB66,922 thousand (2016: RMB63,998 thousand), representing an increase of RMB2,924 thousand or 4.6% from that of 2016. The increase was mainly due to:

The Group has newly recruited a certain number of employees to expand its business and launched an employee reward plan in 2016, which resulted in an increase in employee benefit expenses by RMB8,030 thousand in 2017; at the same time, the Group reduced certain advertising expenses from RMB7,586 thousand in 2016 to RMB5,470 thousand.

2.2.1 Employee benefit expenses

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages and salaries	**14,321**	12,806
Discretionary bonuses	**12,307**	10,054
Pension	**1,677**	1,455
Other social security obligations	**4,403**	2,028
Share-based payments	**4,272**	2,607
	36,980	28,950

As at 31 December 2017, the Group had a total of 161 full-time employees, with an increase of 13 people from 148 people as at 31 December 2016. We will adjust the number of our employees and our remuneration policy based on the development of our business and review of our employees' performance. As at 31 December 2017, the employee benefit expenses were RMB36,980 thousand, representing an increase of RMB8,030 thousand or 27.7% as compared to that of previous year.

Management Discussion and Analysis (Continued)

2.2.2 Share-based payments

To reward and motivate eligible participants for their contribution to the Group and align their interest with the Company, the Group granted 50,000,000 share options to subscribe for up to a total of 50,000,000 shares to the directors and selected employees on 13 September 2016 (the "Date of Grant") with an exercise price of HK$0.62 per share. The exercise of the aforesaid share options is conditional upon (a) the achievement of certain performance targets by the relevant individual grantees and/or the Group, up to 50% of the share options so granted to him/her at any time during the period commencing from the 1st anniversary of the Date of Grant and ending on 12 September 2021; and (b) the achievement of certain performance targets by the relevant individual grantees and/or the Group, up to 100% of the share options so granted to him/her less the share options which have been exercised by him/her at any time during the period commencing from the 2nd anniversary of the Date of Grant and ending on 12 September 2021 (for more details, please refer to the announcement of the Company dated 13 September 2016). Employee benefit expense of RMB4,272 thousand was recognised for share options granted to directors and employees for the year ended 31 December 2017. Details of exercise price and number of share option are set out below:

	2017	
	Average exercise price in HK$ per share option	**Number of share options** (in thousands)
At 1 January	—	—
Granted	0.62	50,000
Exercised	0.62	(11,550)
Forfeited	0.62	(10,443)
At 31 December	0.62	28,007

2.2.3 The ratio of administrative expenses to net revenue

During the Reporting Year, the ratio of administrative expenses to net revenue was 32.3% (2016: 34.1%).

Management Discussion and Analysis (Continued)

2.3 Net charge of impairment allowance

During the Reporting Year, net charge of impairment allowance was RMB10,142 thousand (2016: RMB106,610 thousand).

	Twelve months ended 31 December	
	2017 RMB'000	2016 RMB'000
Net charge/(reverse) of impairment allowance on loans to customers		
Individually assessed	**37,371**	84,936
Collectively assessed	**(28,395)**	21,674
	8,976	106,610
Net charge of impairment allowance on other assets	**1,166**	—
	10,142	106,610

During the Reporting Year, the net charge of impairment allowance decreased by 90.5% as compared to that in the previous year which was mainly due to the net charge of impairment allowance of individually impaired loans was approximately RMB37,371 thousand, decreased by approximately 56.0% as compared to RMB84,936 thousand in 2016; the net reverse of impairment allowance of collectively assessed impaired loans was RMB28,395 thousand (2016: net charge of impairment allowance was RMB21,674 thousand).

2.4 Income tax expenses

During the Reporting Year, the income tax expenses amounted to RMB28,396 thousand, representing an increase of 243.8% as compared with 2016 (2016: RMB8,259 thousand). The effective tax rate in 2017 was 30.34%, which was mainly due to the inclusion of the withholding tax of RMB4,550 thousand resulted from the distribution of profit by Huifang Technology to Huifang Investment. The effective tax rate after excluding the said effect was 25.59%.

2.5 Profit attributable to equity holders and return on assets

During the Reporting Year, profit attributable to equity holders was RMB50,904 thousand (2016: RMB40,078 thousand), representing an increase of 27% as compared with 2016. During the Reporting Year, return on average assets was 1.6% (2016: 1.9%) and return on average equity was 2.8% (2016: 3.5%).

Management Discussion and Analysis (Continued)

3 Loans to Customers

3.1 Loan portfolio

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

	As at 31 December	
	2017	2016
Gross loans to customers, inclusive of principal and interest (RMB'000)		
Real estate backed loans	**1,172,861**	1,089,431
Equity interest backed loans	**254,837**	419,901
Personal property backed loans	**38,226**	16,197
Guaranteed loans	**205,783**	273,729
Unsecured loans	**483,186**	485,400
Total	**2,154,893**	2,284,658
Number of loans outstanding		
Real estate backed loans	**264**	134
Equity interest backed loans	**28**	35
Personal property backed loans	**979**	853
Guaranteed loans	**107**	103
Unsecured loans	**297**	113
Total	**1,675**	1,238
Average loan amount (RMB'000)		
Real estate backed loans	**4,443**	8,130
Equity interest backed loans	**9,101**	11,997
Personal property backed loans	**39**	19
Guaranteed loans	**1,923**	2,658
Unsecured loans	**1,627**	1,846
Total	**17,133**	24,650

Management Discussion and Analysis (Continued)

3.2 Loan classification and impairment allowances

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

	As at 31 December			
	2017		2016	
	RMB'000	**%**	RMB'000	%
Neither past due nor impaired (i)	**1,028,299**	**47.7%**	1,043,847	45.7%
Past due but not impaired (ii)	**725,031**	**33.7%**	880,398	38.5%
Individually impaired (iii)	**401,563**	**18.6%**	360,413	15.8%
Gross	**2,154,893**	**100.0%**	2,284,658	100.0%
Less: Impairment allowance	**(209,241)**	**9.7%**	(260,233)	11.4%
Net	**1,945,652**	**—**	2,024,425	—

(i) Loans neither past due nor impaired

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

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

(ii) Loans past due but not impaired

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

As at 31 December 2017, the Group accepted real estate collateral at fair value of approximately RMB1,473,833 thousand for real estate backed loans that were past due but not impaired (2016: approximately RMB1,384,947 thousand).

As at 31 December 2017, loans that were past due but not impaired amounted to RMB725,031 thousand, including loans secured by real estate collateral of RMB719,263 thousand, accounting for 99.2%; guaranteed loans of RMB5,568 thousand, accounting for 0.77%; and unsecured loans of RMB200 thousand, accounting for 0.03%.

Management Discussion and Analysis (Continued)

(iii) As at 31 December 2017, loans to customers which were individually impaired amounted to RMB401,563 thousand, with an estimated loss of RMB177,469 thousand. The estimated loss is due to the difficulty in generating future cash flows faced by a small number of customers and is measured based on the difference between the carrying amount and the present value of estimated future cash flows of the credit assets.

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Real estate backed loans	**(78,844)**	(49,317)
Equity interest backed loans	**(91,325)**	(171,268)
Personal property backed loans	**—**	—
Guaranteed loans	**(33,631)**	(33,342)
Unsecured loans	**(5,441)**	(6,306)
Total	**(209,241)**	(260,233)

In light of the changes in market environment, impairment allowances were made to adequately reflect the Group's market risk exposure. As at 31 December 2017, the impairment allowance for loans secured by real estate collateral, loans secured by equity interest collateral, guaranteed loans and unsecured loans amounted to RMB209,241 thousand, representing 9.7% of the total outstanding loans granted to customers (before provision). The balance comprised of individually assessed impairment allowance of RMB177,469 thousand and collectively assessed impairment allowance of RMB31,772 thousand.

Management Discussion and Analysis (Continued)

3.3 Loans under legal proceedings

RMB'000		31 December 2017 Involving principal and interest	31 December 2016 Involving principal and interest
Real estate backed loans	Number of clients	**36**	31
	Outstanding loans	**538,649**	626,547
Equity interest backed loans	Number of clients	**12**	16
	Outstanding loans	**136,500**	148,833
Guaranteed loans	Number of clients	**19**	13
	Outstanding loans	**42,916**	26,654
Total	Number of clients	**67**	60
	Outstanding loans	**718,065**	802,034

As at 31 December 2017, there are 33 real estate backed loans amounted to RMB380,621 thousand that are past due but not impaired under legal proceeding. No loss is expected to be incurred on such loans. The loans are fully secured by real estate collateral with a reasonably ascertainable market value and considered fully recoverable. Among the loans that were individually impaired, we have initiated legal proceedings for the recovery of 15 loans, which are secured by equity interest collateral and amounted to RMB155,378 thousand. Individually assessed impairment allowance of RMB83,399 thousand was provided on such loans. To improve the operational efficiency of our assets, the Group strengthened the collection on loans that were past due by taking legal proceedings against customers during 2017.

Management Discussion and Analysis (Continued)

4. Credit Risk Management

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

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

	As at 31 December	
	2017	2016
Aggregate loan amount (RMB in thousands)		
Real estate backed loans	**1,172,861**	1,089,431
Equity interest backed loans	**254,837**	419,901
Appraised value of collateral at time of pawn loan approval (RMB in millions)		
Real estate backed loans	**2,141**	1,732
Equity interest backed loans	**1,189**	1,552
Range of appraised loan-to-value ratios of pawn loans		
Real estate backed loans	**7%–70%**	6%–69%
Equity interest backed loans	**4%–48%**	3%–48%
Weighted average appraised loan-to-value ratio of pawn loans		
Real estate backed loans	**55%**	56%
Equity interest backed loans	**34%**	34%

Management Discussion and Analysis (Continued)

5. Total Equity and Capital Management

5.1 Total Equity

Our total equity as at 31 December 2017 was RMB1,853,965 thousand, representing an increase of RMB53,827 thousand or 3.0% as compared to that as at 31 December 2016. The increase was due to:

(i) during the Reporting Year, the total net profit attributable to equity holders of RMB50,904 thousand;

(ii) during the Reporting Year, increase in share capital and share premium of RMB423 thousand and RMB45,879 thousand, through private placement of new shares by the Company; and

(iii) the Group issued shares under share option scheme.

5.2 Gearing ratio management

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

Our gearing ratio as at 31 December 2017 was 32.5% (2016: 37.9%).

6. Borrowings and Pledge of Assets

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

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Bank borrowings (a)	**844,812**	888,422
Borrowings from securities company (d)	**27,051**	20,249
Borrowings from targeted financing plan (e)	**19,510**	—
Borrowings from micro-finance company (c)	**68,174**	—
Interests of holders of consolidated SEs — Suzhou Qian Dai (b)	**191,421**	379,635
	1,150,968	1,288,306

Management Discussion and Analysis (Continued)

(a) (i) Bank borrowings are with maturity within one year and bear fixed interest rates ranging from 4.35% to 5.66% per annum in the year ended 31 December 2017 (2016: From 4.35% to 6.20%).

(ii) As at 31 December 2017, bank borrowings with principal amount of RMB306,000 thousand were secured by restricted term deposits at bank of US$49,796 thousand (equivalent to approximately RMB325,378 thousand) (as at 31 December 2016: bank borrowings with principal amount of RMB290,000 thousand were secured by restricted term deposits at bank of US$48,149 thousand (equivalent to approximately RMB334,010 thousand)).

(iii) As at 31 December 2017, bank borrowings with principal amount of RMB47,500 thousand were secured by restricted term deposits at bank of RMB50,000 thousand (as at 31 December 2016: bank borrowings with principal amount of RMB57,000 thousand were secured by restricted term deposits at bank of RMB60,000 thousand).

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

(b) As at 31 December 2017, the loan with principal amount of RMB181,781 thousand that raised from Suzhou Qian Dai and guaranteed by Dongshan Micro-finance was consolidated into the Group (2016: RMB375,198 thousand).

(c) As at 31 December 2017, the loan with principal amount of RMB68,000 thousand from micro-finance companies was guaranteed by Jiangsu Wuzhong Group Co., Ltd. (2016: Nil).

(d) As at 31 December 2017, the loan with principal amount of RMB27,000 thousand from securities company was secured by the pledge of 3,177,966 shares of listed company held by the Group.

(e) As at 31 December 2017, the loan with principal amount of RMB19,510 thousand from Suzhou Financial Assets Trading Center was guaranteed by Jiangsu Wuzhong Group Co., Ltd. (2016: Nil).

Management Discussion and Analysis (Continued)

7. Capital Receipt and Expenditure

Our capital receipt and expenditure primarily consists of purchases of property, intangible assets, transactions with non-controlling interests and proceeds from disposal of subsidiaries. During the Reporting Year, the Company recorded a net capital receipt of RMB6,283 thousand (2016: net capital expenditure of RMB1,224 thousand).

8. Significant Investments, Acquisition and Disposal

According to the development needs of the Company and the policy situation, in December 2017, the Company further acquired 20% equity interests in Dongshan Micro-finance at a consideration of RMB60,000 thousand, which was settled during the period.

9. Contingencies, Contractual Obligations, Liquidity and Financial Resources

9.1 Contingencies

As at 31 December 2017, the Group did not have any significant contingent liabilities except the following commitments (2016: Same).

9.2 Commitments

a. Operating lease Commitments

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
No later than 1 year	**5,722**	3,443
Later than 1 year and no later than 5 years	**5,335**	3,535
Later than 5 years	**–**	31
	11,057	7,009

Management Discussion and Analysis (Continued)

b. Capital Commitments

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Huifang Jiada (a)	**9,950**	—
Huifang Rongtong (b)	**40,000**	—
Huifang Rongda (c)	**38,000**	38,000
Suzhou Dang Tian Xia Technology Company Limited	**—**	5,000
Suzhou Huifang Sihai Regulation Company Limited	**—**	1,000
	87,950	44,000

(a) The registered capital of Huifang Jiada is RMB50,000 thousand, of which RMB9,950 thousand has not been paid by the Group as at 31 December 2017 (31 December 2016: Nil).

(b) The registered capital of Huifang Rongtong is RMB100,000 thousand, of which RMB40,000 thousand has not been paid by the Group as at 31 December 2017 (31 December 2016: Nil).

(c) The registered capital of Huifang Rongda is RMB50,000 thousand, of which RMB38,000 thousand has not been paid by the Group as at 31 December 2017 (31 December 2016: Same).

9.3 Liquidity and capital resources

a. Cash flow analysis

As at 31 December 2017, the Group's cash and cash equivalents amounted to RMB257,917 thousand, representing an increase of RMB66,701 thousand as compared to that as at 31 December 2016.

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	**219,329**	(181,602)
Net cash inflow/(outflow) from investing activities	**6,283**	(1,224)
Net cash (outflow)/inflow from financing activities	**(158,237)**	308,039
Increase in cash and cash equivalents	**67,375**	125,213
Exchange (losses)/gains on cash and cash equivalents	**(674)**	57
Cash and cash equivalents at beginning of the year	**191,216**	65,946
Cash and cash equivalents at end of the year	**257,917**	191,216

Management Discussion and Analysis (Continued)

Net Cash Flow from Operating Activities

During the Reporting Year, net cash inflow from operating activities amounted to RMB219,329 thousand. The net cash inflow from operating activities was mainly due to the realization of part of the investment in financial assets at fair value and recovery of loans to customers.

Net Cash Flow from Investing Activities

During the Reporting Year, net cash inflow from investing activities amounted to RMB6,283 thousand.

Net Cash Flow from Financing Activities

During the Reporting Year, net cash outflow from financing activities amounted to RMB158,237 thousand.

b. Liquidity risk

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

10. Market Risk

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

11. Human Resource and Employee Benefits

As at 31 December 2017, the Group had a total of 161 full-time employees, with an increase of 13 people from 148 people as at 31 December 2016. We will adjust the number of our employees and our remuneration policy based on the development of our business and review of our employees' performance.

During the Reporting Year, employee benefit expenses were RMB36,980 thousand, representing an increase of RMB8,030 thousand or 27.7% as compared to that of previous year. Details are set out below:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages and salaries	**14,321**	12,806
Discretionary bonuses	**12,307**	10,054
Pension	**1,677**	1,455
Other social security obligations	**4,403**	2,028
Share-based payments	**4,272**	2,607
	36,980	28,950

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.

Management Discussion and Analysis (Continued)

12. Future Plans Relating to Material Investments

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

13. Events After Reporting Year

Same as disclosed in this annual report, there is no significant event after 31 December 2017.

Prospects

Based on the internal changes and transformation in the 2016–2017 biennium, the internal organizational structure of the Group was basically complete, and the management capabilities were gradually enhanced, and the entire organization was full of vitality. At the same time, the Group actively expanded its external market. In its continuous advancement, its marketability and risk control capabilities have been significantly enhanced. The Group continued to adjust its strategies to adapt itself to the changes in the market, develop new products and invest in new technologies, and strive to achieve benefits that exceed the average performance of the market. Therefore, the management is confident in the future of the Group.

In 2018, the management will focus on the creation of a finance division for small- and medium-sized enterprises and individuals, the Internet finance division, the civilian products and pipelines cooperation division and the supply chain finance division, and the planning and development of new businesses such as insurance agents, financial leasing and asset management, so as to raise its level of risk management and meet the requirements of its development. The Group will continue to increase the recovery of existing assets, enhance its asset operating efficiency, expand financing methods and financing channels, increase capital reserves, and make timely mergers and acquisitions to rapidly expand its operating scope. In addition, it will also optimize the organizational structure of departments, improve and establish a performance management system and internal control system that meets the needs of the Company, and ensure its efficient operation.

The management believes that 2018 will be the beginning of the new journey of the Group. With the rationalisation of the Group's organization structure and the improvement of its internal control system, our leadership in the regional market will be strengthened and expanded further. By leveraging on such competitive edge, the management will capture new opportunities to create new income streams and bring return to our shareholders.

Directors and Senior Management

Directors

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

Executive Directors

Mr. CHEN Yannan (陳雁南), aged 67, was appointed as an executive Director of the Company on 11 November 2011. Mr. Chen joined our Group as an executive director of the PRC Operating Entity on 8 May 2005 and is responsible for overseeing the operations and making the decisions for the key issues of our Group. Throughout the Track Record Period, the PRC Operating Entity has been managed by Mr. Chen. He has also been a director of Wuzhong Jiaye since 2005. Mr. Chen was a director and the Deputy Chairman of the Board of Wuzhong Group from 1992 to 2003, and since 2003, Mr. Chen has been a director of Wuzhong Group, where his responsibilities include attending board meetings regularly and making decisions for the key issues of Wuzhong Group. He was also the General Manager of Wuzhong Group Sales Co., Ltd. (吳中集團銷售公司) from 1997 to 2004. Mr. Chen has over 10 years of experience in the short-term financing industry. Mr. Chen graduated from Changshu Advanced Vocational School of Jiangsu Province (江蘇省常熟高等專科學校) majoring in physical chemistry in July 1975. From 11 March 2004 to 16 April 2010, Mr. Chen was the Chairman of the Board of Supervisors (監事會) of Jiangsu Wuzhong Industrial Co., Ltd. (江蘇吳中實業股份有限公司) (the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600200)),whose primary business is pharmaceutical and real estate and is not in competition with our Group.

Mr. WU Min (吳敏), aged 49, is the chairman and the chief executive officer of our Company and was appointed as an executive Director of the Company on 17 May 2012. Mr. Wu is responsible for convening and presiding over the board meetings regularly and making decisions for the key issues of our Company, such as determining the Company's macroscopic development direction, researching into relevant national policies and avoiding the systemic risks in our industry and the day-to-day operations and strategic development of our Company. Upon joining our Group in 26 January 2011, Mr. Wu has been the General Manager of the PRC Operating Entity. He possesses approximately 30 years of experience in commercial banking, finance and management. Mr. Wu worked in various positions in the Suzhou branch of the Industrial and Commercial Bank of China from 1985 to 2011, including being the President and Secretary of the Committee of Communist Party of China of the Wuzhong branch between 2005 and 2011. Mr. Wu graduated from Jiangsu Radio and TV University (江蘇廣播電視大學), majoring in finance, in July 1994; from the Party School of the Central Committee of Communist Party of China Correspondence Institute (中共中央黨校函授學院), majoring in executive management, in December 2001 and from the School of Business of Soochow University (蘇州大學商學院) in October 2003, where he completed a postgraduate course in finance and from China Europe International Business School in November 2017, where he completed an EMBA degree. In November 2000, Mr. Wu obtained the Intermediate Economist qualification (中級經濟師任職資格) issued by the Ministry of Personnel of the PRC (中國人事部).

Mr. ZHANG Changsong (張長松), aged 45, was appointed as an executive Director and chief financial officer of the Company on 1 January 2016. Mr. Zhang is a senior accountant recognized by the Jiangsu Provincial Department of Human Resources and Social Security and a certified internal auditor recognized by the China Institute of Internal Audit with the authorization from the Institute of Internal Auditors. Mr. Zhang has also been awarded the professional designation of Certification in Risk Management Assurance by the Institute of Internal Auditors. Mr. Zhang received his bachelor degree in accounting from Anhui Institute of Finance and Trade, currently known as Anhui University of Finance & Economics, in 1998 and completed his postgraduate program in accounting at Anhui University of Finance & Economics in 2004. Mr. Zhang has more than 19 years of experience in auditing and accounting. In September 1998, he started working as an auditing staff at Anhui Xinhua Bookstore, which is currently known as Anhui Xinhua Media Co., Ltd. (the shares of which are listed on the Shanghai Stock Exchange). From 2005 to 2012, Mr. Zhang worked as an accounting supervisor, assistant manager in the asset auditing department, manager in the asset auditing department at Wuzhong Group, respectively. During the period from 2013 to 31 December 2015, he was the vice chief auditor and general manager in the asset auditing department at Wuzhong Group.

Directors and Senior Management (Continued)

Non-executive Directors

Mr. ZHUO You (卓有), aged 49, was appointed as a non-executive Director of the Company on 17 May 2012. Mr. Zhuo is currently the director and Vice President of Wuzhong Group responsible for the strategic investment and overall management of Wuzhong Group. Mr. Zhuo is also Secretary of the Committee of the Communist Party of Wuzhong Group. He graduated from Suzhou Vocational University (蘇州市職業大學) in July 1990 where he completed a secretarial course. Mr. Zhuo was a reporter and editor of Suzhou Wuxian Radio Station (蘇州吳縣市廣播電台) from August 1990 to February 1995. Since 1995, he has held various positions including the positions of planning director, manager of the administration and management department, office director, assistant general manager and deputy managing director of Wuzhong Group and general manager of Suzhou Taihu Construction Investment Company (蘇州太湖建設投資公司), a subsidiary of Wuzhong Group.

Mr. ZHANG Cheng (張成), aged 35, was appointed as a non-executive Director of the Company on 17 May 2012. Mr. Zhang is responsible for the investor relation of our Company. Mr. Zhang graduated from Nanjing University with a bachelor's degree in economics and a master's degree in western economics in June 2002 and June 2005, respectively. Mr. Zhang was the investment manager of the Strategic Investment Department of Wuzhong Group from July 2005 to February 2006. From February 2006 to February 2008, he served as the assistant general manager of Jiangsu Wuzhong Hi-Tech Venture Capital Co., Ltd (江蘇吳中高科創業投資有限公司), a subsidiary of Wuzhong Group, and from February 2008, he became the deputy general manager and from February 2011, he became the general manager of such company. From February 2010, Mr. Zhang also became the deputy general manager of Suzhou Education Investment Company (蘇州教育投資有限公司), a subsidiary of Wuzhong Group, and from February 2011, became the general manager of such company. During his various positions in Wuzhong Group and the two subsidiaries of Wuzhong Group, Mr. Zhang is responsible for the management and development in relation to investment in the bio-pharmaceutical, information technology areas and private education.

Ms. ZHANG Shu (張姝), aged 52, was appointed as a non-executive Director of the Company on 18 March 2016. Ms. Zhang has been a vice president of Jiangsu Wuzhong Group Co., Ltd. since December 2011. Ms. Zhang has more than 27 years of experience in banking and finance industry. From August 1986 to May 1990, she worked as a clerk at the sales department of Suzhou branch of Bank of China. From May 1990 to October 1999, Ms. Zhang commenced working as a clerk in the bill settlement department and subsequently became the chief officer of loan department at Suzhou branch of Bank of China. Afterwards, Ms. Zhang worked as an assistant vice president in the administration division of BOC International Holdings Limited in Hong Kong from November 1999 to August 2003. She became the vice president of Suzhou Industrial District branch of Bank of China from September 2003 to March 2007 and then worked as the president of Suzhou Wuzhong branch of Bank of China from March 2007 to October 2011. Ms. Zhang then worked as the general manager of the risk management department of Suzhou branch of Bank of China from October 2011 to December 2011. Ms. Zhang obtained a diploma in English from Nanjing Normal University (南京師範大學) in June 1995 and a postgraduate degree in world economics from the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in September 1998. Ms. Zhang was awarded with the qualification certificate of speciality and technology in the speciality of financial economics (intermediate level) by the Human Resources Department of the People's Republic of China (中華人民共和國人事部) in November 1997.

Directors and Senior Management (Continued)

Independent Non-executive Directors

Mr. ZHANG Huaqiao (張化橋), aged 54, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Zhang graduated from the Graduate School of the People's Bank of China (中國人民銀行研究生部) with a master's degree in economics in 1986; and from the Australian National University with a master's degree in economics in January 1991. From July 1986 to January 1989, Mr. Zhang was employed at the People's Bank of China in Beijing and from June 1999 to April 2006, Mr. Zhang worked at the Equities Department of UBS AG, Hong Kong Branch at which he first served as the head of the China research team and later became the co-head of the China research team. From March 2006 to September 2008, Mr. Zhang was the chief operating officer of Shenzhen Investment Limited (深圳控股有限公司), a company listed on the Stock Exchange (Stock Code: 0604).

Mr. Zhang currently holds the directorships as follows:

- non-executive director of Boer Power Holdings Limited (the shares of which are listed on the Stock Exchange (Stock Code: 1685)), since November 2011;

- independent non-executive director of Fosun International Limited (the shares of which are listed on the Stock Exchange (Stock Code: 656)), since March 2012;

- non-executive director and chairman of the board of China Smartpay Group Holdings Limited (formerly known as Oriental City Group Holdings Limited) (the shares of which are listed on the Stock Exchange (Stock Code: 8325)), since September 2012 and March 2014, respectively, re-designated as executive director on 13 May 2015 and subsequently re-designated as non-executive director on 15 September 2017;

- independent non-executive director of Zhong An Real Estate Limited (the shares of which are listed on the Stock Exchange (Stock Code: 672)), since January 2013;

- independent non-executive director of Logan Property Holdings Company Limited (the shares of which are listed on the Stock Exchange (Stock Code: 3380)), since November 2013;

- independent non-executive director of Luye Pharma Group Ltd. (the shares of which are listed on the Stock Exchange (Stock Code: 2186)), since June 2014;

- independent non-executive director of Wanda Hotel Development Company Limited (formerly known as Wanda Commercial Properties (Group) Co., Limited) (the shares of which are listed on the Stock Exchange (Stock Code:169)), since September 2014;

- independent non-executive director of Sinopec Oilfield Service Corporation (formerly known as Sinopec Yizheng Chemical Fibre Company Limited) (the shares of which are listed on the Stock Exchange (Stock Code: 1033)), since February 2015; and

- independent non-executive director of China Rapid Finance Ltd. (the shares of which are listed on the New York Stock Exchange (Stock Code: XRF)), since April 2017.

Directors and Senior Management (Continued)

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

- independent non-executive director of Fuguiniao Co., Ltd. (the shares of which are listed on the Stock Exchange (Stock Code: 1819)), from May 2013 to June 2014;
- independent non-executive director of Ernest Borel Holdings Limited (the shares of which are listed on the Stock Exchange (Stock Code: 1856)), from June 2014 to November 2014;
- director of Nanjing Central Emporium (Group) Stocks Co., Ltd. (南京中央商場(集團)股份有限公司) (the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600280)), from March 2013 to June 2015; and
- independent non-executive director of Yancoal Australia Limited (the shares of which are listed on the Australian Securities Exchange (ASX Code: YAL)), from April 2014 to January 2018.

Mr. FENG Ke (馮科), aged 46, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Feng graduated from Guangdong University of Finance (廣東金融學院) majoring in international finance in July 1993; from Guangdong Academy of Social Sciences (廣東省社會科學院) with a master's degree in economics in July 1999; and from Peking University School of Economics (北京大學經濟學院) with a doctor's degree in political economics in July 2002. Mr. Feng has been an associate professor at School of Economics of Peking University from 2010. Mr. Feng was the assistant manager of Golden Eagle Asset Management Co., Ltd (金鷹基金管理有限公司) from November 2002 to January 2006.

Mr. Feng currently holds directorships as follows:

- independent director of China Greatwall Technology Group Co., Ltd. (中國長城科技集團股份有限公司) (formerly known as China Great Wall Computers Shenzhen Co. Ltd (中國長城計算機深圳股份有限公司)) (the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 000066)), since August 2010;
- independent non-executive director of Asian Capital Resources (Holdings) Limited (亞洲資產(控股)有限公司) (the shares of which are listed on the Growth Enterprise Market Board of the Stock Exchange (Stock Code: 08025)), since October 2008, re-designated as executive director on 1 September 2013;
- independent non-executive director of Zhuguang Holdings Group Co. Ltd. (珠光控股集團有限公司) (Stock Code: 01176), a company listed on the Hong Kong Stock Exchange, since June 2015; and
- independent director of Shenzhen Yushun Electronic Limited (深圳宇順電子股份有限公司) (Stock Code: 002289), a company listed on the Shenzhen Stock Exchange,since December 2015.

Directors and Senior Management (Continued)

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

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

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

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

- independent director of Tande Co., Ltd (天地源股份有限公司) (the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600665)), from December 2009 to December 2015; and

- independent non-executive director of Yingde Gases Group Company Limited (the shares of which were listed on the main board of the Stock Exchange (Stock Code: 02168) and the listing of shares was withdrawn subsequently through the completion of compulsory acquisition on 21 August 2017), from November 2016 to March 2017.

Mr. TSE Yat Hong (謝日康), aged 48, was appointed as an independent non-executive Director of the Company on 6 October 2013. Mr. Tse is a Fellow of the Hong Kong Institute of Certified Public Accountants and a FCPA of CPA Australia. Mr. Tse graduated from Monash University in April 1992 with a bachelor's degree in science. Since June 2000, Mr. Tse has been serving as the chief financial officer of Shenzhen International Holdings Limited (Stock code: 00152), a company listed on the Stock Exchange. From August 2000 to March 2008, Mr. Tse was also the company secretary of Shenzhen International Holdings Limited. Mr. Tse served as the joint company secretary of Shenzhen Expressway Company Limited from September 2004 to September 2007. Prior to that, Mr. Tse worked in the audit profession in one of the international accounting firms for years.

Mr. Tse currently has served as an independent non-executive director of Sky Light Holdings Limited (the shares of which are listed on the main board of Stock Exchange (Stock code: 03882)) since December 2017. In addition, Mr. Tse had served as an independent non-executive director of Casablanca Group Limited (the shares of which are listed on the Stock Exchange (Stock code: 02223)), from October 2012 to March 2015 and an independent non-executive director of Shenzhen Expressway Company Limited (the shares of which are listed on the Stock Exchange (Stock code: 00548)), from January 2009 to December 2017.

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

Directors and Senior Management (Continued)

Senior Management

Mr. YAO Wenjun (姚文軍), aged 48, is a vice president of the Group responsible for marketing. Mr. Yao graduated from Southwestern University of Finance and Economics with a bachelor's degree in accounting in July 2010. From August 1989 to November 2012, he worked successively as an account manager, director and assistant president at China Construction Bank (Wuzhong Branch) in Suzhou. Mr. Yao joined the Group as vice president in January 2016.

Ms. LU Tian (陸甜), aged 36, is a vice president of the Group responsible for external investment. Ms. Lu graduated from Massey University, New Zealand with a bachelor's degrees in finance and market management in July 2006. From April 2006 to April 2008, she worked for the New Zealand branch of Australia and New Zealand Banking Group (ANZ), as an assistant general manager. From May 2008 to March 2016, she worked successively as the director for international business, deputy general manager, general manager and director of Suzhou International Development Venture Capital Holding Co., Ltd. (SIDVC). Ms. Lu joined the Group as vice president in March 2016.

Ms. CAO Yu (曹瑜), aged 43, is the Chief Risk Officer of our Group. She is responsible for risk control, asset quality and legal issues. Ms. Cao obtained a bachelor's degree in international trading from Peking University in July 1999. From August 1994 to December 2012, she worked in China Industrial and Commercial Bank of China, Suzhou Wuzhong sub-branch as an employee of the credit management department, account manager, manager of the corporate department, manager and senior credit approver of the Head Office of Industrial and Commercial Bank of China successively. Ms. Cao joined the Group in January 2013 as the general manger of our branch company and an assistant to the President of the Group.

Management Continuity

Our management team is a group of chief executive led by Mr. Wu Min, the Chairman and the chief executive officer of the Company, who joined the Group in January 2011. He has been an executive director of the PRC Operating Entity since 2011 and, as such, is responsible for overseeing the operations and making the decisions for the key issues of our Group.

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

Company Secretary

Miss LEUNG Ching Ching (梁晶晶), aged 37, was appointed as a company secretary of our Company on 6 October 2013 and serves as a manager of corporate services of Tricor Services Limited. Miss Leung has over 10 years of experience in the company secretarial industry, and provided services to clients ranging from private companies to public companies listed on the main board of the Stock Exchange. Miss Leung is a Chartered Secretary and an Associate of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She graduated from The Chinese University of Hong Kong and received a Master of Arts degree in Professional Accounting and Information System from City University of Hong Kong.

Directors and Senior Management (Continued)

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Internet Finance Business Committee

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

Directors and Senior Management (Continued)

Change in Directors' Information

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

Mr. Tse Yat Hong, an independent non-executive Director of the Company, has been appointed as an independent non-executive director of Sky Light Holdings Limited (the shares of which are listed on the main board of the Stock Exchange (stock code: 03882)), since 5 December 2017. Mr. Tse Yat Hong has ceased to be a non-executive director of Shenzhen Expressway Company Limited (the shares of which are listed on the main board of the Stock Exchange (stock code: 00548) and the Shanghai Stock Exchange (stock code: 600548)) since 31 December 2017.

Mr. Zhang Huaqiao, an independent non-executive Director of the Company, has ceased to be an independent non-executive director of Yancoal Australia Limited (the shares of which are listed on the Australian Securities Exchange, ASX code: YAL) since January 2018. In addition, Mr. Zhang Huaqiao has been re-designated as a non-executive director of China Smartpay Group Holdings Limited (the shares of which are listed on the main board of the Stock Exchange, stock code: 8325) since 15 September 2017.

Compensation of Directors and Chief Executive

The aggregate amount of remuneration our Directors (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances, share option schemes and other benefits in kind) for the year ended 31 December 2016 and 2017 was approximately RMB5,178 thousand and RMB6,680 thousand, respectively.

During the year ended 31 December 2016 and 2017, five highest paid individuals of the Group included three executive Directors, whose emoluments were deducted from emoluments payable to the five highest paid individuals. Emoluments of the remaining highest paid individuals were RMB1,900 thousand and RMB2,280 thousand.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended 31 December 2017.

Save as disclosed above, no other payments have been made or are payable in respect of each of the two years ended 31 December 2016 and 2017 by the Group to the Directors.

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

Directors' Report

The Board of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

Principal Activities

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

Business Review

The business review of the Group as at 31 December 2017 is set out in the section headed "Management Discussion and Analysis" from pages 6 to 24 of this annual report.

Possible Risks and Uncertainties Facing the Company

Description of possible risks and uncertainties facing the Company is set out in the paragraph headed "3 Financial Risk Management" in the section headed "Notes to the Consolidated Financial Statements" from pages 108 to 125 of this annual report.

Events after the Reporting Year

Save as disclosed in this annual report, there is no significant event after 31 December 2017.

Future Business Development

A discussion of the Group's future business development is set out in the "Chairman's Statement" on page 5 and "Management Discussion and Analysis" on page 24 of this annual report.

Financial Key Performance Indicators

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

Environmental Protection and Compliance with Laws and Regulations

The Group is committed to supporting the environmental sustainability. Being a comprehensive financing service provider in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Reporting Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. Details of the Group's environmental policies and performance and compliance with laws and regulations that have a significant impact on the Group are set out in the section headed "Environmental, Social and Governance Report" from pages 71 to 75 of this annual report.

Directors' Report (Continued)

Relationship with Stakeholders

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

Financial Statements

The results of the Group for the year ended 31 December 2017 and the state of the Company's and the Group's financial affairs as at that date are set out on pages 81 to 85 of this annual report.

Final Dividend

The Board has proposed to declare a final dividend of HK$0.0132 per Share in respect of the year ended 31 December 2017 (the "2017 Final Dividend") (2016: Nil). The 2017 Final Dividend will be paid to the Shareholders whose names appear on the register of members of the Company at the close of business on Monday, 4 June 2018 (the "Record Date"). Based on the 1,086,787,000 Shares in issue as at 31 December 2017, the payment of the 2017 Final Dividend is expected to amount to approximately HK$14,345,588, which will be paid on or before Friday, 29 June 2018. The retained profit will be primarily used for the Group's business developments and/or acquisitions of suitable business opportunities in the PRC.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 23 May 2018 to Monday, 28 May 2018 (both dates inclusive) and from Friday, 1 June 2018 to Monday, 4 June 2018 (both dates inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on Monday, 21 May 2018. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the forthcoming annual general meeting), all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at the abovementioned address for registration by 4:30 p.m. on Thursday, 31 May 2018.

Pursuant to the CIT Law, the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" and the "Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management", the Company is required to withhold and pay 10% withholding tax on the distribution of the 2017 Final Dividend to its nonresident enterprise shareholders. The withholding and payment obligation lies with the Company. In respect of all shareholders whose names appear on the Company's register of members as at the Record Date who are not individuals (including HKSCC Nominees Limited ("HKSCC"), corporate nominees or trustees such as securities companies and banks, and other entities or organizations, which are all considered as non-resident enterprise shareholders), the Company will distribute the 2017 Final Dividend after deducting withholding tax of 10%. The Company will not withhold and pay the withholding tax in respect of the 2017 Final Dividend payable to any natural person shareholders whose names appear on the Company's register of members as at the Record Date. Investors who invest in the shares in the Company listed on the Main Board of The Stock Exchange of Hong Kong Limited through the Shanghai Stock Exchange or the Shenzhen Stock Exchange (the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect investors) are investors who hold shares through HKSCC and in accordance with the above requirements, the Company will pay to HKSCC the amount of the 2017 Final Dividend after withholding for payment the 10% withholding tax.

Directors' Report (Continued)

If any resident enterprise (as defined in the CIT Law) listed on the Company's register of members which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, does not desire to have the Company withhold and pay the said 10% withholding tax, it shall lodge with Hong Kong Registrars Limited documents from its governing tax authority confirming that the Company is not required to withhold and pay withholding tax in respect of the dividend to which it is entitled by 4:30 p.m. on Monday, 4 June 2018.

If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the withholding tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government departments and adhere strictly to the information set out in the Company's register of members on the Record Date. The Company assumes no liability whatsoever in respect of and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the shareholders or any disputes over the mechanism of withholding.

Reserves

Changes to the reserves of the Group during the year ended 31 December 2017 are set out in the consolidated statements of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2017 are set out in Note 25 to the consolidated financial statements.

Share Capital

Details of the Company's share capital are set out in Note 24 to the consolidated financial statements.

Subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2017 are set out in Note 14 to the consolidated financial statements.

Financial Summary

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

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2017.

Permitted Indemnity Provision

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

Directors' Report (Continued)

Equity-linked Agreement

Apart from the Share Option Scheme of the Company set forth from pages 41 to 43, the Company has not entered into any equity-linked agreement during the Reporting Year or there was not any subsisting equity-linked agreement entered into by the Company at the end of the Reporting Year.

Directors and Senior Management

The Directors and senior management of the Company during the year were:

Directors

Name	Position
Mr. Wu Min	Executive Director, Chairman of the Board and Chief Executive Officer
Mr. Zhang Changsong	Executive Director and Chief Financial Officer
Mr. Chen Yannan	Executive Director
Mr. Zhuo You	Non-executive Director
Mr. Zhang Cheng	Non-executive Director
Ms. Zhang Shu	Non-executive Director
Mr. Zhang Huaqiao	Independent Non-executive Director
Mr. Feng Ke	Independent Non-executive Director
Mr. Tse Yat Hong	Independent Non-executive Director

Senior Management

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

The biographical details of the Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" in this annual report.

Directors' Report (Continued)

Directors' Interests in Contracts

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

Confirmation of Independence from the Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors, namely, Mr. Zhang Huaqiao, Mr. Feng Ke and Mr. Tse Yat Hong, the annual confirmation letter of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that the independent non-executive Directors have been independent from their respective date of appointment to 31 December 2017 and remain independent as of the date of this annual report.

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

As at 31 December 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	2,800,000 (L) *(Note 2)*	0.26%
	Beneficial owner	Ordinary Shares	1,200,000 (L)	0.11%
	Interest in controlled corporation	Ordinary Shares	65,000,000 (L) *(Note 3)*	5.98%
Wu Min	Beneficial owner	Share options	2,800,000 (L) *(Note 2)*	0.26%
	Beneficial owner	Ordinary Shares	1,840,000 (L)	0.17%
Zhang Changsong	Beneficial owner	Share options	2,240,000 (L) *(Note 2)*	0.21%
	Beneficial owner	Ordinary Shares	1,510,000 (L)	0.14%
Zhuo You	Beneficial owner	Share options	1,000,000 (L) *(Note 2)*	0.09%
	Interest in controlled corporation	Ordinary Shares	39,000,000 (L) *(Note 4)*	3.59%

Directors' Report (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	700,000 (L) *(Note 2)*	0.06%
	Beneficial owner	Ordinary Shares	600,000 (L)	0.06%
Zhang Cheng	Beneficial owner	Share options	1,000,000 (L) *(Note 2)*	0.09%
Zhang Huaqiao	Beneficial owner	Share options	1,400,000 (L) *(Note 2)*	0.13%
Feng Ke	Beneficial owner	Share options	1,400,000 (L) *(Note 2)*	0.13%
Tse Yat Hong	Beneficial owner	Share options	2,000,000 (L) *(Note 2)*	0.18%

Notes:

1. (L) represents long position.

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

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

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

Directors' Report (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 (Jiangsu Wuzhong Jiaye Group Co., Ltd.*)	Beneficial owner	RMB95,000,000 (L)	10%
	蘇州新區恒悦管理諮詢有限公司 (Suzhou Xinqu Hengyue Management Consulting Co., Ltd.*)	Beneficial owner	RMB20,000,000 (L)	10%
Zhuo You	江蘇吳中嘉業集團有限公司 (Jiangsu Wuzhong Jiaye Group Co., Ltd.*)	Beneficial owner	RMB57,000,000 (L)	6%
	蘇州新區恒悦管理諮詢有限公司 (Suzhou Xinqu Hengyue Management Consulting Co., Ltd.*)	Beneficial owner	RMB12,000,000 (L)	6%

Note:

1. (L) represents long position.

Save as disclosed above, as at 31 December 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.

Directors' Report (Continued)

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

As at 31 December 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 the 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)	23.92%
Xilai Investment Co., Ltd	Beneficial owner	Ordinary Shares	65,000,000 (L)	5.98%
Zhu Tianxiao	Interest in controlled corporation	Ordinary Shares	325,000,000 (L) *(Note 2)*	29.90%
Baoxiang Investment Co., Ltd	Beneficial owner	Ordinary Shares	84,500,000 (L)	7.78%
Zhang Xiangrong	Interest in controlled corporation	Ordinary Shares	84,500,000 (L) *(Note 3)*	7.78%
Wonder Capital Co., Ltd	Beneficial owner	Ordinary Shares	71,500,000 (L)	6.58%
Ge Jian	Interest in controlled corporation	Ordinary Shares	71,500,000 (L) *(Note 4)*	6.58%
Southern Swan Investment Co., Ltd	Beneficial owner	Ordinary Shares	65,000,000 (L)	5.98%
RRJ Capital Master Fund II, L.P.	Interest in controlled corporation	Ordinary Shares	93,133,000 (L) *(Note 5)*	8.57%

Notes:

1. (L) represents long position.

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

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

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

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

Directors' Report (Continued)

Save as disclosed above, as at 31 December 2017, no person or corporation, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Share Option Scheme

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

Purpose

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

Eligible participants

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

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

As at 31 December 2017, a total of 50,000,000 share options were granted, of which 11,550,000 have been exercised. Accordingly, under the Share Option Scheme, the Company may further grant 58,678,700 share options, representing approximately 5.40% of the issued share capital of the Company as at the date of this annual report.

(a) 10% limit

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

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

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

(b) 30% limit

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

Directors' Report (Continued)

Maximum entitlement of each eligible person

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

Exercise price

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

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

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

(c) the nominal value of the Shares.

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

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

Amount payable upon acceptance of option

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

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

Remaining life of the Share Option Scheme

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

Directors' Report (Continued)

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

Name or category of participants	No. of Shares involved in the options outstanding as at 1 January 2017	Granted during 2017	Exercised during the year	Forfeited during the year	No. of Shares involved in the options outstanding as at 31 December 2017
Directors					
Chen Yannan	4,000,000	—	1,200,000	835,000	1,965,000
Wu Min	4,000,000	—	1,200,000	835,000	1,965,000
Zhang Changsong	3,200,000	—	960,000	668,000	1,572,000
Zhuo You	1,000,000	—	—	209,000	791,000
Zhang Cheng	1,000,000	—	—	209,000	791,000
Zhang Shu	1,000,000	—	300,000	209,000	491,000
Zhang Huaqiao	2,000,000	—	600,000	418,000	982,000
Feng Ke	2,000,000	—	600,000	418,000	982,000
Tse Yat Hong	2,000,000	—	—	418,000	1,582,000
Subtotal	20,200,000	—	4,860,000	4,219,000	11,121,000
Employees					
Employees	29,800,000	—	6,690,000	6,224,000	16,886,000
Total	50,000,000	—	11,550,000	10,443,000	28,007,000

Notes:

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

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

3. The fair value of the share options granted during the year is set out in note 25 to the consolidated financial statements.

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

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

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

Directors' Report (Continued)

Management Contracts

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

Major Customers

For the year ended 31 December 2017, the largest customer contributed 10.8% of the Group's total interest income from loans to customers, and the five largest customers contributed, in aggregate, 19.9% of the Group's total interest income from loans to customers.

None of the Directors, any of their close associates or any Shareholders which, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest customers of the Group during the year ended 31 December 2017.

Audit Committee

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017.

Emolument Policy

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

The details of the emoluments payable to the Directors during the year are set out in Note 36 to the consolidated financial statements.

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

Remuneration bands	**Number of individuals**
HK$1,000,001 to 1,500,000	1
HK$1,500,001 to 2,000,000	1

Employee Retirement Benefits

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

Directors' Report (Continued)

Distributable Reserves

As at 31 December 2017, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium, other reserves and retained earnings amounted to approximately RMB1,021,033 thousand.

Bank and Other Loans

Particulars of bank and other loans of the Group as at 31 December 2017 are set out in Note 28 to the consolidated financial statements.

Rights to Acquire the Company's Securities

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

Directors' Interests in Competing Business

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

Non-Competition Undertaking

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

Each of the Covenantors has provided to the Company a written confirmation in respect of his/its compliance with the Deed of Non-Competition. The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2017.

Pre-Emptive Rights

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

Directors' Report (Continued)

Related Party Transactions

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 34 to the financial statements. Some of these transactions also constituted fully exempted continuing connected transactions.

Continuing Connected Transactions

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

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

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

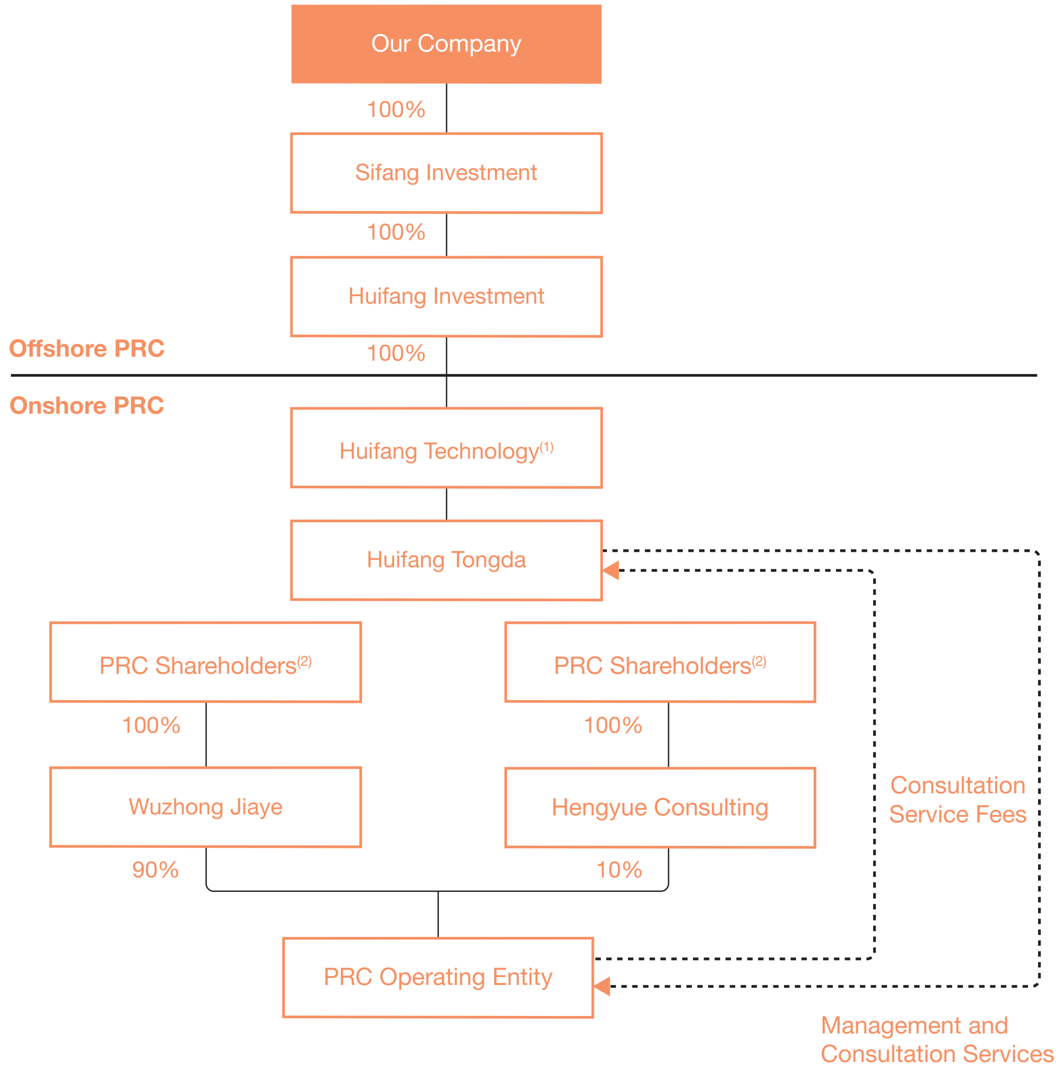
Mr. Zhu, through two companies wholly owned by him, namely Xiaolai Investment Co., Ltd and Xilai Investment Co., Ltd, holds approximately 31.7% of equity interest in the Company and accordingly, he is a controlling shareholder and hence a connected person of the Company under Rule 14A.07(1) of the Listing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

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

Directors' Report (Continued)

Contractual Arrangements

The following diagram sets out the simplified structure of the Group as of 31 December 2017 and illustrates the Contractual Arrangements between the PRC Operating Entity and Huifang Tongda:



Notes:

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

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

Directors' Report (Continued)

Summary of the agreements under the Contractual Arrangements:

(a) Exclusive Management and Consultation Service Agreement

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

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

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

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

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

Directors' Report (Continued)

(b) Exclusive Call Option Agreement

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

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

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

Directors' Report (Continued)

(c) Proxy Agreement

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

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

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

(d) Equity Pledge Agreement

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

Directors' Report (Continued)

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

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

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

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

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

Directors' Report (Continued)

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

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

(e) VIE Transfer Agreement

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

(f) PRC Shareholders Loan Agreement

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

Directors' Report (Continued)

Risk relating to the Contractual Arrangements

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

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

Mitigation actions taken by the Company

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

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

Directors' Report (Continued)

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

Further, the Board has engaged the auditor of the Company to report on the Group's continuing connected transaction. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Listing Rule 14A.56 of the Listing Rules and confirmed that (i) nothing has come to their attention that causes them to believe that the continuing connected transactions carried out pursuant to the Contractual Arrangements during the year ended 31 December 2017 (a) have not received the approval of the Board and (b) were not entered into, in all material respects, in accordance with the relevant Contractual Arrangements; and (ii) no dividends or other distributions have been made by the PRC Operating Subsidiary to its shareholders during the year ended 31 December 2017.

A copy of the auditor's letter on the continuing connected transactions of the Group year ended 31 December 2017 has been provided by the Company to the Stock Exchange.

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

Public Float

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

Auditors

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

By order of the Board

Wu Min
Chairman

Hong Kong, 23 March 2018

Corporate Governance Report

The Board of the Company hereby presents to the Shareholders the corporate governance report for the year ended 31 December 2017 (the "Reporting Year").

Corporate Governance Practices

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

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

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

In the opinion of the Board, the Company has complied with the principles and code provisions set out in the CG Code throughout the Reporting Year, 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. The details of deviation are set out in section headed "Chairman and Chief Executive Officer" below in this corporate governance report.

Model Code for Securities Transactions

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

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

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

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

Board of Directors

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

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

Corporate Governance Report (Continued)

Board Composition

The Board of the Company comprises the following Directors:

Executive Directors:
Mr. WU Min *(Chairman and Chief Executive Officer)*
Mr. ZHANG Changsong *(Chief Financial Officer)*
Mr. CHEN Yanan

Non-executive Directors:
Mr. ZHUO You
Mr. ZHANG Cheng
Mr. ZHANG Shu

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

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" from pages 25 to 32 of this annual report.

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

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the Reporting Year, Mr. Wu Min assumed the roles of both chairman and chief executive officer, the Company deviated 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.

Save as disclosed above, during the Reporting Year, the Company has complied with the principles and code provisions as set out in the CG Code.

Independent Non-executive Directors

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

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

Corporate Governance Report (Continued)

Appointment and Re-election of Directors

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

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

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

In accordance with Article 84(1) and (2) of the Articles of Association, one-third of the Directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but no less than one-third) shall retire from office at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected as Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. In accordance with Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Wu Min, Mr. Zhuo You and Mr. Zhang Huaqiao will retire and they being eligible, will offer themselves for re-election at the forthcoming 2018 annual general meeting.

None of Mr. Wu Min, Mr. Zhuo You and Mr. Zhang Huaqiao has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

Corporate Governance Report (Continued)

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

Corporate Governance Report (Continued)

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2017 are summarized as follows:

Name of Directors	Type of Training [Notes]
Executive Directors	
WU Min	B
ZHANG Changsong	B
CHEN Yannan	B
Non-Executive Directors	
ZHUO You	B
ZHANG Cheng	B
ZHANG Shu	B
Independent Non-Executive Directors	
ZHANG Huaqiao	B
FENG Ke	B
TSE Yat Hong	A/B

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Committees

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

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

Audit Committee

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

Corporate Governance Report (Continued)

During the Reporting Year, the Audit Committee held four meetings for reviewing the annual report in respect of the year ended 31 December 2016 and the interim financial results and reports in respect of the period ended 30 June 2017 as well as the significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors four times during the Reporting Year.

Remuneration Committee

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

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

Details of the remuneration of the senior management by band are set out in note 11 in the Notes to the Audited Consolidated Financial Statements for the year ended 31 December 2017.

Nomination Committee

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

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

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

Corporate Governance Report (Continued)

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

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

Internet Finance Business Committee

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

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

Corporate Governance Functions

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

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

Attendance Records of Directors and Committee Members

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

Corporate Governance Report (Continued)

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

	Attendance/Number of Meetings					
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Internet Finance Business Committee**	**Annual General Meeting**
WU Min *(Chairman) (Note 1)*	6/6		1/1	0/0	1/1	1/1
ZHANG Changsong	6/6					1/1
CHEN Yannan *(Note 2)*	6/6			1/1		1/1
ZHUO You	5/6					0/1
ZHANG Cheng	5/6	3/4				0/1
ZHANG Shu	6/6					1/1
ZHANG Huaqiao	6/6		1/1	1/1	1/1	0/1
FENG Ke	6/6	4/4		1/1	1/1	0/1
TSE Yat Hong	6/6	4/4	1/1			1/1

Notes:

1. 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.
2. Mr. CHEN Yannan has resigned as the chairman of the Board and the chairman of the Nomination Committee with effect from 1 June 2017.

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

Risk Management and Internal Control

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

The management has confirmed to the Board and the Audit Committee on the effectiveness and adequacy of the risk management and internal control systems for the year ended 31 December 2017.

Details of the Company's risk management and internal control as at 31 December 2017 are set out in the section headed "Risk Management and Internal Control Report" on pages 65 to 70 of this annual report.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

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

Corporate Governance Report (Continued)

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 79 to 80.

Auditors' Remuneration

The remuneration paid to the Company's external auditors of the Company in respect of audit services for the year ended 31 December 2017 amounted to RMB2,400 thousand. No non-audit services has been provided by the Company's external auditors to the Company.

Company Secretary

Miss Leung Ching Ching of Tricor Services Limited, external service provider, is the Company Secretary of the Company. Its primary contact person at the Company is Mr. Wu Min, executive Director, chairman of the Board and chief executive officer of the Company.

Shareholders' Rights

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

Convening an Extraordinary General Meeting by Shareholders

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

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Corporate Governance Report (Continued)

Contact Details

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

Name:	Wu Min (吳敏)
Address:	22/F, 345 East Baodai Road, Suzhou, Jiangsu Province, the PRC
Fax:	86-512-65131585

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

Communication with Shareholders and Investors

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

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

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

Going Concern

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

Risk Management and Internal Control Report

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

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

1. Risk Management

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

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

Risk Management and Internal Control Report (Continued)

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

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

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

Risk Management and Internal Control Report (Continued)

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

(1) Credit Risk

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

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

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

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

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

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

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

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

— Actively manage and develop the credit system; and

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

Management and Collection of Impaired Loans

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

Risk Management and Internal Control Report (Continued)

Collaterals and Other Loan Improvement Conditions

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

The Company has organized professional teams comprised of risk management professionals and lawyers to manage its collaterals.

Concentration of Credit Risk

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

(2) Liquidity and Financing Risk

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

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

(3) Market Risk

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

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

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

Risk Management and Internal Control Report (Continued)

(4) Operational Risk

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

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

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

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

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

2. Internal Control and Audit

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

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

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

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

Risk Management and Internal Control Report (Continued)

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

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

For the financial year ended 31 December 2017, the Board believed that its risk management and internal control system was effective and adequate.

Environmental, Social and Governance Report

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

1. Environmental Protection

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

Environmental Performance	Unit	2016	2017
Carbon dioxide emissions			
Total carbon dioxide emissions	kg	190,194.96	**181,510.27**
Energy	kg	170,064.30	**125,160.40**
Business	kg	20,130.66	**56,349.87**
Average total carbon dioxide emissions per a full-time employee	kg/full-time employee	1,259.57	**1,127.39**
Energy	kg/full-time employee	1,126.25	**777.39**
Business	kg/full-time employee	133.32	**350.00**
Total carbon dioxide emissions/m^2	kg/m^2	61.35	**44.00**
Energy consumption			
Total energy consumption	GJ	614.07	**573.98**
Electricity	GJ	614.07	**573.98**
Average total energy consumption per a full-time employee	GJ	4.07	**3.57**
Total energy consumption/m^2	GJ/m^2	0.20	**0.20**
Total water consumption	mt	2,296	**614**
Total water consumption per a full-time employee	mt/full-time employee	15.21	**3.81**
Total paper consumption	kg	14,875	**1,491.6**
Wastes			
General office wastes (recyclable)	kg	24,616.00	**26,061.00**
General office wastes (unrecyclable)	kg	11,584.00	**12,264.00**
Electronic products and devices	kg	425.00	**480.00**

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

Environmental, Social and Governance Report (Continued)

1.1 Emissions

The Company does not produce hazardous wastes as it does not deal with any industrial production activities. CO2-dominated greenhouse gases produced by energy consumption and traffic are the Company's major emissions.

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

Although the Company's employees raised 8.78% in 2017, its CO2 emission experienced a year-on-year decline of 4.57%, showing that the energy use efficiency was somewhat improved. Year 2017 is the first full year after the company relocated to the new building, and the efficiency of energy utilization had be improved by 26.40%. As a result, the Company will continue to adopt a series of measures to reduce emissions.

1.2 Energy Consumption

The Company piloted its office areas with light sources decreased in quantity, weakened in intensity and lowered in energy consumption as well as imposed more strict use standard on both central air-conditioning and energy-wasteful electronics, causing the energy consumption to effectively decrease by 26.40% in spite of growth in office areas and employees. The company closed inner canteen, and new water-saving fixtures installed in office areas also made prominent result: total water consumption was reduced by 73.26%.

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

1.3 Waste Management

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

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

2. Society

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

Environmental, Social and Governance Report (Continued)

2.1 Employment and Labor Information

As at 31 December 2017, the Company has 161 employees, all of them are full-time employees.

2017 Employee Information

Age	Number	Gender	Number	Type	Number
20–35	85	Male	82	Full-time	161
36–45	51				
46–55	22	Female	79		
56 and above	3				
Total	**161**				

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

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

2.2 Health and Security

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

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

Environmental, Social and Governance Report (Continued)

2.3 Development and Training

The Company conducts regular and irregular learning and training for all or some employees to improve their knowledge and skills. In 2017, the training rate for all employees reached 100%.

Employee Training Information

Classification		**Average training hours per employee**
Gender	Male	11.78
	Female	12.30
Employee level	Senior management	17.50
	Middle management	15.00

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

2.4 Labor Standard

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

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

2.5 Supply Chain Management

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

2.6 Product Responsibility

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

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

Environmental, Social and Governance Report (Continued)

2.7 Anti-Corruption

In compliance with the *Criminal Law of the People's Republic of China* and relevant provisions, the Company has formed strict monitoring systems and reporting procedures to prevent bribery, blackmail, fraud and money laundering and other criminal acts. As of 31 December 2017, there was no case of corruption in respect of the Company or its employees.

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

2.8 Community Investment

The Company actively organizes and encourages employees to get involved in community activities. In 2017, it organized employees to give lectures about the prevention of financial risks on weekends for several times to cultivate the residents' awareness and discrimination on illegal finance; organized them to participate in community sports activities, such as marathon and badminton, for several times; stopped granting loans and providing financial services to enterprises that may endanger the community environment, which has forced them to improve their production process.

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

Consolidated Financial Statements and Independent Auditor's Report

羅兵咸永道

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

Opinion

What we have audited:

The consolidated financial statements of China Huirong Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 81 to 163, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

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

Independence

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

Key Audit Matters

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment allowances for loans to customers	
Please refer to the notes to the consolidated financial statements: 2.7, 3.1, 21 As of 31 December 2017, the aggregated net balances of loans to customers amounted to RMB1,945,652 thousand, representing 64.1% of total assets. The impairment allowances for loans to customers were RMB209,241 thousand. The Group's management first assesses whether objective evidence of impairment exists individually for loans to customers that are individually significant. If the Group's management determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.	We evaluated the design and tested the Group's key controls over impairment calculation for loans to customers. These controls include key controls over timely identification of loans to customers that impairment were assessed on individual basis, and determination of key methodology, data, assumptions and parameters of impairment allowances for loans to customers whose impairment were made on collective basis. We also performed the following substantive procedures: For a sample of loans to customers not being identified by the Group's management as impaired, we tested the Group's management's assessment by examining the underlying loan information and external evidence available.

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Interest income	6	272,353	248,334
Interest expense	7	(74,237)	(65,639)
Net interest income		198,116	182,695
Net investment gains/(losses)	8	2,499	(462)
Other operating income	9	6,413	5,583
Net revenue		207,028	187,816
Administrative expenses	10	(66,922)	(63,998)
Net charge of impairment allowance	12	(10,142)	(106,610)
Other (losses)/gains, net	13	(36,382)	45,769
Profit before income tax		93,582	62,977
Income tax expense	15	(28,396)	(8,259)
Profit for the year		65,186	54,718
Attributable to:			
— Equity holders of the Company		50,904	40,078
— Non-controlling interests		14,282	14,640
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income for the year		65,186	54,718
Total comprehensive income for the year is attributable to:			
— Equity holders of the Company		50,904	40,078
— Non-controlling interests		14,282	14,640
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB)			
— Basic earnings per share	16	0.05	0.04
— Diluted earnings per share	16	0.05	0.04

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment		**2,778**	2,236
Intangible assets		**1,217**	1,021
Deferred income tax assets	*18*	**72,562**	72,494
		76,557	75,751
Current assets			
Other assets	*20*	**19,454**	22,657
Loans to customers	*21*	**1,945,652**	2,024,425
Financial assets designated at fair value through profit or loss	*22*	**50,961**	100,997
Cash at bank and on hand	*23*	**941,645**	912,349
		2,957,712	3,060,428
Total assets		**3,034,269**	3,136,179
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital	*24*	**8,632**	8,111
Share premium	*25*	**601,993**	548,237
Other reserves	*25*	**594,066**	584,739
Retained earnings	*26*	**505,247**	454,343
		1,709,938	1,595,430
Non-controlling interests	*14(i)*	**144,027**	204,708
Total equity		**1,853,965**	1,800,138

Consolidated Statement of Financial Position (Continued)

As at 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2017**	2016
LIABILITIES			
Current liabilities			
Other liabilities	*27*	**14,014**	16,742
Current income tax liabilities		**14,689**	30,360
Amounts due to related parties	*34(c)*	**633**	633
Borrowings	*28*	**1,150,968**	1,288,306
Total liabilities		**1,180,304**	1,336,041
Total equity and liabilities		**3,034,269**	3,136,179

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 86 to 163 were approved by the Board of Directors on 23 March 2018 and were signed on its behalf

Wu, Min
Director

Zhang, Changsong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to the equity holders of the company						
		Share Capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling Interests	Total equity
As at 1 January 2017		8,111	548,237	584,739	454,343	1,595,430	204,708	1,800,138
Comprehensive income								
Profit for the year		–	–	–	50,904	50,904	14,282	65,186
Total comprehensive income for the year		–	–	–	50,904	50,904	14,282	65,186
Employee share scheme								
— Value of employee services	25(c)(i)	–	–	4,272	–	4,272	–	4,272
Issue of ordinary shares under employee share scheme	25(c)(ii)	98	7,877	(1,908)	–	6,067	–	6,067
Contribution of equity on establishment of a subsidiary by Non-controlling interests	1	–	–	–	–	–	10,000	10,000
Transactions with Non-controlling interests	33	–	–	6,963	–	6,963	(66,963)	(60,000)
Private placement of new shares	24(a)	423	45,879	–	–	46,302	–	46,302
Dividends paid to Non-controlling Interests	14(i)	–	–	–	–	–	(18,000)	(18,000)
Total transactions with owners, recognised directly in equity		521	53,756	9,327	–	63,604	(74,963)	(11,359)
As at 31 December 2017		8,632	601,993	594,066	505,247	1,709,938	144,027	1,853,965
As at 1 January 2016		8,111	548,237	578,319	418,078	1,552,745	214,076	1,766,821
Comprehensive income								
Profit for the year		–	–	–	40,078	40,078	14,640	54,718
Total comprehensive income for the year		–	–	–	40,078	40,078	14,640	54,718
Appropriation to statutory reserves	25(a)	–	–	3,813	(3,813)	–	–	–
Employee share scheme								
— Value of employee services	25(c)(i)	–	–	2,607	–	2,607	–	2,607
Dividends paid to Non-controlling Interests	14(i)	–	–	–	–	–	(24,008)	(24,008)
Total transactions with owners, recognised directly in equity		–	–	6,420	(3,813)	2,607	(24,008)	(21,401)
As at 31 December 2016		8,111	548,237	584,739	454,343	1,595,430	204,708	1,800,138

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Cash flows from operating activities			
Profit before income tax		**93,582**	62,977
Adjustments for:			
Interest expense	*7*	**74,237**	65,639
Fair value loss on financial assets	*8*	**8,577**	462
Net investment gains of disposal of subsidiaries	*8*	**(8,150)**	—
Net charge of impairment allowance	*12*	**10,142**	106,610
Depreciation and amortisation		**1,129**	(353)
Net foreign currency losses/(gains)		**674**	(57)
Share-based payments	*25(c)(i)*	**4,272**	2,607
		184,463	237,885
Change in operating assets and liabilities:			
— Other assets		**2,250**	(2,781)
— Loans to customers		**69,584**	(100,982)
— Net decrease/(increase) in financial assets designated at fair value		**41,459**	(101,459)
— Term deposits with banks		**37,405**	(116,532)
— Other liabilities		**(2,728)**	727
— Amounts due to related parties		**—**	(51)
Cash generated/(used) in operations		**332,433**	(83,193)
Interest paid		**(68,969)**	(59,952)
Income tax paid		**(44,135)**	(38,457)
Net cash inflow/(outflow) from operating activities		**219,329**	(181,602)
Cash flows from investing activities			
Net Proceeds on disposal of subsidiaries	*8*	**8,150**	—
Purchases of property, plant and equipment		**(1,534)**	(656)
Purchase of intangible asset		**(333)**	(568)
Net cash inflow/(outflow) from investing activities		**6,283**	(1,224)
Cash flows from financing activities			
Proceeds from bank and other borrowings		**2,466,299**	1,352,398
Repayments of bank and other borrowings		**(2,608,905)**	(1,020,351)
Dividends paid to Non-controlling Interests	*14(i)*	**(18,000)**	(24,008)
Proceeds from contribution of equity on establishment of a subsidiary by Non-controlling Interests		**10,000**	—
Proceeds from private placement of new shares	*24*	**46,302**	—
Proceeds from issuance of ordinary shares under employee share scheme	*25(c)(ii)*	**6,067**	—
Transactions with Non-controlling Interests	*33*	**(60,000)**	—
Net cash (outflow)/inflow from financing activities		**(158,237)**	308,039
Net increase in cash and cash equivalents		**67,375**	125,213
Cash and cash equivalents at beginning of year		**191,216**	65,946
Exchange (losses)/gains on cash and cash equivalents		**(674)**	57
Cash and cash equivalents at end of year	*23*	**257,917**	191,216

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 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 of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

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

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

On 1 July 2015, the Group acquired 40% of the equity interests in Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. ("Dongshan Micro-finance") from Jiangsu Wuzhong Jiaye Investment Co., Ltd. (江蘇吳中嘉業投資有限公司) ("Wuzhong Jiaye") for a cash consideration of RMB126,414,800 (equivalent to approximately HK$158,018,500). Dongshan Micro-finance then became a subsidiary of the Group. On 20 December 2017, the Group further acquired 20% of the equity interests in Dongshan Micro-finance from Zhang Dexue, Sheng Chunquan and Suzhou Hongyuan Municipal Construction Engineering Co., Ltd. for a cash consideration of RMB60,000,000 (equivalent to approximately HK$71,005,917) (Note 14 (i)). After the acquisition, the Group owns a total 60% of the equity interests in Dongshan Micro-finance. Dongshan Micro-finance is mainly engaged in granting small amount loans and providing financial guarantee to customers in the PRC.

In June 2016 and November 2016 respectively, the Group set up two 100% owned subsidiaries, Suzhou Dang Tian Xia Technology Company Limited (蘇州當天下網路科技有限公司) ("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 8(c)).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

1 General Information (Continued)

On 27 September 2017, Suzhou Huifang Jiada Information Technology Company Limited (蘇州匯方嘉達信息科技有限公司) ("Huifang Jiada") entered into a partnership with Suzhou Wuzhong Financial Merchants Service Company Limited (蘇州市吳中金融招商服務有限公司) ("Wuzhong Jinfu") to set up Suzhou Huifang Rongtong Guided SME Turnover Loan Fund (Limited Partnership) (蘇州匯方融通中小微企業轉貸引導基金合夥企業(有限合夥)) ("Huifang Rongtong"). Huifang Jiada is the general partner with 80% partnership percentage. Huifang Rongtong provides guided short-term turnover loans to small and medium-size enterprises in Suzhou.

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

The Group meets its day-to-day working capital requirements through its bank and other financial institution facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank and other financial institution finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading 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 consolidated financial statements. Further information on the Group's borrowings is given in Note 28.

These consolidated financial statements have been approved and authorised for issue by the Board on 23 March 2018.

2 Summary of Significant Accounting Policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of China Huirong Financial Holdings Limited and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- financial assets and liabilities designated at fair value through profit or loss — measured at fair value.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

(iii) New and amended standards adopted by the Group

The following amendments have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses
HKAS 7 (Amendment)	Disclosure initiative

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

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 28(a).

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Standards	Key requirements	Effective from financial years starting on or after
HKFRS 15 Revenue from Contracts with Customers	The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. At this stage, the Group estimates that the impact of the new rules on the Group's financial statements is limited. HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.	1 January 2018

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

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

Standards	Key requirements	Effective from financial years starting on or after
HKFRS 9 Financial Instruments	HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has reviewed its financial assets and liabilities and does not expect the new guidance to affect the classification and measurement of the financial assets and liabilities on 1 January 2018. 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 hence there will be no change to the accounting for these assets. The Group also does not hold any investments in corporate bonds that will qualify for classification at amortised cost going forward and there will be no impact on retained earning on the reclassification. The other financial assets held by the Group are: • Equity investments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under HKFRS 9, and • Loans to customers measured at amortised cost which meet the conditions for classification at amortised cost under HKFRS9. 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. The derecognition rules have been transferred from HKAS 39 Financial Instruments: *Recognition and Measurement* and have not been changed.	1 January 2018

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

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

Standards	Key requirements	Effective from financial years starting on or after
HKFRS 9 Financial Instruments	The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group currently does not have any hedge relationships. The new impairment model requires the recognition of impairment allowances based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKIFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. At initial recognition, an impairment allowance is required for ECL resulting from defaulting events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an provision is required for ECL resulting from all possible default events over the expected life of the financial instrument. Financial assets where 12-month ECL is recognised are in "stage 1"; financial assets are considered to have experienced a significant increase in credit risk are in "stage 2"; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise impaired, are in "stage 3".	1 January 2018

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

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

Standards	Key requirements	Effective from financial years starting on or after
HKFRS 9 Financial Instruments	The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions, reasonable and supportable forecast of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. Based on the assessments undertaken to date, the Group expects a small increase in the impairment allowances for loans to customers and results in a decrease in net assets by approximately 1% as at 1 January 2018. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.	1 January 2018

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

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

Standards	Key requirements	Effective from financial years starting on or after
HKFRS 16 Leases	HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB11,057 thousand. The Group estimates that approximately 51.8% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss. However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward. The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.	1 January 2019

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(i) Subsidiaries (Continued)

a. Subsidiary from Reorganisation

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

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

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

b. Subsidiaries other than from Reorganisation

Except for the Reorganisation as described in Note 2.2(a), the Group applies the acquisition method to account for business combinations (Note 2.3).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in other reserve within equity attributable to owners of the Group.

2.3 Business combinations

The Group applies the acquisition method to account for business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.3 Business combinations (Continued)

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Separate financial statements

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

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

2.5 Interest income and expense

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.6 Financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss, and
- loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition. The Group currently only holds financial assets at fair value through profit or loss and loans and receivables. See Note 19 for details about each type of financial assets.

a. **Financial assets at fair value through profit or loss:**

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

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling or in the short term, i.e. are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. The Group does not recognize any "Financial assets held for trading" in the consolidated statements of financial position as at 31 December 2017 and 2016.

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

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

The Group managed and reported the risk of equity investments to the senior management on a fair value basis. Thus, the Group designated such equity investments held at 31 December 2017 as at fair value through profit or loss (2016: same).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.6 Financial assets (Continued)

(i) Classification (Continued)

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

Financial assets for which fair value option is applied are recognized in the consolidated statement of financial position as "Financial assets designated at fair value through profit or loss". Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in "Net investment gains/(losses)".

b. **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected within one year or less, they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables mainly comprise "loans to customers" in the consolidated statements of financial position.

(ii) Recognition and derecognition

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Substantial modifications to the contractual terms of a renewed loan would result in derecognition of the original loan and the recognition of a new loan on the revised terms.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

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

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised in net investment gains/(losses) in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.6 Financial assets (Continued)

(iii) Measurement (Continued)

Dividends on financial assets at fair value through profit or loss are recognised in the consolidated statement of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest on loans and receivables calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.2(a).

2.7 Impairment of financial assets

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.7 Impairment of financial assets (Continued)

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.8 Financial liabilities

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

The Group only assumed financial liabilities classified as "other financial liabilities" for the years ended 31 December 2017 and 2016.

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

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

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

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.10 Repossessed collateral assets

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.11 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of the Group has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, coincides with the Group's Board of Directors.

2.12 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the consolidated statement of comprehensive income. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in consolidated statement of comprehensive income on a net basis within other (losses)/gains, net.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

- all resulting exchange differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.13 Property, plant and equipment

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

2.14 Intangible asset

(a) Computer Software

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

Amortisation on intangible asset with a limited useful life is calculated using the straight-line method over the following period:

Computer softwares	10 years

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.15.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.15 Impairment of non-financial assets

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

2.16 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

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

Deferred income tax

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.16 Current and deferred income tax (Continued)

Deferred income tax (Continued)

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

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

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

2.17 Employee benefits

(i) Pension obligations

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

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

(ii) Other social security obligations

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.18 Share-based payments

(a) Share-based payment

Employee Options

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

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

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

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

2.19 Provisions

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

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

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.20 Government grants

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

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

2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 31(a)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.22 Share capital

Ordinary shares are classified as equity (Note 24).

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

2.23 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.24 Dividend distribution

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, measurement, 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 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 policies covering specific areas, such as credit risk, market risk and liquidity risk.

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.

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

3.1 Financial risk factors

(a) 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.

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(i) Credit risk mitigation policies (Continued)

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) Impairment and provisioning policies

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

The impairment provision shown in the consolidated statement of financial position at year end is derived from each of the three loan categories by credit type. The majority of the impairment provision is from equity interest backed 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:

	As at 31 December	
	2017	2016
Loans to customers, gross		
Collateral-backed loans	**1,465,924**	1,525,529
— Real estate backed loans	**1,172,861**	1,089,431
— Equity interest backed loans	**254,837**	419,901
— Personal property backed loans	**38,226**	16,197
Guaranteed loans	**205,783**	273,729
Unsecured loans	**483,186**	485,400
	2,154,893	2,284,658
Less: Impairment allowances		
Collateral-backed loans	**(170,169)**	(220,585)
— Real estate backed loans	**(78,844)**	(49,317)
— Equity interest backed loans	**(91,325)**	(171,268)
— Personal property backed loans	**—**	—
Guaranteed loans	**(33,631)**	(33,342)
Unsecured loans	**(5,441)**	(6,306)
	(209,241)	(260,233)
	1,945,652	2,024,425

Management determines whether objective evidence of impairment exists, based on the criteria set out by the Group in Note 2.7.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(ii) Impairment and provisioning policies (Continued)

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

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

Personal property backed loans have less credit exposure as the Group physically takes possession or entrust an independent third-party to take possession of the collateral till loan repayment. For the years ended 31 December 2017 and 2016, there has been no incurred credit loss on the loans secured by personal property collateral after considering the amount recovered through repossessed assets. Consequently no collectively assessed impairment allowances were provided for loans secured by this collateral type.

Please refer to Note 21 for individually assessed and collectively assessed impairment allowances arising from equity interest backed loans, real estate backed loans, guaranteed loans and unsecured loans.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

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

	As at 31 December	
	2017	2016
Credit risk exposures relating to assets are as follows:		
Loans to customers	**1,945,652**	2,024,425
Deposit with banks	**939,878**	910,919
Other receivables	**13,209**	16,990
	2,898,739	2,952,334

The above table represents a worst case scenario of credit risk exposure to the Group as at 31 December 2017 and 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 with or in the custody of 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 or in the custody of 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(iv) Loans to customers

Loans to customers are summarised as follows:

	As at 31 December	
	2017	2016
Neither past due nor impaired	**1,028,299**	1,043,847
Past due but not impaired	**725,031**	880,398
Individually impaired	**401,563**	360,413
Gross	**2,154,893**	2,284,658
Less: Impairment allowances	**(209,241)**	(260,233)
Net	**1,945,652**	2,024,425

a. *Loans to customers neither past due nor impaired*

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(iv) Loans to customers (Continued)

b. *Loans to customers past due but not impaired*

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

	As at 31 December	
	2017	2016
Real estate backed loans, gross		
Past due up to 1 month	**33,853**	—
Past due 1–3 months	**6,115**	6,884
Past due 4–6 months	**2,946**	—
Past due over 6 months	**676,349**	830,407
	719,263	837,291
Equity interest backed loans, gross		
Past due up to 1 month	**—**	—
Past due 1–3 months	**—**	—
Past due 4–6 months	**—**	—
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	**—**	6,230
Past due 4–6 months	**—**	3,000
Past due over 6 months	**5,568**	22,225
	5,568	32,790
Unsecured loans, gross		
Past due up to 1 month	**—**	—
Past due 1–3 months	**—**	—
Past due 4–6 months	**—**	—
Past due over 6 months	**200**	3,070
	200	3,070
Past due but not impaired, total	**725,031**	880,398

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(iv) Loans to customers (Continued)

b. *Loans to customers past due but not impaired (Continued)*

The Group accepted real estate collateral at fair value of approximately RMB1,473,833 thousand for real estate backed loans that were past due but not impaired as at 31 December 2017 (2016: RMB1,384,947 thousand).

c. *Loans to customers individually impaired*

	As at 31 December	
	2017	2016
Gross individually impaired loans		
— Real estate backed loans	**180,839**	117,131
— Equity interest backed loans	**155,378**	199,648
— Guaranteed loans	**65,346**	43,634
	401,563	360,413
Impairment allowance made in respective of such loans		
— Real estate backed loans	**(62,835)**	(32,780)
— Equity interest backed loans	**(83,399)**	(139,684)
— Guaranteed loans	**(31,235)**	(25,266)
	(177,469)	(197,730)
Net individually impaired loans	**224,094**	162,683

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(v) 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 28.2% of the total loans to customers as at 31 December 2017 (2016: 29.1%). Interest income from the top five customers accounted for 19.9% of total interest income for the year ended 31 December 2017 (2016: 27.4%).

(vi) Amount of interest income accrued on impaired loans to customers

	Year ended 31 December	
	2017	2016
Interest income accrued on impaired loans to customers		
— Real estate backed loans	**25,618**	19,433
— Equity interest backed loans	**15,876**	4,202
— Guaranteed loans	**3,113**	2,363
	44,607	25,998

(b) 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, foreign 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 borrowings. The Group has established policies and procedures for monitoring and managing market risk.

(i) 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

The most significant interest-bearing assets and liabilities are loans to customers and 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 borrowings. As at respective balance sheet dates, maturity dates of loans to customers are all within 12 months, whilst maturity dates of borrowings are within 12 months. The Group regularly calculates the impact on profit or loss of a possible interest rate shift on its portfolio of loans to customers, 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 RMB2,361 thousand for the year ended 31 December 2017 (2016: RMB2,841 thousand), mainly as a result of higher/lower interest income on term deposits with banks and interest expense on fixed-rate borrowings arising from interest rate repricing.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Market risk (Continued)

(ii) 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.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB thousand, is as follows:

	As at 31 December			
	2017		2016	
	USD	**HKD**	USD	HKD
Cash at bank and on hand	**633,797**	**51,113**	661,231	722

Amounts recognised in the consolidated statement of comprehensive income

During the year, the following foreign-exchange related amounts were recognised in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2017	2016
Exchange (losses)/gains on foreign currency cash at bank	**(39,633)**	42,217

As at 31 December 2017, other than deposits with banks denominated in US dollar and Hong Kong dollar totaling RMB684,910 thousand (2016: RMB661,953 thousand)(Note 23), the Group did not have significant assets or liabilities that were denominated in currencies other than RMB. Should US dollar had weakened/strengthened by 1% against RMB with all other variables held constant, the profit before income tax would have been RMB6,849 thousand (2016: RMB6,620 thousand) lower/higher for the year ended 31 December 2017, mainly as a result of foreign exchange losses/gains on translation of US dollar and Hong Kong dollar denominated balances.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Market risk (Continued)

(iii) Price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position as at fair value through profit or loss (Note 22).

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's equity investment are publicly traded. If the stock price increase/decrease by 5%, the profit before income tax would have been RMB2,548 thousand (2016: RMB3,322 thousand) higher/lower for the year ended 31 December 2017.

(c) 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.

(i) Financing arrangements

The Group has no undrawn borrowing facilities as at 31 December 2017 (31 December 2016: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(ii) Maturities of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis.

	Repayable on demand or within 1 month	1–6 months	6–12 months	Past due	Total
As at 31 December 2017					
Cash at bank and on hand	617,857	219,231	116,281	—	953,369
Loans to customers	104,183	645,581	317,342	929,827	1,996,933
Total financial assets	722,040	864,812	433,623	929,827	2,950,302
Borrowings	(164,723)	(844,406)	(154,912)	—	(1,164,041)
Amounts due to related parties	(633)	—	—	—	(633)
Other financial liabilities	(2,449)	—	—	—	(2,449)
Total financial liabilities	(167,805)	(844,406)	(154,912)	—	(1,167,123)
Net liquidity gap	554,235	20,406	278,711	929,827	1,783,179
As at 31 December 2016					
Cash at bank and on hand	510,169	146,580	261,255	—	918,004
Loans to customers	200,638	575,062	259,925	1,021,133	2,056,758
Total financial assets	710,807	721,642	521,180	1,021,133	2,974,762
Borrowings	(234,104)	(709,807)	(370,094)	—	(1,314,005)
Amounts due to related parties	(633)	—	—	—	(633)
Other financial liabilities	(5,763)	—	—	—	(5,763)
Total financial liabilities	(240,500)	(709,807)	(370,094)	—	(1,320,401)
Net liquidity gap	470,307	11,835	151,086	1,021,133	1,654,361

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.2 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 31 December 2017 (2016: same). Management designated all equity investments held as "Financial assets designated at fair value through profit or loss".

(a) Fair value hierarchy

The table below analysis the Group's financial instruments carried at fair value as at 31 December 2017 and 2016 by level of the inputs to valuation techniques used to measure fair value. An explanation of each level follows underneath the table.

	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Financial assets at fair value through profit or loss				
Financial assets designated at fair value through profit or loss				
— Equity Investments	—	50,961	—	50,961

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

There were no transfers between level 1 and level 2 financial assets during the year. Transfer between level 2 and 3 is addressed in the Level 3 reconciliation below (Note 3.2(c)).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.2 Fair value of financial assets and liabilities (Continued)

(a) Fair value hierarchy (Continued)

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

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

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(b) Valuation techniques used to determine fair value

The fair value of Level 2 equity instrument in public sector entity is based on the quoted market price as at 31 December 2017 and 2016. The fair value of Level 2 equity investments in unlisted entities is based on valuation techniques that maximize the use of observable market data.

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities, where the fair values have been determined based on present values and the discount rates used equal to a contractual rate of return.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.2 Fair value of financial assets and liabilities (Continued)

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2017 (2016: Nil):

	Unlisted Equity Investments
Opening balance at 1 January 2017	—
Transfers to Level 3 (i)	34,550
Purchases	10,000
Settlements	(51,459)
Gains recognised in net investment gains *(Note 8(b))*	6,909
Closing balance at 31 December 2017	—
Total unrealised gains for the asset held at the end of the reporting period recognised in the consolidated statement of comprehensive income for 2017	—

(i) In 2017, the Group transferred an unlisted equity investment 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 investment and the quoted market price is no longer applicable. The investment is then fair valued using a discounted cash flow approach, with a discount rate equals to a contractual rate of return. The main Level 3 input used by the Group for the equity investment in unlisted entity pertains to the discount rate, which is not based on observable market data. The investment is disposed in 2017.

Of the total gains (2016: Nil) recognised in the consolidated statement of comprehensive income in 2017, all amounts are attributable to the change in unrealised gains (2016: Nil) relating to those assets held at the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.2 Fair value of financial assets and liabilities (Continued)

(d) Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's reporting periods.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

- Risk adjustments specific to the counterparties (including assumptions about credit default rates) are derived from credit risk gradings determined by the Group's internal credit risk management group.

- Earnings growth factor for unlisted equity securities are estimated based on market information for similar types of companies.

- Contingent consideration — expected cash inflows are estimated based on the terms of the sale contract and the entity's knowledge of the business and how the current economic environment is likely to impact it.

Changes in level 2 and 3 fair values are analysed at the end of each reporting period during the valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

3.3 Capital risk management

(a) Risk management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and

- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

3 Financial Risk Management (Continued)

3.3 Capital risk management (Continued)

(a) Risk management (Continued)

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

During 2017, the Group's strategy, which was unchanged from 2016, was to maintain a gearing ratio below 50% and to meet the compliance requirements of Wuzhong Pawnshop on aggregate amount of loans to customers at all times. The gearing ratio as at 31 December 2017 and 31 December 2016 were as follows:

	As at 31 December	
	2017	2016
Borrowings *(Note 28)*	**1,150,968**	1,288,306
Less: Cash and cash equivalents *(Note 23)*	**(257,917)**	(191,216)
Net debt	**893,051**	1,097,090
Total equity	**1,853,965**	1,800,138
Total capital	**2,747,016**	2,897,228
Gearing ratio	**33%**	38%

(i) Loan covenants

Under the terms of the borrowing facility of Huifang Tongda, it is required to comply with the following financial covenants:

- the total amount of guarantee for third party liabilities must not be more than 4 times the net assets of Huifang Tongda.

Huifang Tongda has complied with the covenants for the year ended 31 December 2017 (2016: Nil).

The Group has no other financial covenants under the terms of the rest borrowing facilities for the year ended 31 December 2017 (2016: Same).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

4 Critical Estimates, Judgements and Errors

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates

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

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

(a) Impairment allowances on loans to customers

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

(b) Income taxes

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

4 Critical Estimates, Judgements and Errors (Continued)

4.1 Critical accounting estimates (Continued)

(c) Consolidated SEs

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

4.2 Critical accounting judgements

(a) Contractual Agreements

Under the relevant rules and regulations prevailing in the PRC, wholly foreign-owned enterprises are not allowed to operate pawn-loan business in China. The current registered equity holders of Wuzhong Pawnshop are Wuzhong Jiaye and Hengyue Consulting. As described in Note 2.2(i) above, the Group's wholly owned subsidiary Huifang Tongda entered into a series of Contractual Agreements with Wuzhong Pawnshop, Wuzhong Jiaye, Hengyue Consulting and the equity holders of Wuzhong Jiaye and Hengyue Consulting. Such Contractual Agreements include: (i) a proxy agreement where Wuzhong Jiaye and Hengyue Consulting have irrevocably and unconditionally undertaken to authorise Huifang Tongda to exercise their shareholders' rights under the articles of association of the Wuzhong Pawnshop and applicable PRC laws and regulations; (ii) an exclusive management and consultation service agreement pursuant to which Wuzhong Pawnshop engaged Huifang Tongda on an exclusive basis to provide consultation and other ancillary services, and in return Wuzhong Pawnshop agreed to pay Huifang Tongda the consultancy service fee; (iii) exclusive call option agreement pursuant to which Wuzhong Jiaye and Hengyue Consulting irrevocably and unconditionally granted Huifang Tongda an option to acquire the entire equity interest held by Wuzhong Jiaye and Hengyue Consulting in the Wuzhong Pawnshop and/or all assets of the Wuzhong Pawnshop at a price equivalent to the minimum amount as may be permitted by applicable PRC laws and regulations; and (iv) equity pledge agreement pursuant to which the Ultimate Shareholders granted first priority security interests over their respective equity interests in Wuzhong Jiaye and Hengyue Consulting to Huifang Tongda for guaranteeing the performance of the above the proxy agreement, exclusive management and consultation service agreement, and the exclusive call option agreement. Pursuant to these agreements and undertakings, notwithstanding the fact that the Group does not hold direct equity interest in Wuzhong Pawnshop, management considers that the Group has power over the financial and operating policies of Wuzhong Pawnshop and receive a majority of the economic benefits from its business activities. Accordingly, Wuzhong Pawnshop has been treated as an indirect subsidiary of the Company.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

5 Segment Information

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

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

The Group managed its business under one operating and reportable segment in accordance with the definition of a reportable segment under HKFRS 8 for the years ended 31 December 2017 and 2016.

6 Interest Income

	Year ended 31 December	
	2017	2016
Interest income from loans to customers		
Collateral backed loans		
— *Real estate backed loans*	**98,289**	87,167
— *Equity interest backed loans*	**56,285**	53,331
— *Personal property and inventory backed loans*	**11,000**	13,686
Guaranteed loans	**26,688**	34,697
Unsecured loans	**67,032**	48,745
Interest income from bank deposits	**13,059**	10,708
	272,353	248,334

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

7 Interest Expense

	Year ended 31 December	
	2017	2016
Interest expense on bank borrowings	**44,631**	44,703
Interest expense on borrowings from micro-finance company	**3,786**	—
Other interest expenses *(Note 28)*	**25,820**	20,936
	74,237	65,639

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

8 Net Investment Gains/(Losses)

	Year ended 31 December	
	2017	2016
Fair value (losses)/gains — listed equity securities (a)	**(15,486)**	6,447
Net gains from disposal of unlisted equity securities (b)	**9,406**	—
Net gains from disposal of subsidiaries (c)	**8,150**	—
Cash dividend of listed equity securities	**429**	—
Fair value losses — unlisted equity securities (a)	**—**	(6,909)
	2,499	(462)

(a) For the year ended 31 December 2017, fair value losses or gains are fair value change of financial instruments designated at fair value through profit and loss (2016: same) (Note 22).

(b) In 2017, the Group disposed unlisted equity securities and realized net gains of RMB9,406 thousand (2016: Nil).

(c) 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).

9 Other Operating Income

	Year ended 31 December	
	2017	2016
Consultancy fee income (a)	**5,275**	4,136
Net gains from disposal of repossessed assets	**1,051**	1,298
Guarantee fee income — Dongshan Micro-finance	**71**	146
Others	**16**	3
	6,413	5,583

(a) Consultancy fee income is mainly from Suzhou Qian Dai, an internet finance platform. It was launched by the Group in February 2015 to act as an intermedia agent between borrowers and lenders to earn consultancy fee income. Suzhou Qian Dai charges a fixed consultancy fee at rates ranging from 1.5% to 8.0% per annum to the borrowers (2016: 1.5% to 8.6%).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

10 Administrative Expenses

	Year ended 31 December	
	2017	2016
Employee benefit expenses *(Note 11)*	**36,980**	28,950
Advertising costs	**5,470**	7,586
Operating lease payments	**5,041**	4,342
Professional and consultancy fees	**4,205**	3,697
Transportation, meal and accommodation	**3,462**	4,048
Auditors' remuneration	**2,400**	2,192
Telephone, utilities and office expenses	**2,283**	2,406
Value-added tax and surcharges (a)	**1,577**	1,787
Commission fee	**1,111**	1,366
Depreciation and amortisation	**981**	1,023
Business tax and surcharges (b)	**—**	4,064
Other expenses	**3,412**	2,537
	66,922	63,998

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

(b) 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.

11 Employee Benefit Expenses

	Year ended 31 December	
	2017	2016
Wages and salaries	**14,321**	12,806
Discretionary bonuses	**12,307**	10,054
Pension	**1,677**	1,455
Other social security obligations	**4,403**	2,028
Share-based payments *(Note 25(c))*	**4,272**	2,607
	36,980	28,950

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

11 Employee Benefit Expenses (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three executive directors for the year ended 31 December 2017 (2016: same), whose emoluments are reflected in the analysis presented in Note 36. The emoluments payable to the remaining two individuals for the year ended 31 December 2017 (2016: same) are as follows:

	Year ended 31 December	
	2017	2016
Basic salaries	**725**	565
Discretionary bonuses	**1,115**	1,029
Pension	**31**	44
Other social security obligations	**73**	57
Share-based payment	**336**	205
	2,280	1,900

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

	Number of individuals Year ended 31 December	
	2017	2016
Emoluments band		
Nil — HK$1,000,000	**—**	2
HK$1,000,001 — HK$1,500,000	**1**	—
HK$1,500,001 — HK$2,000,000	**1**	—

For the years ended 31 December 2017 and 2016, no director or any of the five highest paid individuals received any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

12 Net Charge of Impairment Allowance

	Year ended 31 December	
	2017	2016
Net charge of impairment allowance on loans to customers *(Note 21(c))*	**8,976**	106,610
Net charge of impairment allowance on other assets	**1,166**	—
	10,142	106,610

13 Other (Losses)/Gains, Net

	Year ended 31 December	
	2017	2016
Net foreign currency (losses)/gains	**(39,633)**	42,217
Government grants	**3,150**	3,552
Others	**101**	—
	(36,382)	45,769

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
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14 Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2017. Unless otherwise stated, the proportion of ownership interests held equals the voting rights held by the Group. The country/place of incorporation is also their principle place of business.

Name of subsidiary	Country/ place of incorporation and operation	Date of incorporation	Type of legal entity	Nominal value of Issued and fully paid share capital/ registered capital	Interest directly held	Interest indirectly held	Principal activities	*Note*
Sifang Investment Limited	BVI	22 November 2011	Limited company	1 share of US$1	100%	–	investment holding	*(a)*
Tongda Investment Limited	BVI	22 November 2011	Limited company	1 share of US$1	–	100%	investment holding	*(a)*
Rongda Investment Limited ("Rongda Investment")	Hong Kong	05 December 2011	Limited company	1 share of US$1	–	100%	investment holding	*(a)*
Huifang Investment Limited ("Huifang Investment")	Hong Kong	05 December 2011	Limited company	1 share of US$1	–	100%	investment holding	*(a)*
Suzhou Huifang Technology Company Limited ("Huifang Technology")	The PRC	29 December 2011	Limited company	US$96,100,000/ US$98,100,000	–	100%	management and marketing consulting	*(b)*
Suzhou Huifang Tongda Information Technology Company Limited ("Huifang Tongda")	The PRC	10 February 2012	Limited company	RMB105,000,000	–	100%	management and marketing consulting	*(c)*
Suzhou Huifang Rongda Internet Technology Company Limited ("Huifang Rongda")	The PRC	8 May 2015	Limited company	RMB12,000,000/ RMB50,000,000	–	100%	management and marketing consulting	*(d)*
Suzhou Wuzhong Pawnshop Co., Ltd. ("Wuzhong Pawnshop")	The PRC	21 December 1999	Limited company	RMB1,000,000,000	–	100%	pawnshop services	*(e)*
Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. ("Dongshan Micro-finance")	The PRC	26 December 2012	Limited company	RMB300,000,000	–	60%	micro-financing and guarantee services	*(f)*
Suzhou Huida Commercial Factoring Company Limited ("Huida Factoring")	The PRC	30 May 2016	Limited company	RMB50,000,000	–	100%	factoring services	*(g)*
Suzhou Huifang Jiada Information Technology Company Limited ("Huifang Jiada")	The PRC	15 December 2016	Limited company	RMB40,050,000/ RMB50,000,000	–	100%	technology development and consulting services	*(h)*
Suzhou Huifang Rongtong SME Guided Turnover Loan Fund (Limited Partnership) ("Huifang Rongtong")	The PRC	1 September 2017	Limited partnership	RMB50,000,000/ RMB100,000,000	–	80%	short-term turnover loans	*(h)*

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
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14 Subsidiaries (Continued)

(a) Statutory financial statements of Huifang Investment for the year ended 31 December 2016 were audited by FTW& Partners CPA Co., Ltd for tax filling with Hong Kong Inland Revenue Department. Statutory financial statements for the year ended 31 December 2017 is to be audited by FTW& Partners CPA Co., Ltd in April 2018.

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

(b) Statutory financial statements of Suzhou Huifang Technology Company Limited (蘇州匯方科技有限公司), previously named as Suzhou Huifang Management Consulting Company Limited (蘇州匯方管理諮詢有限公司) (collectively "Huifang Technology") for the years ended 31 December 2017 and 2016 were audited by Suzhou Chang Cheng CPA Co., Ltd.

(c) Statutory financial statements of Suzhou Huifang Tongda Information Technology Company Limited (蘇州匯方同達資訊科技有限公司), previously named as Suzhou Huifang Tongda Management Consulting Company Limited (蘇州匯方同達管理諮詢有限公司) (collectively "Huifang Tongda") for the years ended 31 December 2017 and 2016 were audited by PricewaterhouseCoopers Zhong Tian LLP.

(d) Statutory financial statements of Suzhou Huifang Rongda Internet Technology Company Limited (蘇州匯方融達網路科技有限公司), ("Huifang Rongda") for the years ended 31 December 2017 and 2016 were audited by Suzhou Chang Cheng CPA Co., Ltd.

(e) Although the Group does not have any equity interest in Wuzhong Pawnshop, the Group effectively controls Wuzhong Pawnshop as Huifang Tongda has the power to govern the financial and operating policies of Wuzhong Pawnshop so as to derive benefits from its business activities. Statutory financial statements of Wuzhong Pawnshop for the years ended 31 December 2017 and 2016 were audited by Suzhou Tian Ping CPA Co., Ltd.

(f) The Group further acquired 20% equity interest in Dongshan Micro-finance and the total interest held at 31 December 2017 is 60% (2016:40%). Statutory financial statements of Dongshan Micro-finance for the years ended 31 December 2017 and 2016 were audited by Suzhou De Heng CPA LLP.

(g) Statutory financial statements of Huida Factoring for the years ended 31 December 2017 and 2016 were audited by Suzhou Chang Cheng CPA Co., Ltd.

(h) Statutory financial statements of Huifang Jiada and Huifang Rongtong for the years ended 31 December 2017 is to be audited by Suzhou Zhong He CPA LLP.

Notes to the Consolidated Financial Statements (Continued)

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(All amounts in RMB thousands unless otherwise stated)

14 Subsidiaries (Continued)

(i) Non-controlling interests (NCI)

The total non-controlling interest as at 31 December 2017 is RMB144,027 thousand (2016: RMB204,708 thousand), of which RMB133,926 (2016: RMB204,708 thousand) is attributed to Dongshan Micro-finance and RMB10,101 (2016: Nil) is attributed to Huifang Rongtong.

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

On 20 December 2017, the Group further acquired 20% of the equity interests in Dongshan Micro-finance for a cash consideration of RMB60,000,000. Upon the acquisition, the Group then own a total of 60% of the equity interests in Dongshan Micro-finance. The financial results of Dongshan Micro-finance are continued to be consolidated and accounted for as a subsidiary of the Group.

On 27 September 2017, Huifang Jiada entered into a limited partnership with Wuzhong Jinfu, an independent third party of the Group, to set up Huifang Rongtong, to provide guided turnover loans to customers. Huifang Jiada is the general partner with 80% partnership percentage. The financial results of Huifang Rongtong are consolidated and accounted for as a subsidiary of the Group upon completion of the establishment.

Summarised balance sheet:

	Dongshan Micro-finance		Huifang Rongtong	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
Current				
Assets	**402,285**	343,003	**50,180**	—
Liabilities	**(81,057)**	(12,818)	**(54)**	—
Total current net assets	**321,228**	330,185	**50,126**	—
Non-current				
Assets	**12,382**	9,791	**—**	—
Liabilities	**—**	—	**—**	—
Total non-current net assets	**12,382**	9,791	**—**	—
Net assets	**333,610**	339,976	**50,126**	—

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

14 Subsidiaries (Continued)

(i) Non-controlling interests (NCI) (Continued)

Summarised income statement:

	Dongshan Micro-finance		Huifang Rongtong	
	2017	2016	**2017**	2016
Interest Income	**51,322**	47,903	**177**	—
Other income and expenses	**(19,864)**	(22,543)	**(51)**	—
Profit before income tax	**31,458**	25,360	**126**	—
Income tax expense	**(7,823)**	(960)	**—**	—
Total comprehensive income	**23,635**	24,400	**126**	—
Total comprehensive income allocated to Non-Controlling Interests	**14,181**	14,640	**101**	—
Dividends paid to Non-Controlling Interests (a)	**18,000**	24,008	**—**	—

(a) 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 and the amount paid to non-controlling interests is RMB18,000 thousand.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

14 Subsidiaries (Continued)

(i) Non-controlling interests (NCI) (Continued)

Summarised cash flows:

	Dongshan Micro-finance		Huifang Rongtong	
	2017	2016	2017	2016
Cash flows from operating activities				
Cash (used)/generated from operations	(70,325)	154,926	180	—
Interest paid	(3,760)	(29,390)	—	—
Income tax paid	(8,621)	(10,084)	—	—
Net cash (used)/generated from operating activities	(82,706)	115,452	180	—
Net cash used in investing activities	(116)	—	—	—
Net cash generated/(used) in financing activities	38,000	(71,000)	50,000	—
Net (decrease)/increase in cash and cash equivalents	(44,822)	44,452	50,180	—
Cash and cash equivalents at end of year	5,989	50,811	50,180	—

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

15 Income Tax Expense

This note provides an analysis of the Group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

(a) Income tax expense

	Year ended 31 December	
	2017	2016
Current tax		
Current tax on profits for the year	**28,464**	41,758
Adjustments for current tax of prior periods	**–**	(5,353)
Total current tax expense	**28,464**	36,405
Deferred income tax		
Increase in deferred tax assets *(Note 18)*	**(68)**	(28,146)
Total deferred tax benefit	**(68)**	(28,146)
Income tax expense	**28,396**	8,259

All income tax expense is attributable to profit from continuing operations in the year ended 31 December 2017 (2016: same).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
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15 Income Tax Expense (Continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Year ended 31 December	
	2017	2016
Profit before income tax expense	**93,582**	62,977
Tax calculated at domestic tax rates applicable to profits in the respective areas	**24,589**	16,359
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
— Entertainment	**336**	411
— Share-based payments	**(1,043)**	—
— Sundry items	**71**	153
Subtotal	**23,953**	16,923
Effect of different tax rates in countries in which the entity operates	**(460)**	(668)
Unused tax losses for which no deferred tax asset has been recognised	**323**	270
PRC withholding tax (i)	**4,580**	(2,913)
Adjustments for current tax of prior periods	**—**	(5,353)
Income tax expense	**28,396**	8,259

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

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

The applicable Hong Kong profits tax rate is 16.5% on the assessable profits earned or derived in Hong Kong for the year ended 31 December 2017 (2016: same).

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

15 Income Tax Expense (Continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable (Continued)

(i) Pursuant to the CIT Law, a 10% withholding tax is levied on the dividends declared by the foreign investment enterprise established in Mainland China to its immediate holding company incorporated outside Mainland China. The Group controls the dividend policies of these subsidiaries and it has been determined that a majority of these earnings will be distributed in the foreseeable future. The Group accrued for PRC withholding tax of RMB4,580 thousand based on the tax rate of 10% on a portion of the earnings generated by PRC subsidiaries for the year ended 31 December 2017.

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

(c) Tax losses

	Year ended 31 December	
	2017	2016
Unused tax losses for which no deferred tax asset has been recognised	**1,959**	1,634
Potential tax benefit @ 16.5%	**323**	270

The unused tax losses were incurred by Huifang Investment that is not likely to generate taxable income in the foreseeable future. The losses can be carried forward indefinitely and have no expiry date. See Note 18 for information about recognised tax losses and Note 2.16 for significant judgements made.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

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 year.

	Year ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company (RMB'000)	**50,904**	40,078
Weighted average number of ordinary shares in issue (in thousands)	**1,027,425**	1,025,237
Basic earnings per share (RMB)	**0.05**	0.04

All profit attributable to owners of the Company is from continuing operations.

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share options under share-based payment (Note 25(c)). For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company (RMB'000)	**50,904**	40,078
Weighted average number of ordinary shares in issue (in thousands)	**1,027,425**	1,025,237
Adjustments for:		
— Share options (in thousands)	**12,532**	12,029
Dilutive earnings per share (RMB)	**0.05**	0.04

All profit attributable to owners of the Company is from continuing operations.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

16 Earnings Per Share (Continued)

(c) Weighted average number of shares used as the denominator

	Year ended 31 December	
	2017	2016
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,027,425**	1,025,237
Adjustments for calculation of diluted earnings per share:		
Options	**12,532**	12,029
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,039,957**	1,037,266

17 Dividends

A dividend in respect of the year ended 31 December 2017 of HK$0.0132 per share, amounting to a total dividend of HK$14,346 thousand (equivalent to approximately RMB11,991 thousand), is to be proposed at the annual general meeting on 28 May 2018. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2017	2016
Proposed final dividend of HK$0.0132 (2016: Nil) per ordinary share	**11,991**	—

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

18 Deferred Income Tax

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

	Impairment charge/ (reverse) on loans to customers	Impairment charge on other assets	Net loss from financial instruments designated at fair value through profit or loss	Recoverable tax losses	Share-based payments	Total
Deferred income tax assets						
At 1 January 2017	69,135	—	116	2,862	381	72,494
(Charged)/credited to the consolidated statements of comprehensive income	(9,044)	291	2,144	6,322	355	68
At 31 December 2017	60,091	291	2,260	9,184	736	72,562
At 1 January 2016	46,514	—	—	747	—	47,261
Credited to the consolidated statements of comprehensive income	22,621	—	116	2,115	381	25,233
At 31 December 2016	69,135	—	116	2,862	381	72,494

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

19 Financial Assets by Category

The Group holds the following financial assets:

Financial assets	Notes	2017 Assets at FVPL	 Financial assets at amortised cost	 Total
Other assets (excluding prepayments)		—	18,301	18,301
Financial assets designated at fair value through profit or loss	22	50,961	—	50,961
Loans to customers	21	—	1,945,652	1,945,652
Cash at bank and on hand	23	—	941,645	941,645
		50,961	2,905,598	2,956,559

	Notes	2016 Assets at FVPL	 Financial assets at amortised cost	 Total
Other assets (excluding prepayments)		—	19,102	19,102
Financial assets designated at fair value through profit or loss	22	100,997	—	100,997
Loans to customers	21	—	2,024,425	2,024,425
Cash at bank and on hand	23	—	912,349	912,349
		100,997	2,955,876	3,056,873

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

20 Other Assets

	As at 31 December	
	2017	2016
Interest receivable from bank deposits	**6,905**	6,144
Repossessed assets		
— *Personal properties*	**4,685**	5,667
— *Real estate properties*	**1,560**	—
Other receivables, net	**6,304**	10,846
Other receivables, gross	**7,257**	10,846
Less: Impairment allowances	**(953)**	—
	19,454	22,657

21 Loans to Customers

	As at 31 December	
	2017	2016
Loans to customers, gross		
Collateral backed loans	**1,465,924**	1,525,529
— *Real estate backed loans*	**1,172,861**	1,089,431
— *Equity interest backed loans*	**254,837**	419,901
— *Personal property backed loans*	**38,226**	16,197
Guaranteed loans	**205,783**	273,729
Unsecured loans	**483,186**	485,400
	2,154,893	2,284,658
Less: Impairment allowances		
— Individually assessed	**(177,469)**	(197,730)
— Collectively assessed	**(31,772)**	(62,503)
	(209,241)	(260,233)
Loans to customers, net	**1,945,652**	2,024,425

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 8.00% to 30.00% per annum in the year ended 31 December 2017 (2016: from 12.00% to 36.72%).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

21 Loans to Customers (Continued)

Guaranteed loans granted to customers bear fixed interest rates from 7.00% to 18.00% per annum in the year ended 31 December 2017 (2016: from 8.04% to 18.00%).

Unsecured loans granted to customers bear fixed interest rates from 8.00% to 18.00% per annum in the year ended 31 December 2017 (2016: from 6.00% to 18.00%).

Loans to customers are all denominated in RMB. The impairment allowances are related to loans secured by equity interest backed loans, real estate backed loans, guaranteed loans and unsecured loans (Note 3.1(a)).

As at 31 December 2017, renewed loans amounted to RMB129,041 thousand (2016: RMB109,980 thousand), all are real estate backed loans (2016: same). No renewed loans had substantially modified their original contractual terms for the year ended 31 December 2017 (2016: same).

(a) Aging analysis of loans to customers

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

	As at 31 December	
	2017	2016
Within 3 months	**422,999**	713,123
3–6 months	**382,308**	188,504
6–12 months	**248,915**	93,313
12–24 months	**24,410**	615,558
Over 24 months	**867,020**	413,927
	1,945,652	2,024,425

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

21 Loans to Customers (Continued)

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

	2017 Individually assessed	2017 Collectively assessed	2017 Total
At beginning of year	**197,730**	**62,503**	**260,233**
Impairment losses recognised	**102,759**	**—**	**102,759**
Net write back of loan provision	**(65,388)**	**(28,395)**	**(93,783)**
Unwind of discount on allowances during the period	**(44,607)**	**—**	**(44,607)**
Loans written off as un-collectible	**(15,361)**	**—**	**(15,361)**
Other transfer in/(out)	**2,336**	**(2,336)**	**—**
At end of year	**177,469**	**31,772**	**209,241**

	2016 Individually assessed	2016 Collectively assessed	2016 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 allowance on loans to customers

	Year ended 31 December 2017	Year ended 31 December 2016
Net charge/(reverse) of impairment allowance		
Individually assessed	**37,371**	84,936
Collectively assessed	**(28,395)**	21,674
	8,976	106,610

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

22 Financial Assets Designated at Fair Value Through Profit or Loss

	As at 31 December	
	2017	2016
Equity securities designated at fair value are analysed by issuers as follows:		
Listed — Public sector entities	**50,961**	66,447
Unlisted entities	**—**	34,550
	50,961	100,997

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

Changes in fair value of the above equity investments are recorded in "Net investment gains/(losses)" in the consolidated statement of comprehensive income (Note 8).

The fair value of equity investments in public sector entities is based on the current bid price as at 31 December 2017 (2016: same).

Listed equity securities with fair value of RMB50,961 thousand have been pledged with a securities company to secure borrowings with principal amount of RMB27,000 thousand from the securities company (2016: Listed equity securities with fair value of RMB49,835 thousand have been pledged with a securities company to secure borrowings with principal amount of RMB20,200 thousand from the securities company) (Note 28(d)).

23 Cash at Bank and on Hand

	As at 31 December	
	2017	2016
Cash on hand	**1,767**	1,430
Demand deposits with banks	**256,150**	189,786
Term deposits with banks	**683,728**	721,133
	941,645	912,349

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

23 Cash at Bank and on Hand (Continued)

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

	As at 31 December	
	2017	2016
RMB	**256,735**	250,396
US dollar	**633,797**	661,231
Hong Kong dollar	**51,113**	722
	941,645	912,349

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

	As at 31 December	
	2017	2016
Cash at bank and on hand	**941,645**	912,349
Less: Unrestricted term deposits with banks with original maturities over 3 months	**(308,350)**	(327,123)
Restricted term deposits pledged with banks	**(375,378)**	(394,010)
	257,917	191,216

As at 31 December 2017, restricted term deposits of US$49,796 thousand (2016: US$48,149 thousand), which is equivalent to RMB325,378 thousand (2016: RMB334,010 thousand), were pledged with banks to secure bank borrowings with principal amount of RMB306,000 thousand (2016: RMB290,000 thousand) (Note 28).

As at 31 December 2017, restricted term deposits of RMB50,000 thousand (2016: RMB60,000 thousand) were pledged with banks to secure bank borrowings with principal amount of RMB47,500 thousand (2016: RMB57,000 thousand) (Note 28).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

24 Share Capital

	Number of shares	Ordinary shares HK$	Ordinary shares RMB
Issued and fully paid			
As at 31 December 2017	1,086,787,000	HK$10,867,870	8,631,935
As at 31 December 2016	1,025,237,000	HK$10,252,370	8,111,008

(i) Movements in ordinary shares

	Number of shares	Ordinary shares HK$	Ordinary shares RMB
Details			
Opening balance 1 January 2017	1,025,237,000	HK$10,252,370	8,111,008
Private placement of new shares (a)	50,000,000	HK$500,000	423,050
Issue of shares under employee share scheme *(Note 25(c)(ii))*	11,550,000	HK$115,500	97,877
Balance 31 December 2017	1,086,787,000	HK$10,867,870	8,631,935

(a) On 14 December 2017, an aggregate of 50,000,000 privately placed shares were issued and allotted to nine placees, that all are independent third parties of the Group. The private placement price is HK$1.10 per share pursuant to the Private Placing Agreement dated 23 November 2017. The gross proceed raised by the Company from the placing was HK$55,000 thousand, equivalent to approximately RMB46,535 thousand. The excess of RMB46,112 thousand over the par value of RMB423 thousand for the 50,000,000 ordinary shares issued, net of the relevant incremental costs of RMB233 thousand directly contributable to the Placing Shares issued, was credited to “share premium” with amount of RMB45,879 thousand (Note 25).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

25 Share Premium and Other Reserves

		Other reserves				
	Share premium	Capital reserve	Statutory reserve	General reserve(b)	Share-based payments reserve	Total
At 1 January 2017	548,237	500,000	77,715	4,417	2,607	1,132,976
Private placement of new shares	45,879	—	—	—	—	45,879
Issue of shares under employee share scheme (c)(ii)	7,877	—	—	—	(1,908)	5,969
Share-based payments — Value of employee services (c)(i)	—	—	—	—	4,272	4,272
Transactions with Non-controlling interests *(Note 33)*	—	6,963	—	—	—	6,963
At 31 December 2017	601,993	506,963	77,715	4,417	4,971	1,196,059
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 — Value of employee services (c)(i)	—	—	—	—	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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
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25 Share Premium and Other Reserves (Continued)

(b) General reserve

In accordance with the "Notice on the Issuance of the Provision of General Reserve of Financial Institutions" 《關於印發<金融企業準備金計提管理辦法>的通知》(財金2012[20]號)) launched on 20 March 2012, Dongshan Micro-finance appropriate its annual statutory net profit to general reserve. When the balance of the general reserve reaches 1.5% of the balance of its financial assets at risk at financial year end, it is not required to make further provision to general reserve. As at 31 December 2017, the general reserve of Dongshan Micro-finance reaches 1.5% of its balance of financial assets at risk, thus no provisions were made to general reserve as at 31 December 2017 (31 December 2016: same).

(c) Share-based payments

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.

Set below are summaries of options granted under the plan:

	2017	
	Average exercise price in HK$ per share option	Number of share options (thousands)
As at 1 January	0.62	50,000
Granted	—	—
Exercised (ii)	0.62	(11,550)
Forfeited	0.62	(10,443)
At at 31 December	0.62	28,007
Vested and exercisable at 31 December 2017	0.62	28,007

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
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25 Share Premium and Other Reserves (Continued)

(c) Share-based payments (Continued)

	2016	
	Average exercise price in HK$ per share option	Number of share options (thousands)
As at 1 January	—	—
Granted	0.62	50,000
Exercised	—	—
As at 31 December	0.62	50,000

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2017 was HK$1.32 (2016: Nil).

(i) Share-based payments — value of employee services

Options are granted for no consideration and vest based on whether the Group achieved the profit target described above. The weighted average fair value of options granted in 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.

Share options outstanding at the end of the year will expire on 12 September 2021.

Employee benefit expense of RMB4,272 thousand was recognized for share options granted to directors and employees for the year ended 31 December 2017 (2016: RMB2,607 thousand).

(ii) Issue of shares under share-based payments

In 2017, the Company issued 11,550,000 ordinary shares in connection with exercised options under the share-based payments. The total proceeds is HK$7,161 thousand (equivalent to approximately RMB6,067 thousand). The excess of RMB5,969 thousand over the par value of RMB98 thousand for the 11,550,000 ordinary shares issued, plus transfer-in amount of RMB1,908 thousand previously recognized in share-based payments reserve directly contributable to the options exercised, was credited to “share premium” with amount of RMB7,877 thousand.

Notes to the Consolidated Financial Statements (Continued)

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(All amounts in RMB thousands unless otherwise stated)

26 Retained Earnings

Movements in retained earnings were as follows:

Balance 1 January 2017	454,343
Profit for the year	50,904
Balance 31 December 2017	505,247
Balance 1 January 2016	418,078
Profit for the year	40,078
Appropriation to statutory reserves *(Note 25(a))*	(3,813)
Balance 31 December 2016	454,343

27 Other Liabilities

	As at 31 December	
	2017	2016
Accrued employee benefits	**10,011**	10,088
Turnover tax and other tax payable	**1,553**	891
Other financial liabilities	**2,450**	5,763
	14,014	16,742

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

28 Borrowings

	As at 31 December	
	2017	2016
Bank borrowings (a)	**844,812**	888,422
Interests of holders of consolidated SEs — Suzhou Qian Dai (b)	**191,421**	379,635
Borrowings from microfinance companies (c)	**68,174**	—
Borrowings from securities company (d)	**27,051**	20,249
Private placement note (e)	**19,510**	—
	1,150,968	1,288,306

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

28 Borrowings (Continued)

(a) Bank borrowings are all with maturity within one year and bear fixed interest rates ranging from 4.35% to 5.66% per annum in the year ended 31 December 2017 (2016: 4.35% to 6.20%).

As at 31 December 2017, bank borrowings with principal amount of RMB306,000 thousand (2016: RMB290,000 thousand) were secured by restricted term deposits of US$49,796 thousand (2016: US$48,149 thousand) (Note 23).

As at 31 December 2017, bank borrowings with principal amount of RMB47,500 thousand (2016: RMB57,000 thousand) were secured by restricted term deposits of RMB50,000 thousand(2016: RMB60,000 thousand) (Note 23).

As at 31 December 2017, bank borrowings with principal amount of RMB370,000 thousand (31 December 2016: RMB370,000 thousand) were guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (Note 34(b)).

As at 31 December 2017, no bank borrowings are guaranteed by Jiangsu Wuzhong Group Co. Ltd ("Wuzhong Group") (31 December 2016: RMB50,000 thousand) (Note 34(b)).

As at 31 December 2017, bank borrowings with principal amount of RMB120,000 thousand are guaranteed by Huifang Technology (31 December 2016: same).

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

The Group's borrowings are denominated in RMB.

As at 31 December 2017, the Group had no undrawn bank borrowing facilities (31 December 2016: Nil).

(b) As at 31 December 2017, interests of holders of consolidated SEs are borrowings from individual investors through the internet financing platform of Suzhou Qian Dai (31 December 2016: same).

As at 31 December 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 RMB 181,781 thousand (31 December 2016:RMB375,198 thousand).

(c) As at 31 December 2017, borrowings from microfinance companies with principal amount of RMB68,000 thousand are guaranteed by Wuzhong Group (31 December 2016:Nil) (Note 34(b)).

(d) As at 31 December 2017, borrowings from a securities company with principal amount of RMB27,000 thousand are pledged by listed equity investment held by the Group (2016: borrowings from a securities company with principal amount of RMB20,200 thousand are pledged by listed equity investment held by the Group) (Note 22).

(e) As at 31 December 2017, private placement note with principal amount of RMB19,510 thousand are guaranteed by Wuzhong Group (31 December 2016:Nil) (Note 34(b)).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

29 Cash Flow Information

(a) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As at 31 December	
Net debt	**2017**	2016
Cash and cash equivalents	**257,917**	191,216
Borrowings — repayable within one year	**(1,150,968)**	(1,288,306)
Net debt	**(893,051)**	(1,097,090)
Cash and liquid investments	**257,917**	191,216
Gross debt — fixed interest rates	**(1,150,968)**	(1,288,306)
Net debt	**(893,051)**	(1,097,090)

	Other assets Cash/bank overdraft	**Liabilities from financing activities Borrow due within 1 year**	**Total**
Net debt as at 1 January 2017	191,216	(1,288,306)	(1,097,090)
Cash flows	67,375	137,338	204,713
Foreign exchange adjustments	(674)	—	(674)
Net debt as at 31 December 2017	257,917	(1,150,968)	(893,051)

30 Contingencies

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

Notes to the Consolidated Financial Statements (Continued)

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31 Commitments

(a) Operating lease commitments

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

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

	As at 31 December	
	2017	2016
No later than 1 year	**5,722**	3,443
Later than 1 year and no later than 5 years	**5,335**	3,535
Later than 5 years	**—**	31
	11,057	7,009

(b) Capital commitments

	As at 31 December	
	2017	2016
Huifang Jiada (a)	**9,950**	—
Huifang Rongtong (b)	**40,000**	—
Huifang Rongda (c)	**38,000**	38,000
Dang Tian Xia	**—**	5,000
Huifang Sihai	**—**	1,000
	87,950	44,000

(a) The registered capital of Huifang Jiada is RMB50,000 thousand, of which RMB9,950 thousand has not been paid up by the Group as at 31 December 2017 (31 December 2016: Nil).

(b) The registered capital of Huifang Rongtong is RMB100,000 thousand, of which RMB40,000 thousand has not been contributed by the Group as at 31 December 2017 (31 December 2016: Nil).

(c) The registered capital of Huifang Rongda is RMB50,000 thousand, of which RMB38,000 thousand has not been paid up by the Group as at 31 December 2017 (31 December 2016: same).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

32 Assets Pledged as Security

The carrying amounts of assets pledged as security for current borrowings are:

	Note	As at 31 December 2017	As at 31 December 2016
Current			
Floating charge			
Cash at bank and on hand	*23*	**375,378**	394,010
Financial assets designated at fair value through profit or loss	*22*	**50,961**	49,835
Total current assets pledged as security		**426,339**	443,845
Total non-current assets pledged as security		**—**	—
Total assets pledged as security		**426,339**	443,845

33 Transactions with Non-Controlling Interests

On 20 December 2017, the Group further acquired 20% equity interests in Dongshan Micro-finance for cash consideration of RMB60,000,000. Immediately prior to the acquisition, the carrying amount of the existing 60% non-controlling interest in Dongshan Micro-finance was RMB200,888,764. The Group recognised a decrease in non-controlling interests of RMB66,962,921 and an increase in equity attributable to owners of the parent of RMB6,962,921. The effect on the equity attributable to the owners of Dongshan Micro-finance during the year is summarised as follows:

	As at 31 December 2017	As at 31 December 2016
Carrying amount of non-controlling interests acquired	**66,963**	—
Consideration paid to non-controlling interests	**(60,000)**	—
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	**6,963**	—

There was no transactions with non-controlling interest in 2016.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

34 Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or excise significant influence over the other party in making financial and operating decisions of the Group. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member are also considered as related parties.

(a) Name and relationship with related parties

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

(b) Significant transactions with related parties

The Group had the following significant transactions with related parties:

	Year ended 31 December	
	2017	2016
Office rental paid to Wuzhong Real Estate by the Group	**–**	797
Bank borrowings guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (in principal amount at year-end) *(Note 28(a))*	**370,000**	370,000
Bank borrowings guaranteed by Wuzhong Group (in principal amount at year-end) *(Note 28)*	**–**	50,000
Borrowings from microfinance companies guaranteed by Wuzhong Group (in principal amount at year-end) *(Note 28)*	**68,000**	–
Private placement note guaranteed by Wuzhong Group (in principal amount at year-end) *(Note 28)*	**19,510**	–
Interest expenses paid to Directors and key management on P2P platform	**215**	419

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

34 Related Party Transactions (Continued)

(c) Balances with related parties

	As at 31 December	
	2017	2016
Amounts due to related parties		
Due to BVI entities owned by the Ultimate Shareholders	**633**	633

Balances with related parties were interest-free.

	As at 31 December	
	2017	2016
Borrowings provided by Directors and key management on P2P platform	**512**	4,204

(d) Key management personnel compensation

Key management comprises six members including the executive directors, the vice president, the assistant to the president and the risk control director. The compensation paid or payable to key management for employee services is shown below:

	As at 31 December	
	2017	2016
Basic salaries	**2,923**	2,369
Discretionary bonuses	**3,455**	2,938
Pension and other social security obligations	**420**	325
Share based payments	**1,485**	906
	8,283	6,538

(e) Key management personnel services provided by management entity

For the year ended 31 December 2017, the Group paid RMB70 thousand to Tricor Services Limited for the joint company secretary services (2016: RMB73 thousand).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

35 Balance Sheet and Reserve Movement of the Company

	As at 31 December	
	2017	2016
ASSETS		
Non-current assets		
Investments in subsidiaries	**361,518**	357,492
Current assets		
Amounts due from related parties	**584,138**	585,523
Dividends receivable	**44,450**	—
Cash at bank and on hand	**50,809**	209
	679,397	585,732
Total assets	**1,040,915**	943,224
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the Company		
Share capital	**8,632**	8,111
Share premium	**1,003,966**	950,210
Other reserves	**4,971**	1,081
Accumulated gains/(losses)	**12,096**	(26,917)
Total equity	**1,029,665**	932,485
Liabilities		
Current liabilities		
Amounts due to related parties	**9,272**	9,272
Other liabilities	**1,978**	1,467
Total liabilities	**11,250**	10,739
Total equity and liabilities	**1,040,915**	943,224

The balance sheet of the Company was approved by the Board of Directors on 23 March 2018 and was signed on its behalf.

Wu, Min
Director

Zhang, Changsong
Director

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

35 Balance Sheet and Reserve Movement of the Company (Continued)

	Share Premium	Other Reserve	Retained earnings
At 1 January 2016	950,210	—	(23,259)
Loss for the year	—	—	(3,658)
Share-based payments — Value of employee services	—	1,081	—
At 31 December 2016	950,210	1,081	(26,917)
At 1 January 2017	**950,210**	**1,081**	**(26,917)**
Profit for the year	**—**	**—**	**39,013**
Private placement of new shares	**45,879**	**—**	**—**
Share-based payments — Issue of shares	**7,877**	**(1,908)**	**—**
Share-based payments — Value of employee services	**—**	**5,798**	**—**
At 31 December 2017	**1,003,966**	**4,971**	**12,096**

36 Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2017:

	Salaries	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Estimated monetary value of other benefits *(Note (a))*	Fees	Total
Year ended 31 December 2017						
Executive directors:						
CHEN Yan'nan (陳雁南) (b)	702	660	–	350	–	1,712
WU Min (吳敏) (b)	746	660	43	403	–	1,852
ZHANG Chang'song (張長松) (c)	600	600	42	332	–	1,574
Independent non-executive directors:						
ZHANG Hua'qiao (張化橋)	–	–	–	175	251	426
TSE Yat Hong (謝日康)	–	–	–	175	251	426
FENG Ke (馮科)	–	–	–	175	251	426
Non- executive directors:						
ZHUO You	–	–	–	88	–	88
ZHANG SHU (d)	–	–	–	88	–	88
ZHANG Cheng	–	–	–	88	–	88
	2,048	1,920	85	1,874	753	6,680

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

36 Benefits and Interests of Directors (Continued)

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2016:

	Salaries	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	Estimated money value of other benefits *(Note (a))*	Fees	Total
Year ended 31 December 2016						
Executive directors:						
CHEN Yan'nan (陳雁南) (b)	702	498	–	214	–	1,414
WU Min (吳敏) (b)	746	374	40	265	–	1,425
ZHANG chang'song (張長松) (c)	206	603	31	212	–	1,052
Independent non-executive directors:						
ZHANG Hua'qiao (張化橋)	–	–	–	107	268	375
TSE Yat Hong (謝日康)	–	–	–	107	268	375
FENG Ke (馮科)	–	–	–	107	268	375
Non- executive directors:						
ZHUO You	–	–	–	54	–	54
ZHANG SHU (d)	–	–	–	54	–	54
ZHANG Cheng	–	–	–	54	–	54
	1,654	1,475	71	1,174	804	5,178

(a) Other benefits include share-based payment and insurance premium.

(b) CHEN Yan'nan ceased to be the Chairman of the Group on 1 June 2017. WU Min was appointed as the Chairman of the Group effected on 1 June 2017.

(c) MAO Zhu'chun ceased to be an executive director and the CFO of the Group on 1 January 2016. ZHANG Chang'song was appointed as an executive director and the CFO of the Group effected on 1 January 2016.

(d) CAO Jian ceased to be a non-executive director of the Group on 18 March 2016. ZHANG Shu was appointed as a non-executive director of the Group effected on 18 March 2016.

Definitions

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

"Articles" or "Articles of Association"	the articles of association of our Company (as amended from time to time)
"Board" or "Board of Directors"	the board of directors of our Company
"China" or "the PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company" or "our Company"	China Huirong Financial Holdings Limited, a company incorporated in the Cayman Islands with limited liability on 11 November 2011, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
"Contractual Arrangements"	a series of contracts entered into by Huifang Tongda, Huifang Technology, the PRC Operating Entity, Wuzhong Jiaye, Hengyue Consulting and the PRC Shareholders (as the case may be), details of which are described in the section headed "Our History and Reorganisation — Contractual Arrangements" in the Prospectus
"Director(s)"	the director(s) of our Company
"Dongshan Micro-finance"	Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.* (蘇州市吳中區東山農村小額貸款有限公司), a limited liability company established in the PRC on 26 December 2012, which is an indirect holding subsidiary of our Company
"EIT Law"	the Enterprise Income Tax Law of the People's Republic of China
"Global Offering" or "IPO"	the Hong Kong public offering and the international offering of Shares
"Greater Suzhou Area"	Suzhou city and the four county-level cities that are governed by the Suzhou city government, namely, Changshu, Kunshan,Taicang and Zhangjiagang
"Group", "our Group", "we", "our" or "us"	our Company, its subsidiaries and the PRC Operating Entity (the financial results of which have been consolidated and accounted for as the subsidiary of our Company by virtue of the Contractual Arrangements) or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries (or before such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be)
"Hengyue Consulting"	Suzhou Xinqu Hengyue Management Consulting Co., Ltd.* (蘇州新區恒悅管理諮詢有限公司), a limited liability company established under the laws of the PRC on 22 October 2007, one of the direct shareholders of the PRC Operating Entity

Definitions (Continued)

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huida Factoring"	Suzhou Huida Commercial Factoring Company Limited* (蘇州匯達商業保理有限公司), a limited liability company established in the PRC on 30 May 2016, which is an indirect wholly-owned subsidiary of our Company
"Huifang Jiada"	Suzhou Huifang Jiada Information Technology Company Limited* (蘇州匯方嘉達資訊科技有限公司), a limited liability company established in the PRC on 15 December 2016, which is an indirect wholly-owned subsidiary of our Company
"Huifang Rongda"	Suzhou Huifang Rongda Internet Technology Company Limited* (蘇州匯方融達網路科技有限公司), a limited liability company established in the PRC on 8 May 2015, which is an indirect wholly-owned subsidiary of our Company
"Huifang Rongtong"	Suzhou Huifang Rongtong SME Guided Turnover Loan Fund (Limited Partnership)* (蘇州匯方融通中小微企業轉貸引導基金合夥企業(有限合夥)), a limited partnership company established in the PRC on 1 September 2017, which is an indirect holding subsidiary of our Company
"Huifang Technology"	Suzhou Huifang Management Consulting Co., Ltd.* (蘇州匯方管理諮詢有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on 29 December 2011, which is an indirect wholly owned subsidiary of our Company. On 12 December 2013, the name of Suzhou Huifang Management Consulting Co. Ltd.* (蘇州匯方管理諮詢有限公司) was changed to Suzhou Huifang Technology Co. Ltd.* (蘇州匯方科技有限公司) upon the approval from Administration for Industry and Commercial of Suzhou, Jiangsu
"Huifang Investment"	Huifang Investment Limited* (匯方投資有限公司), a limited liability company incorporated under the laws of Hong Kong on 5 December 2011 and a wholly-owned subsidiary of our Company
"Huifang Tongda"	Suzhou Huifang Tongda Management Consulting Co., Ltd* (蘇州匯方同達管理諮詢有限公司), a limited liability company established in the PRC on 10 February 2012 which is an indirect wholly-owned subsidiary of our Company. On 11 December 2013, the name of Suzhou Huifang Tongda Management Consulting Co., Ltd* (蘇州匯方同達管理諮詢有限公司) was changed to Suzhou Huifang Tongda Information Technology Co., Ltd* (蘇州匯方同達信息科技有限公司) upon the approval from Administration for Industry and Commercial of Wuzhong, Suzhou
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange

Definitions (Continued)

"Listing Date"	28 October 2013 on which the Shares are listed on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC Operating Entity" or "Wuzhong Pawnshop"	Suzhou Wuzhong Pawnshop Co., Ltd.* (蘇州市吳中典當有限責任公司), a limited liability company established under the laws of the PRC on 21 December 1999, formerly known as 吳縣市吳中典當行有限公司 (Wuxian Wuzhong Pawnshop Co., Ltd.), a company which we do not own but the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements
"PRC Shareholders"	Mr. Zhu Tianxiao, Mr. Zhang Xiangrong, Mr. Ge Jian, Mr. Chen Yannan, Mr. Wei Xingfa, Mr. Yang Wuguan and Mr. Zhuo You, who are the ultimate and indirect shareholders of the Company. Except for Mr. Chen Yannan, who is an executive Director and the Chairman of the Company, and Mr. Zhuo You, who is a non-executive Director of the Company, none of the other PRC Shareholders is a director or chief executive member of the Company
"Prospectus"	prospectus of the Company dated 16 October 2013 in relation to the Global Offering
"Reorganisation"	the reorganisation of the Group in preparation of the Listing, details of which are set out in the section headed "Our History and Reorganisation — Reorganisation" in the Prospectus
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share(s)"	ordinary shares(s) in the capital of the Company with normal value of HK$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Sifang Investment"	Sifang Investment Limited* (四方投資有限公司), a limited liability company incorporated under the laws of the British Virgin Islands on 22 November 2011 and a wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

Definitions (Continued)

"Tongda Investment"	Tongda Investment Limited* (同達投資有限公司), a limited liability company incorporated under the laws of the British Virgin Islands on 22 November 2011 and a wholly-owned subsidiary of the Company with no substantial business activity
"Track Record Period"	the four fiscal years of our Company ended 31 December 2011, 2012, 2013 and 2014
"Wuzhong Group"	Jiangsu Wuzhong Group Co., Ltd.* (江蘇吳中集團有限公司), a limited liability company established under the laws of the PRC on 26 May 1992, formerly known as Jiangsu Wuzhong Group Co.* (江蘇吳中集團公司)
"Wuzhong Jiaye"	Jiangsu Wuzhong Jiaye Group Co., Ltd.* (江蘇吳中嘉業集團有限公司), a limited liability company established under the laws of the PRC on 25 April 2005, formerly known as Jiangsu Wuzhong Jiaye Investment Co., Ltd.* (江蘇吳中嘉業投資有限公司), one of the direct shareholders of the PRC Operating Entity
"Wuzhong Real Estate"	Jiangsu Wuzhong Real Estate Group Co., Ltd.* (江蘇吳中地產集團有限公司), a limited liability company established under the laws of the PRC on 13 August 1992, formerly known as Jiangsu Wuzhong Dongwu Property Development Co.* (江蘇吳中東吳產業開發公司), Wuxian Dongwu Property Development Co.* (吳縣市東吳產業開發公司), and Jiangsu Wuzhong Dongwu Property Development Co., Ltd.* (江蘇吳中東吳產業開發有限公司)

* For identification purpose only

In this annual report, the terms "associate", "close associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Glossary

The glossary contains explanations of certain terms and definitions used in this annual report in connection with us and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"average loan amount"	the aggregate outstanding loan amount of a certain type of loans divided by the number of outstanding loans of that type as of an indicated date
"CAGR"	compound annual growth rate
"charge-off ratio"	impairment charge for an indicated period divided by ending balance of the gross amount of loans to customers of the same period and multiplied by 100%
"cost to income ratio"	administrative expenses of an indicated period divided by net revenue of the same period and multiplied by 100%
"gross loan yield"	interest income from loans to customers of an indicated period divided by the average of the beginning and the ending balances of gross loan amount multiplied by 100%
"impaired loan ratio"	the aggregate amount of individually impaired loans as of an indicated date divided by the gross amount of loans to customers as of the same date and multiplied by 100%
"appraised loan-to-value ratio"	the outstanding principal amount of a loan as of the calculation date divided by the appraised value of the underlying collateral securing such loan as decided in the loan application review process and multiplied by 100%
"net interest margin"	net interest income for an indicated period divided by the average of the beginning and the ending balance of interest earning assets of the same period, which equals the sum of the ending balances of (i) loans to customers and (ii) deposit with banks and multiplied by 100%
"return on average assets"	profit attributable to equity holders for an indicated period divided by the average of the beginning and the ending balances of total assets of the same period and multiplied by 100%
"return on average equity"	profit attributable to equity holders for an indicated period divided by the average of the beginning and the ending balances of total equity of the same period and multiplied by 100%

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