# 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)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

**Highlights for the Year Ended 31 December 2013:**

| | For the year ended or as at 31 December | | |
|---|---|---|---|
| | **2013** | 2012 | Change |
| | ***RMB'000*** | *RMB'000* | *%* |
| **Operating Results** | | | |
| Revenue | **236,664** | 208,460 | 13.5% |
| Net revenue | **218,743** | 187,206 | 16.8% |
| Profit attributable to equity holders | **126,731** | 96,041 | 32.0% |
| Basic earnings per share (RMB) | **0.18** | 0.15 | 20.0% |

The Board of Directors (the "Board") of China Huirong Financial Holdings Limited (the "Company") hereby announces the annual results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2013 (the "Reporting Year") as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | | **Year ended 31 December** | |
|---|---|---|---|
| | | **2013** | 2012 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Turnover** | | | |
| Interest income | *11* | **236,664** | 208,460 |
| Interest expense | | **(18,391)** | (22,050) |
| **Net interest income** | | **218,273** | 186,410 |
| Other operating income, net | | **470** | 796 |
| **Net revenue** | | **218,743** | 187,206 |
| Administrative expenses | *12* | **(47,537)** | (53,320) |
| Net charge of impairment allowance on loans to customers | *5(c)* | **(854)** | (2,183) |
| Other (losses)/gains, net | | **(920)** | 43 |
| **Profit before income tax** | | **169,432** | 131,746 |
| Income tax expense | *13* | **(42,701)** | (35,705) |
| **Profit for the year, attributable to the equity holders of the Company** | | **126,731** | 96,041 |
| Other comprehensive income for the year, net of tax | | **—** | — |
| **Total comprehensive income for the year, attributable to the equity holders of the Company** | | **126,731** | 96,041 |
| **Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB)** | | | |
| — Basic and diluted earnings per share | *14* | **0.18** | 0.15 |
| **Dividends** | *15* | **—** | — |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 DECEMBER 2013*

| | | As at 31 December | |
|---|---|---|---|
| | | **2013** | 2012 |
| | *Note* | ***RMB'000*** | RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **2,566** | 3,907 |
| Intangible assets | | **321** | 357 |
| Deferred income tax assets | | **1,721** | 1,913 |
| | | **4,608** | 6,177 |
| **Current assets** | | | |
| Other assets | | **3,379** | 12,319 |
| Loans to customers | *5* | **750,114** | 689,406 |
| Amounts due from related parties | *6* | **500,000** | — |
| Cash at bank and on hand | *7* | **816,845** | 159,081 |
| | | **2,070,338** | 860,806 |
| **Total assets** | | **2,074,946** | 866,983 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to the equity holders of the Company** | | | |
| Share capital | *8* | **8,111** | 63 |
| Share premium | | **592,720** | — |
| Other reserves | | **534,365** | 521,400 |
| Retained earnings | | **195,143** | 81,377 |
| **Total equity** | | **1,330,339** | 602,840 |

| | | As at 31 December | |
|---|---|---|---|
| | | **2013** | 2012 |
| | *Note* | ***RMB'000*** | RMB'000 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other liabilities | *9* | **14,074** | 14,076 |
| Current income tax liabilities | | **9,838** | 13,198 |
| Amounts due to related parties | | **2,582** | 16,368 |
| Bank borrowings | *10* | **718,113** | 220,501 |
| **Total liabilities** | | **744,607** | 264,143 |
| **Total equity and liabilities** | | **2,074,946** | 866,983 |
| **Net current assets** | | **1,325,731** | 596,663 |
| **Total assets less current liabilities** | | **1,330,339** | 602,840 |

*NOTES:*

## 1 GENERAL INFORMATION

China Huirong Financial Holdings Limited (中國匯融金融控股有限公司) (the "Company") was incorporated in the Cayman Islands on 11 November 2011 as an exempted company with limited liability under the Companies Law (2010 revision) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in pawnshop services through granting collateral-backed 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. 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 began to list on the Stock Exchange on 28 October 2013. The consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated.

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2013 but are extracted from those financial statements.

## 2 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of the consolidated financial statements which are in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the HKICPA are set out below. The consolidated financial statements has been prepared under the historical cost convention.

The following new standards, amendments and interpretations have been issued but are not effective for the accounting period beginning on 31 December 2013 and have not been early adopted:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKAS 32 (Amendment) | Financial Instruments: Presentation, on Assets and Liabilities Offsetting |
| HKFRS 10, 12 and HKAS 27 (Revised 2011) (Amendment) | Investment Entities |

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the annual periods beginning on or after 1 January 2015.

HKAS 32 (Amendment), "Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities". The amendments clarify the requirements for offsetting financial assets and financial liabilities on the statement of financial position: (i) the meaning of 'currently has a legally enforceable right of set-off'; and (ii) that some gross settlement systems may be considered equivalent to net settlement. The amendment will be effective for annual periods beginning on or after 1 January 2014.

HKFRS 10, 12 and HKAS 27 (Revised 2011) (Amendment), "Investment entities", provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendments are effective from 1 January 2014 with early adoption permitted in order to allow investment entities to apply the amendments at the same time they first apply the rest of HKFRS 10.

The Group anticipates that the adoption of the above new and revised HKFRs would not have a significant impact on the Group's results of operations and financial position. No other new standards, amendments and interpretations that have been issued but are not effective for the accounting period beginning on 1 January 2014 would have impact on the Group's results of operations and financial position.

## 3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

**(b) Income taxes**

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

**(c) 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. 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.

## 4 SEGMENT INFORMATION

Following the management approach of HKFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group's Board of Director (the chief operating decision-maker) which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group's operation is primarily located in the PRC under one legal entity. The principal business activity is to grant pawn loans secured by collateral to customers, mainly small and medium sized enterprises and individuals in the Suzhou city and the four county-level cities that are governed by the Suzhou city government (the "Greater Suzhou Area"). The Group managed its business under one operating and reportable segment in accordance with the definition of a reportable segment under HKFRS 8 for the years ended 31 December 2013 and 2012.

## 5 LOANS TO CUSTOMERS

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Pawn loans to customers, gross | | |
| Real estate backed pawn loans | **497,302** | 438,740 |
| Equity interest backed pawn loans | **250,509** | 245,435 |
| Personal property backed pawn loans | **6,580** | 11,738 |
| | **754,391** | 695,913 |
| Less: Impairment allowances | | |
| — Individually assessed | **(74)** | (3,957) |
| — Collectively assessed | **(4,203)** | (2,550) |
| | **(4,277)** | (6,507) |
| Pawn loans to customers, net | **750,114** | 689,406 |

The pawn loans to customers are arising from the Group's pawn loans business. The loan periods granted to customers are within six months. The real estate backed pawn loans and equity interest backed pawn loans provided to customers bear fixed interest rates ranging from 22.37% to 37.99% per annum in the year ended 31 December 2013 (2012: from 18.00% to 38.40%). Loans to customers are all denominated in RMB. The impairment allowances are all related to equity interest backed pawn loans.

As at 31 December 2013, renewed loans amounted to RMB59,310 thousand, comprising real estate backed pawn loans of RMB45,260 thousand and an equity interest backed pawn loan of RMB14,050 thousand (31 December 2012: loans to customers of approximately RMB24,190 thousand were renewed loans, all relating to real estate backed pawn loans).

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

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

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **449,538** | 422,930 |
| 3–6months | **185,217** | 228,290 |
| 6–12 months | **59,283** | 7,050 |
| 12–24 months | **41,369** | 30,819 |
| Over 24 months | **14,707** | 317 |
| | **750,114** | 689,406 |

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

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Individually assessed | | |
| At beginning of year | **3,957** | 1,326 |
| Impairment losses recognised | **191** | 3,158 |
| Net write back of loan provision | **(990)** | (527) |
| Loans written off as un-collectible | **(3,084)** | — |
| At end of year | **74** | 3,957 |
| Collectively assessed | | |
| At beginning of year | **2,550** | 2,998 |
| Impairment losses recognised/(reversed) | **1,653** | (448) |
| At end of year | **4,203** | 2,550 |

**(c) Net charge on loans to customers**

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Net charge/(reversal) of impairment allowance | | |
| Individually assessed | **(799)** | 2,631 |
| Collectively assessed | **1,653** | (448) |
| | **854** | 2,183 |

## 6 AMOUNTS DUE FROM RELATED PARTIES

As set out in the prospectus of the Group dated 16 October 2013 ("Prospectus"), proceeds from the Global Offering shall ultimately contribute to Wuzhong Pawnshop as registered capital. The Group agreed to extend interest-free loans equivalent to the capital contribution amount to the Ultimate Shareholders. The Ultimate Shareholders will contribute all loan proceeds to the registered capital of Wuzhong Jiaye and Hengyue Consulting, which will in turn contribute such amount to Wuzhong Pawnshop as registered capital. As Wuzhong Jiaye and Hengyue Consulting had not completed capital injection into Wuzhong Pawnshop as at 31 December 2013, the Global Offering proceeds were presented as amounts due from Ultimate Shareholders of the Company. As interest-free loans extended to Ultimate Shareholders are for an infinite period of time, the corresponding amounts due from related parties are classified as current assets.

## 7 CASH AT BANK AND ON HAND

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Cash on hand | **1,643** | 1,336 |
| Demand deposits with banks | **337,194** | 57,745 |
| Term deposits with banks with original maturities over 3 months | **478,008** | 100,000 |
| | **816,845** | 159,081 |

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

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **120,556** | 58,851 |
| US dollar | **207,586** | 167 |
| Hong Kong dollar | **10,695** | 63 |
| | **338,837** | 59,081 |

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

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Cash at bank and on hand | **816,845** | 159,081 |
| Less: Term deposits with banks with original maturities over 3 months | **(478,008)** | (100,000) |
| | **338,837** | 59,081 |

As at 31 December 2013, US$41,999,985 (equivalent to RMB256 million) (31 December 2012: nil) are restricted term deposits pledged to banks to secure the bank borrowings of RMB227 million granted to the Group.

## 8 SHARE CAPITAL

| | Number of shares | Ordinary shares US$/HK$ | Ordinary shares RMB |
|---|---|---|---|
| **Authorised:** | | | |
| US$1 each upon incorporation on 11 November 2011, and as at 31 December 2011 *(a)* | 50,000 | US$50,000 | |
| Cancellation *(b)* | (50,000) | (US$50,000) | |
| HK$0.01 each created on 2 May 2012 *(b)* | 10,000,000,000 | HK$100,000,000 | |
| As at 31 December 2012 and 2013 | 10,000,000,000 | HK$100,000,000 | |
| **Issued and fully paid:** | | | |
| US$1 each upon incorporation on 11 November 2011, and as at 31 December 2011 *(a)* | 10,000 | US$10,000 | 63,000 |
| Repurchase *(b)* | (10,000) | (US$10,000) | (63,000) |
| HK$0.01 each allotted and issued on 2 May 2012 *(b)* | 7,800,000 | HK$78,000 | 63,000 |
| As at 31 December 2012 | 7,800,000 | HK$78,000 | 63,000 |
| Split of the originally issued 7,800,000 shares into 650,000,000 shares on 28 October 2013, HK$0.01 each *(c)* | 642,200,000 | HK$6,422,000 | 5,080,000 |
| Issuance of ordinary shares on 28 October 2013, HK$0.01 each *(d)* | 375,236,000 | HK$3,752,360 | 2,968,000 |
| Over allotment of ordinary shares on 20 November 2013, HK$0.01 each *(e)* | 1,000 | HK$10 | 8 |
| As at 31 December 2013 | 1,025,237,000 | HK$10,252,370 | 8,111,014 |

(a) The Company was incorporated in the Cayman Islands on 11 November 2011 as an exempted company with an authorised share capital of US$50,000, divided into 50,000 shares of par value US$1 each. On the same date, an aggregate of 10,000 shares of US$1 each were allotted and issued by the Company to its shareholders as fully paid at par value for a total consideration of US$10,000 (equivalent to RMB63 thousand).

(b) On 2 May 2012, resolutions were passed by the shareholders of the Company to increase the authorised share capital by HK$100,000,000 by the creation of 10,000,000,000 Shares. An aggregate of 7,800,000 shares were allotted and issued by the Company to the eight holding companies as fully paid at par value for a total consideration of HK$78,000 (equivalent to RMB63 thousand). At the same time the Company repurchased the 10,000 issued shares of par value of US$1 each at a price of US$1 per such issued share (total repurchase payment equivalent to RMB63 thousand). Following such repurchase, the Company cancelled the 50,000 authorised but unissued shares of a par value of US$1 each.

(c) On 6 October 2013, resolutions were passed by the shareholders of the Company to split the originally issued 7,800,000 shares into 650,000,000 shares upon the Global Offering, of a par value of HK$0.01 each. The 642,200,000 new shares with a total par value of HK$6,422 thousand were subsequently issued and allotted to the holders of the shares whose names appeared on the register of members at the close of business on the date of the Prospectus in the same proportion as their then shareholdings in the Company.

(d) On 28 October 2013, the Company issued 375,236,000 ordinary shares of HK$0.01 each at HK$2.18 per share in connection with the Global Offering, and raised gross proceeds of approximately HK$818,014 thousand (equivalent to RMB647,115 thousand), The excess of RMB644,147 thousand over the par value of RMB2,968 thousand for the 375,236,000 ordinary shares issued, net of the relevant costs of RMB46,348 thousand directly attributable to the issuance of new shares, was credited to "share premium" with net amount of RMB597,799 thousand.

(e) On 20 November 2013, the Company issued 1,000 ordinary shares of HK$0.01 each at HK$2.18 per share in connection with the overallotment, and raised gross proceeds of approximately HK$2,180 (equivalent to RMB1,725). The excess of RMB1,717 over the par value of RMB8 for the 1,000 ordinary shares issued, was credited to "share premium" with amount of RMB1,717.

## 9. OTHER LIABILITIES

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Accrued employee benefits | **4,015** | 2,883 |
| IPO costs payable | **3,695** | — |
| Tax and other tax payable | **2,371** | 2,366 |
| Accrued expenses | **2,146** | 7,551 |
| Other financial liabilities | **1,847** | 1,276 |
| | **14,074** | 14,076 |

As at 31 December 2013, the Group's other financial liabilities were non-interest bearing and were repaid on demand or within one year. The fair value approximates their carrying amounts due to their short maturities (31 December 2012: the same).

## 10 BANK BORROWINGS

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Bank borrowings — principal | **717,000** | 220,000 |
| Bank borrowings — interest payable | **1,113** | 501 |
| | **718,113** | 220,501 |

Bank borrowings are with maturity within one year and bear interest rates ranging from 5.70% to 7.80% per annum in the year ended 31 December 2013 (in the year ended 31 December 2012: 6.39% to 8.20%). The fair values of bank borrowings approximate their carrying amounts as the discounting impact is not significant.

As at 31 December 2013, bank borrowings of RMB227 million are secured by the restricted term deposits of US$41,999,985 (equivalent to RMB256 million). As at 31 December 2013, bank borrowings of RMB290 million are guaranteed by Wuzhong Jiaye and the Ultimate Controller (2012: RMB220 million guaranteed by Jiangsu Wuzhong Group Co., Ltd. (江蘇吳中集團有限公司) ("Wuzhong Group") and CHEN Yannan (陳雁南)).

The Group's borrowings are denominated in RMB.

## 11 INTEREST INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Interest income from loans to customers | | |
| Real estate backed pawn loans | **143,662** | 122,551 |
| Equity interest backed pawn loans | **82,242** | 77,093 |
| Personal property backed pawn loans | **6,747** | 7,182 |
| Interest income from bank deposits | **4,013** | 1,634 |
| | **236,664** | 208,460 |

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.

## 12 ADMINISTRATIVE EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Business tax and surcharges | **13,846** | 15,287 |
| Employee benefit expenses | **13,336** | 12,270 |
| Value-added tax and surcharges | **6,938** | 960 |
| Professional and consultancy fees | **3,683** | 15,581 |
| Transportation, meal and accommodation | **2,512** | 2,194 |
| Operating lease payments | **2,360** | 2,200 |
| Auditors' remuneration — Audit Services | **1,562** | 699 |
| Depreciation and amortisation | **1,472** | 1,774 |
| Other expenses | **1,127** | 719 |
| Telephone, utilities and office expenses | **611** | 1,263 |
| Advertising costs | **90** | 373 |
| | **47,537** | 53,320 |

Included in administrative expenses were certain legal and other professional fees of RMB2,115 thousand for the year ended 31 December 2013 (for the year ended 31 December 2012: RMB15,292 thousand), which were incurred and expensed during the Reorganisation and listing process of the Company.

Wuzhong Pawnshop is subject to business tax and surcharges. Business tax is levied at 5% of revenue from interest income on loans to customers, while surcharges are 12% of business tax payable. Other PRC subsidiaries of the Group are subject to value-added tax and surcharges. 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.

## 13 INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | **42,509** | 35,873 |
| Deferred income tax | **192** | (168) |
| | **42,701** | 35,705 |

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

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **169,432** | 131,746 |
| Tax calculated at statutory tax rates | **42,599** | 35,565 |
| Tax effect of: | | |
| — Expenses not deductible for tax purposes | **102** | 140 |
| **Tax charge** | **42,701** | 35,705 |

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.

No Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2013 (2012:16.5%).

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.

Pursuant to the CIT Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower 5% withholding tax rate may be applied when the immediate holding companies are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. During the years ended 31 December 2013 and 2012, no dividend was declared to foreign investors, and no PRC withholding tax was accrued by the Group on the earnings generated by its PRC entities. The directors of the Company have determined that all the accumulated earnings prior to 31 December 2013 will be retained by Wuzhong Pawnshop and Suzhou Tongda.

## 14 EARNINGS PER SHARE

Basic earnings per share for each year are 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. In determining the weighted average number of ordinary shares in issue during 2012, the 650,000,000 shares of the Company issued and allotted in connection with the Reorganisation (Note 1), had been treated as if those shares were in issue since 1 January 2012.

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Profit attributable to equity holders of the Company (RMB'000) | **126,731** | 96,041 |
| Weighted average number of ordinary shares in issue (in thousands) | **712,540** | 650,000 |
| Basic earnings per share (RMB) | **0.18** | 0.15 |

As there were no dilutive options and other dilutive potential shares in issue during the years ended 31 December 2013 and 2012, diluted earnings per share is the same as basic earnings per share.

## 15 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. No dividends have been paid or declared by any of the companies comprising the Group for the years ended 31 December 2013 and 2012.

## 16 COMMITMENTS

### 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** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| No later than 1 year | **2,763** | 2,761 |
| Later than 1 year and no later than 5 years | **3,337** | 5,005 |
| Later than 5 years | **—** | 100 |
| | **6,100** | 7,866 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Business Review and Development

The Company is incorporated in the Cayman Islands with limited liability, specialising in providing short-term loans secured by collateral, also referred to as "pawn loans", to our customers through Suzhou Wuzhong Pawnshop Co. Ltd. (the "PRC Operating Entity"). The PRC Operating Entity operates in Suzhou city and the four county-level cities that are governed by the Suzhou city government (collectively, the "Greater Suzhou Area"), and has established an operation network with 11 branches that cover the Greater Suzhou Area.

Our principal activity is to provide our customers with an alternative financing channel that is quick and convenient as compared to traditional bank loans, by granting pawn loans secured by real estate, equity interest or personal property collateral, the initial terms of which are six months or less. We give priority to customers who have good credit histories with us or who can pledge collateral with readily ascertainable value, and increasingly grant loans to selected customers for relatively longer loan terms in order to build long-term relationships with such customers. For the year 2013, 95.5% of our interest income was generated from loans secured by real estate and equity interest collateral. The following table sets out the details of new loans and renewed loans secured by real estate and equity interest collateral we granted during the indicated periods:

| | **Year ended 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| Total new loan amount granted (RMB in millions) | **1,182** | 1,328 |
| Total number of new loans granted | **108** | 158 |
| Total loan amount renewed (RMB in millions) | **303** | 347 |
| Total number of loans renewed | **31** | 34 |
| Average loan repayment period (days) | **149** | 113 |

On 28 October 2013, the shares of the Company were listed on the Main Board of the Stock Exchange. After the listing, we immediately commenced the injection of registered capital into the PRC Operating Entity via the PRC Shareholders. As of 31 December 2013, the capital injection into the PRC Operating Entity is still in progress. Subsequently, on 12 February 2014, we successfully increased the approved registered capital of the PRC Operating Entity to RMB1 billion. The approved registered capital of a pawn loan provider is directly related to its maximum amounts of the relevant types of loans that may be granted pursuant to the Pawning Measures; accordingly, our resources and strengths have been expanded after completion of the increase of the registered capital of the PRC Operating Entity. As at the date of this announcement, we are a leading short-term secured financing service provider in China in terms of approved registered capital.

## 2. Financial Review

During the year, the Company maintained continued growth in its business scale, net revenue and net profit. Our outstanding loans to customers at the end of the year 2013 was RMB750,114 thousand, an increase of 8.8% as compared to that of year 2012; net revenue of the year 2013 was RMB218,743 thousand, an increase of 16.8% as compared to that of year 2012; profit attributable to equity holders for the year 2013 was RMB126,731 thousand, an increase of 32.0% as compared to that of year 2012.

We also maintained good asset quality, with impaired loan ratio lowered to 0.01% at the end of the year 2013.

### 2.1 *Interest income*

Our interest income increased by 13.5% from last year to RMB236,664 thousand in year 2013. The following table sets forth the composition details for the indicated periods:

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2013** | 2012 | Increase |
| | ***RMB'000*** | *RMB'000* | % |
| Interest income from loans to customers | | | |
| Real estate backed pawn loans | **143,662** | 122,551 | 17.2% |
| Equity interest backed pawn loans | **82,242** | 77,093 | 6.7% |
| Personal property backed pawn loans | **6,747** | 7,182 | (6.1%) |
| Interest income from bank deposits | **4,013** | 1,634 | 145.6% |
| | **236,664** | 208,460 | 13.5% |

The increase in the interest income from loans secured by real estate and equity interest for 2013 related to the increase in loan size as well as a higher loan yield ratio. The decrease in the interest income from loans secured by personal property was primarily due to the scale down in expansion of such loans as a prudent step taken by the management in the second half of the year 2013 in the view of the relatively substantial fluctuation and a general decline in gold prices during the year 2013. Interest income from bank deposits grew by 145.6%, mainly due to the increase in bank deposits.

Our top five customers in terms of interest income accounted for 41.0% of our total interest income from loans to customers for the year 2013, as compared to 28.3% in the year 2012.

Our largest single customer in terms of interest income accounted for 15.4% of our total interest income from loans to customers in the year 2013, as compared to 11.1% in the year 2012.

### 2.2 *Interest Expense*

Interest expense on bank borrowings for the year 2013 decreased by 16.6% from last year to RMB18,391 thousand, primarily due to the lower average amount of bank borrowings during the year as compared with last year.

### 2.3 *Other Operating Income, Net*

Our net other operating income for the year 2013 amounted to RMB470 thousand, representing a decrease of 41% from last year, which was attributable to the decrease in the net income from asset disposal.

### 2.4 *Administrative Expenses*

Administrative expenses decreased by RMB5,783 thousand, or 10.8%, from last year to RMB47,537 thousand in the year 2013.

The following table sets forth the composition details for the indicated periods:

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2013** | 2012 | Increase |
| | ***RMB'000*** | *RMB'000* | % |
| Business tax and surcharges | **13,846** | 15,287 | –9.4% |
| Value-added tax and surcharges | **6,938** | 960 | 622.7% |
| Employee benefit expenses | **13,336** | 12,270 | 8.7% |
| Professional and consultancy fee | **3,683** | 15,581 | –76.4% |
| Operating lease payments | **2,360** | 2,200 | 7.3% |
| Transportation, meal and accommodation | **2,512** | 2,194 | 14.5% |
| Depreciation and amortisation | **1,472** | 1,774 | –17.0% |
| Auditors' remuneration | **1,562** | 699 | 123.5% |
| Telephone, utilities and office expenses | **611** | 1,263 | –51.6% |
| Advertising costs | **90** | 373 | –75.9% |
| Other expenses | **1,127** | 719 | 56.7% |
| | **47,537** | 53,320 | –10.8% |

The major movements include:

(i) Business tax and surcharges and value-added tax and surcharges amounted to RMB20,784 thousand (2012: RMB16,247 thousand) in total, representing an increase of RMB4,537 thousand, or 27.9%, over the year 2012. The increase was in line with the increase in the interest income and profit before income tax of the PRC Operating Entity. The inverse movement between business tax and surcharges (a decrease of 9.4%) and value-added tax and surcharges (an increase of 622.7%) was mainly due to the change of applicable taxes levied on exclusive consultancy fee charged by Huifang Tongda to the PRC Operating Entity from business taxes to value-added taxes during 2013.

(ii) Employee benefit expenses increased by RMB1,066 thousand, or 8.7% over last year.

(iii) Professional and consultancy fee decreased by RMB11,898 thousand, or 76.4%, as compared with last year. The fees mainly included certain legal and other professional fees arising from the reorganisation and the preparation for the listing, which was incurred by the relevant professional parties according to its related workload in respective years.

### 2.5 *Other (loss)/profit, net*

Other loss for the year 2013 was RMB920 thousand, as compared with other profit of RMB43 thousand of the year 2012, which was attributable to: (i) a foreign exchange loss of RMB3,031 thousand was recorded in the year 2013, while a foreign exchange gain of RMB41 thousand was recorded in the year 2012; and (ii) a government grant amounting to RMB2,100 thousand received in 2013 (2012: nil).

### 2.6 *Income Tax Expense*

Income tax expense in the year 2013 was RMB42,701 thousand, up by 19.6% over last year, mainly resulting from the increase in the profit before income tax. The effective income tax rate for the year 2013 was 25.2% (2012: 27.1%). The decline in effective tax rate was primarily due to the lower professional and consultancy fees charged outside the PRC in 2013 as compared to 2012 and no income derived from sources outside the PRC was available against which the fees can be utilised.

### 2.7 *Profit Attributable to Equity Holders*

The profit attributable to equity holders for the year 2013 was RMB126,731 thousand, representing an increase of 32% over last year.

## 3. Loans to Customers

The table below sets out the data of loans to customers as of the dates indicated:

| | As of 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Pawn loans to customers, gross | | |
| Real estate backed pawn loans | **497,302** | 438,740 |
| Equity interest backed pawn loans | **250,509** | 245,435 |
| Personal property backed pawn loans | **6,580** | 11,738 |
| | **754,391** | 695,913 |
| Less: Impairment allowances | | |
| — Individually assessed | **(74)** | (3,957) |
| — Collectively assessed | **(4,203)** | (2,550) |
| | **(4,277)** | (6,507) |
| Pawn loans to customers, net | | |
| Real estate backed pawn loans | **497,302** | 438,740 |
| Equity interest backed pawn loans | **246,232** | 238,928 |
| Personal property backed pawn loans | **6,580** | 11,738 |
| | **750,114** | 689,406 |

### 3.1 *Loan Portfolio*

The table below sets out the details of outstanding loans we granted as of the dates indicated:

| | As of 31 December | | |
|---|---|---|---|
| | **2013** | 2012 | Increase percentage |
| Gross loans to customers, inclusive of principal and interest (RMB'000) | | | |
| Loans secured by real estate collateral | **497,302** | 438,740 | 13.3% |
| Loans secured by equity interest collateral | **250,509** | 245,435 | 2.1% |
| Loans secured by personal property collateral | **6,580** | 11,738 | –43.9% |
| Total | **754,391** | 695,913 | 8.4% |
| Number of loans outstanding | | | |
| Loans secured by real estate collateral | **52** | 47 | |
| Loans secured by equity interest collateral | **21** | 28 | |
| Loans secured by personal property collateral | **806** | 1,319 | |
| Total | **879** | 1,394 | |
| Average Loan Amount (RMB'000) | | | |
| Loans secured by real estate collateral | **9,564** | 9,335 | |
| Loans secured by equity interest collateral | **11,929** | 8,766 | |
| Loans secured by personal property collateral | **8.2** | 8.9 | |

(i) In 2013, the PRC Operating Entity had a registered capital of RMB500,000 thousand. Pursuant to the Pawning Measures, the principal amount of the loans secured by real estate collateral is capped at 100% of the registered capital, i.e. a maximum of RMB500,000 thousand; and the principal amount of the loans secured by equity interest collateral is capped at 50% of the registered capital, i.e. a maximum of RMB250,000 thousand. As at 31 December 2013, the principal amounts of the loans secured by real estate collateral and the loans secured by equity interest collateral were close to their respective caps.

There is no limit on the scale of loans secured by personal property collateral under the Pawning Measures. However, the management remained cautious towards such loans in view of the relatively substantial fluctuation and a general decline in gold prices during 2013 and therefore focused on the expansion of loans secured by real estate collateral. As a result, the amount of loans secured by personal property collateral in year 2013 decreased by 43.9% as compared with that of year 2012.

(ii) As at 31 December 2013, the average loan amount for loans secured by real estate collateral was RMB9,564 thousand (31 December 2012: RMB9,335 thousand); the average loan amount for loans secured by equity interest collateral was RMB11,929 thousand (31 December 2012: RMB8,766 thousand). Pursuant to the Pawning Measures, the maximum principal amount of any single loan secured by real estate collateral that we can grant may not exceed 10% of the approved registered capital of the PRC Operating Entity; and the aggregate loan amount to a single customer that we can grant may not exceed 25% of the approved registered capital of the PRC Operating Entity. The PRC Operating Entity has a leading position in approved registered capital in Jiangsu Province, which gives us a unique advantage in providing pawn loans of relatively large amount.

(iii) As at 31 December 2013, the average loan amount for loans secured by personal property collateral was RMB8.2 thousand (31 December 2012: RMB8.9 thousand).

### 3.2 *Loan Classification*

The table below sets out the details of the classification of outstanding loans we granted as of the dates indicated (before provision):

| | **As of 31 December** | | | |
|---|---|---|---|---|
| | **2013** | | **2012** | |
| | ***RMB'000*** | ***Percentage*** | *RMB'000* | *Percentage* |
| Neither past due nor impaired | **682,537** | **90.48%** | 653,072 | 93.84% |
| Past due but not impaired | **71,780** | **9.51%** | 38,884 | 5.59% |
| Individually impaired | **74** | **0.01%** | 3,957 | 0.57% |
| Gross | **754,391** | | 695,913 | |

(i) *Loans to customers neither past due nor impaired*

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

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

Loans that are past due but not impaired relate to the customers which have good borrowing records with the Group. The balances are considered fully recoverable as 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, there has not been a significant change in the customers' credit quality. Gross amount of loans to customers that were past due but not impaired is analysed by aging as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Real estate backed pawn loans, gross | | |
| Past due up to 1 month | **27,520** | 3,200 |
| Past due 1–3 months | **4,840** | — |
| Past due 4–6 months | **7,154** | 24,191 |
| Past due over 6 months | **30,716** | 6,945 |
| | **70,230** | 34,336 |
| Equity interest backed pawn loans, gross | | |
| Past due up to 1 month | **1,550** | — |
| Past due 1–3 months | **—** | — |
| Past due 4–6 months | **—** | 4,548 |
| Past due over 6 months | **—** | — |
| | **1,550** | 4,548 |
| Past due but not impaired (total) | **71,780** | 38,884 |

Among the loans to customers that were past due but not impaired as at 31 December 2013, 6 real estate backed pawn loans amounting to RMB22,493 thousand are currently under legal proceedings. No loss is expected to be incurred on such loans since all related collaterals are sufficient to cover the principals and interests.

(iii) *Loans to customers individually impaired*

Loans to customers individually impaired as at 31 December 2013 was the interest receivable on an equity interest backed pawn loan currently under legal proceeding (the principal of which has been recovered).

Full impairment provision has been made against the loans to customers individually impaired.

### 3.3 *Impairment Allowances*

Apart from full impairment allowances made against loans to customers individually impaired based on individual assessment, we has also provided full impairment allowance for all other outstanding loans secured by equity interest collateral based on collective assessment. Details of impairment allowances are as follows:

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| — Individually assessed | **(74)** | (3,957) |
| — Collectively assessed | **(4,203)** | (2,550) |
| | **(4,277)** | (6,507) |

## 4. Credit Risk Management

According to our internal policy, the principal amount of a loan we grant to a loan applicant is individually negotiated with the applicant, provided that 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) the aggregate loan amount; (ii) the appraised value of collateral at time of loan approval; and (iii) the weighted average appraised loan-to-value ratio as of the granting dates of loans outstanding as of the indicated dates:

| | As of 31 December | |
|---|---|---|
| | **2013** | 2012 |
| Aggregate loan amount (RMB in millions) | | |
| Real estate collateral | **497.3** | 438.7 |
| Equity interest collateral | **250.5** | 245.4 |
| Appraised value of collateral at time of loan approval (RMB in millions) | | |
| Real estate collateral | **933.8** | 927.3 |
| Equity interest collateral | **1,022.8** | 1,241.3 |
| Range of appraised loan-to-value ratios | | |
| Loans secured by real estate collateral | **24%–70%** | 13%–70% |
| Loans secured by equity interest collateral | **5%–50%** | 4%–50% |
| Weighted average appraised loan-to-value ratio | | |
| Real estate collateral | **55%** | 52% |
| Equity interest collateral | **30%** | 29% |

**(i)** ***Appraisal of real estate collateral***

The weighted average appraised loan-to-value ratio for loans secured by real estate collateral was 55% as at 31 December 2013 (31 December 2012: 52%).

Since December 2011, we engaged a professional appraisal company holding a Qualification and License for Asset Appraisal issued by the Department of Finance of Jiangsu Province to evaluate the real estate collateral value underlying all the outstanding loans every half year, in order to ensure that there is no significant decrease in the collateral value. Such third party appraisal reports also serve as an evaluation on the adequacy of our appraisal process and the reasonableness of our appraisal results. The table below sets forth the aggregate values of the real estate collateral appraised by the appraisal company and by us during the collateral appraisal process for loans outstanding as of the dates indicated:

| | **31 December 2013** | 31 December 2012 |
|---|---|---|
| | *(RMB in millions)* | |
| Aggregate appraised value by | | |
| The appraisal company | **950.8** | 946.3 |
| The Company | **933.8** | 927.3 |

As of 31 December 2013, an aggregate amount of RMB10,000 thousand (31 December 2012: RMB89,000 thousand) of our loans secured by real estate collateral was secured by second charge on the collateral, representing 1.3% (31 December 2012: 12.8%) of the total outstanding amount as of the same date. All of our other loans are secured by the first charges on the collateral. We apply the same loan approval and collateral appraisal criteria for loans secured by second charge as loans secured by first charge. But as a risk control measure, for loans secured by second charge on the collateral, we exclude loan amount secured by the first charge from the value of the collateral securing the loan amount we grant to the customer for the purpose of calculating appraised loan-to-value ratio. We use the appraised value of the collateral less the loan amount secured by first charge as the value of the collateral securing the loan we granted.

**(ii)** ***Appraisal of equity interest collateral***

Our weighted average appraised loan-to-value ratio for loans secured by equity interest collateral was 30% for the year 2013 (the year 2012: 29%).

Since the equity interest collateral accepted by us currently is equity interest in unlisted companies for which there is no readily available fair value, we reach an initial appraisal value of the equity interest pledged mainly based on the net asset value of the enterprise as reported in its most recent financial statements and take into consideration other financial information such as revenue and cash flow. We also evaluate personal information of the individual borrowers or the proprietors of the enterprise borrowers. When necessary, we may also contact local banks as well as the enterprise's customers and suppliers to verify information about the enterprise and make confirmation or adjustment accordingly. However, due to the limitation in information available to us, our valuation might be inaccurate, unreliable or outdated. Moreover, we also require guarantees provided by our approved independent guarantors for loans secured by equity interest collateral so as to control the related credit risk.

**(iii)** ***Appraisal of personal property collateral***

At the end of the year, our personal properties mainly consisted of gold, platinum and automobiles. The appraisals of such collateral are usually made at the branch level. Pursuant to our policy, the appraised loan-to-value ratios of loans secured by such collateral may not exceed 80%. We take possession of collateral when the loan secured by such collateral is granted.

## 5. Market risk

### 5.1 *Foreign exchange risk*

We operate 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. An exchange loss of RMB$3,031 thousand was recorded in "other gains/(losses), net" for the year 2013.

The table below sets out the details of cash at bank and on hand denominated in the following currencies as at the dates indicated:

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **220,556** | 158,851 |
| US dollar | **585,594** | 167 |
| Hong Kong dollar | **10,695** | 63 |
| | **816,845** | 159,081 |

As at 31 December 2013, other than bank deposits denominated in US dollar and HK dollar totalling RMB596,289 thousand (as at 31 December 2012: RMB230 thousand) and listing expenses payable denominated in HK dollar of RMB3,695 thousand (as at 31 December 2012: amounts due to related parties of RMB15,734 thousand), the Group did not have significant assets or liabilities that were denominated in currencies other than RMB. Should US dollar weaken/strengthen by 1% against RMB, with all other variables held constant, the profit before income tax would have been RMB5,920 thousand lower/higher for the year ended 31 December 2013 (for the year ended 31 December 2012: RMB157 thousand higher/lower), mainly as a result of foreign exchange losses/gains on translation of US dollar and HK dollar denominated assets.

### 5.2 *Interest rate risk*

Apart from foreign currency assets, our most significant interest-bearing assets and liabilities are loans to customers and bank borrowings, which both bear fixed interest rates to generate cash flows independent from market interest rates. Contractual interest rate re-pricing is matched with maturity date of each pawn loan granted to customer, or maturity date of bank borrowings. As at respective balance sheet dates, maturity dates of loans to customers are all within six months, whilst maturity dates of bank borrowings are within 12 months.

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 for the year ended 31 December 2013 would have decreased/increased by approximately RMB2,655 thousand (for the year ended 31 December 2012: decreased/increased by approximately RMB1,846 thousand) mainly as a result of higher/lower interest expense on fixed-rate bank borrowings arising from interest rate re-pricing.

Interest rates on interest-bearing financial assets, primarily 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.

## 6. Total Equity and capital management

### 6.1 *Total Equity*

Our total equity as at 31 December 2013 was RMB1,330,339 thousand, representing an increase of RMB727,499 thousand as compared with that as at 31 December 2012. The increase was due to: (i) the net proceeds equivalent to RMB600,768 thousand from the public listing, and (ii) the profit attributable to equity holders amounting to RMB126,731 thousand for the year ended 31 December 2013.

### 6.2 *Gearing ratio management*

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

Our gearing ratios as of the indicated dates were as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Bank borrowings | **718,113** | 220,501 |
| less: cash and cash equivalents | **(338,837)** | (59,081) |
| Net debt | **379,276** | 161,420 |
| Total equity | **1,330,339** | 602,840 |
| Total capital | **1,709,615** | 764,260 |
| **Gearing ratio** | **22%** | 21% |

## 7. Bank borrowings and pledge of assets

### 7.1 *Bank borrowings*

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

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Bank borrowings — principal | **717,000** | 220,000 |
| Bank borrowings — interest payable | **1,113** | 501 |
| | **718,113** | 220,501 |

As at 31 December 2013, the principal of bank borrowings was RMB717,000 thousand, including borrowings to the PRC Operating Entity amounting to RMB230,000 thousand. The remaining RMB487,000 thousand was borrowings to Suzhou Huifang Technology Company Limited (蘇州匯方科技有限公司) (formerly known as "Suzhou Huifang Management Consulting Company Limited (蘇州匯方管理諮詢有限公司)") and Huifang Tongda as the source of the funds for capital increase of RMB500,000 thousand for the PRC Operating Entity by Huifang Tongda via the PRC Shareholders. As disclosed in the Prospectus, the Pawning Measures do not explicitly permit foreign invested companies to operate a pawn loan business in China. Rules and regulations governing the investment by foreign invested companies in the pawn business in the PRC will be separately issued by the Ministry of Commerce of the PRC ("MOFCOM") and other relevant authorities. Since so far no relevant rules and regulations are issued by MOFCOM or DOC Jiangsu, we are unable to exchange the proceeds from the listing to RMB to directly finance the capital increase of the PRC Operating Entity. Instead, we hold foreign exchange for pledge or enhancing our creditworthiness, and enter into facility arrangements with various domestic banks through Huifang Technology and Huifang Tongda to finance capital increase.

As at 31 December 2012, the principal of bank borrowings was RMB220,000 thousand, all of which were borrowings to the PRC Operating Entity.

### 7.2 *Guarantees and pledge of assets*

The table below sets out the details of guarantees and pledge of assets for our bank borrowings as at 31 December 2013:

| Name of Borrowers | Amounts of borrowings *(RMB'000)* | Terms of borrowings | Interest rate *(%)* | Guarantees |
|---|---|---|---|---|
| Wuzhong Pawnshop | 80,000 | 2013.10.17–2014.4.11 | 6.72% | Nil |
| Wuzhong Pawnshop | 150,000 | 2013.12.25–2014.06.20 | 7.80% | Guarantees provided by China Huirong Financial Holdings Limited, Wuzhong Jiaye, Huifang Technology, Zhu Tianxiao, Chen Yannan, Zhang Xiangrong, Ge Jian, Yang Wuguan, Zhuo You and Wei Xingfa |
| Huifang Tongda | 118,000 | 2013.12.24–2014.12.23 | 6.00% | Pledge of US$22,000,000 |
| Huifang Tongda | 120,000 | 2013.12.25–2014.12.25 | 5.70% | A guarantee provided by Huifang Technology |
| Huifang Tongda | 55,000 | 2013.12.26–2014.12.20 | 5.70% | Pledge of US$10,000,000 |
| Huifang Tongda | 140,000 | 2013.12.27–2014.12.20 | 6.00% | Guarantees provided by Wuzhong Jiaye, Huifang Technology, Zhu Tianxiao, Chen Yannan, Zhang Xiangrong, Ge Jian, Yang Wuguan, Zhuo You, and Wei Xingfa |
| Huifang Technology | 54,000 | 2013.12.20–2014.12.19 | 6.00% | Pledge of US$9,999,985 |
| Total | 717,000 | | | |

## 8. Capital Expenditure

Our capital expenditure consists primarily of purchases of property, plant and equipment, and computer software. Our capital expenditure was RMB171 thousand in year 2013 compared to RMB2,363 thousand in year 2012, and related primarily to leasehold improvements and addition of furniture and equipment.

## 9. Significant Investments, Acquisition and Disposal

### 9.1 *Capital Contributions to Huifang Technology*

On 12 December 2013, the name of Suzhou Huifang Management Consulting Company Limited (蘇州匯方管理諮詢有限公司) was changed to Suzhou Huifang Technology Company Limited (蘇州匯方科技有限公司) upon the approval from Administration for Industry and Commercial of Suzhou, Jiangsu.

Registered capital of Huifang Technology was increased from US$100,000 to US$98,100,000 upon the approval from Administration for Industry and Commercial of Suzhou. The paid-in capital was increased to US$19,700,000 with an actual increase of capital of US$19,600,000 on 6 December 2013, and was further increased to US$87,099,985 by an actual increase of capital of US$67,399,985 on 18 December 2013. The paid-in capital was increased to US$96,100,000 with an actual increase of capital amounted to US$9,000,015 on 26 January 2014. The above-mentioned capital increases were all made by Huifang Investment Limited with funds raised from the Global Offering.

### 9.2 *Increase in Capital of Huifang Tongda by way of Capitalisation*

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.

On 30 November 2013, the registered capital and paid-in capital of Huifang Tongda was increased to RMB20,100,000 from RMB100,000 by capitalisation of the unallocated profit of Huifang Tongda, without any cash injection.

### 9.3 *Capital Contributions to PRC Operating Entity*

Please refer to the disclosures in "Use of Proceeds" in this announcement.

## 10. Contingencies, Contractual Obligations, Liquidity and Financial Resources

### 10.1 *Contingencies*

As at 31 December 2013 and 31 December 2012, the Group did not have any significant contingent liabilities.

### 10.2 *Commitments*

Operating Lease Commitments:

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

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

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| No later than 1 year | **2,763** | 2,761 |
| Later than 1 year and no later than 5 years | **3,337** | 5,005 |
| Later than 5 years | **—** | 100 |
| | **6,100** | 7,866 |

### 10.3 *Liquidity and Capital Resources*

a. *Cash Flow Analysis*

As at 31 December 2013, the Group's cash and cash equivalents amounted to RMB338,837 thousand, representing an increase of RMB 279,756 thousand as compared with that at the beginning of the year. The following table sets forth a summary of our cash flows for the indicated periods:

| | **Year ended 31 December 2013** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| **Net cash (outflow)/inflow from operating activities** | **(818,008)** | (32,624) |
| **Net cash (outflow)/inflow from investing activities** | **(4)** | 7,010 |
| **Net cash (outflow)/inflow from financing activities** | **1,097,768** | 23,256 |
| **Increase/(Decrease) in cash and cash equivalents** | **279,756** | (2,358) |
| Cash and cash equivalents at beginning of year | **59,081** | 61,439 |
| **Cash and cash equivalents at end of year** | **338,837** | 59,081 |

*Net Cash Flow from Operating Activities*

Apart from increase in business scale and revenue, reasons accounting for the change in cash flow as compared to last year mainly include: (i) amounts due from PRC Shareholders of RMB500,000 thousand, which is the capital contribution amount to the PRC Operating Entity as disclosed in "Use of Proceeds" in this announcement; and (ii) increase in bank time deposits of RMB378,008 thousand. The Pawning Measures do not explicitly permit foreign invested companies to operate a pawn loan business in China. Rules and regulations governing investments by foreign invested companies in the pawn business in the PRC will be separately issued by the Ministry of Commerce of the PRC ("MOFCOM") and other relevant authorities. Since so far no relevant rules and regulations are issued by MOFCOM or DOC Jiangsu, we are unable to exchange the proceeds from the fund raised to RMB to directly finance the capital increase of the PRC Operating Entity. Instead, we hold foreign exchange for pledge as required by banks or enhancing our creditworthiness, and enter into facility arrangements with various domestic banks through Huifang Technology and Huifang Tongda to finance capital increase.

*Net Cash Flow from Financing Activities*

Net cash inflow from financing activities in year 2013 amounted to RMB1,097,768 thousand, which consisted of (i) new bank borrowings of RMB497,000 thousand; and (ii) net proceeds from the Global Offering of RMB600,768 thousand.

b. *Liquidity Risk*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

| | **Repayable on demand or within 1 month** | **1–6 months** | **6–12 months** | **Total** |
|---|---|---|---|---|
| | | *(RMB'000)* | | |
| **As at 31 December 2013** | | | | |
| Bank borrowings | **—** | **237,113** | **514,441** | **751,554** |
| Listing expenses payable | **3,695** | **—** | **—** | **3,695** |
| Amounts due to related parties | **2,582** | **—** | **—** | **2,582** |
| Other financial liabilities | **1,847** | **—** | **—** | **1,847** |
| **Total financial liabilities** | **8,124** | **237,113** | **514,441** | **759,648** |
| **As at 31 December 2012** | | | | |
| Bank borrowings | 141,179 | 81,605 | — | 222,784 |
| Amounts due to related parties | 16,368 | — | — | 16,368 |
| Other financial liabilities | 1,276 | — | — | 1,276 |
| **Total financial liabilities** | 158,823 | 81,605 | — | 240,428 |

## 11. Human Resource and Employee Benefits

As of 31 December 2013, the Group had a total of 118 full-time employees, which was less than that of 31 December 2012 (120) by two employees. We will adjust the number of our employees based on the development of our business and review of our employees' capabilities.

For the year ended 31 December 2013, the employee salary and benefit expense was RMB13,336 thousand, representing an increase of RMB1,066 thousand, or 8.7%, as compared with last year.

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

## 12. Analysis of other metrics

The following table sets forth our key operating metrics for the indicated periods:

| | As of and in the year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| **Profitability ratios** | | |
| Net interest margin | **18.1%** | 23.9% |
| Gross loan yield | **32.3%** | 30.6% |
| **Efficiency ratio** | | |
| Cost to income ratio | **21.5%** | 28.5% |
| **Asset quality** | | |
| Charge-off ratio | **0.1%** | 0.3% |
| Impaired loan ratio | **0.01%** | 0.57% |
| **Return ratios** | | |
| Return on average equity | **13.1%** | 20.1% |
| Return on average assets | **8.6%** | 12.0% |

### 12.1 *Profitability ratios*

In year 2013, our gross loan yield was 32.3%, which was higher as compared to 30.6% in year 2012. The higher gross loan yield was mainly benefited from (i) a favorable interest rate environment in the market; and (ii) the increasing demand for short-term financing in the Greater Suzhou Area, which enhanced our pricing power.

Net interest margin was 18.1% in year 2013, declining from 23.9% in year 2012. The decline was due to the increase in the Group's balances of interest earning assets by the funds raised through IPO. But at the end of year 2013, the capital injection into the PRC Operating Entity has not been completed and the funds have not been allocated to our loans to customers, hence no interest income was generated.

### 12.2 *Efficiency ratio*

Cost to income ratio was 21.5% in year 2013, as compared with 28.5% in last year. The decrease was mainly due to the lower administrative expenses and higher net revenue.

### 12.3 *Asset quality*

In year 2013, impaired loan ratio was 0.01%, lower than 0.57% recorded in year 2012, which was because of the decrease in individually impaired loans.

Charge-off ratio was 0.1% in year 2013, representing a decline from 0.3% in 2012, mainly due to the decrease in impairment charge.

### 12.4 *Return ratio*

In year 2013, return on average equity and return on average assets was 13.1% and 8.6% respectively, which were both lower than those of year 2012. Although profit attributable to equity holders in year 2013 increased by 32% as compared with that of the year 2012, the Group's equity and asset bases were expanded with the funds raised by the Company through IPO. As of the end of year 2013, the capital injection into the PRC Operating Entity has not been completed and the funds have not been allocated to our loans to customers, hence no interest income was generated.

## 13. Future Plans Relating to Material Investments

The Group has no plans for material investments or acquisition of capital assets. However, the Group will continue to seek new business opportunities.

## 14. Events After Reporting Period

As disclosed in the Company's announcement dated 12 February 2014 and in "Use of Proceeds" below, the injection of RMB500,000 thousand into the PRC Operating Entity was completed on 12 February 2014 and the registered capital of the PRC Operating Entity was thereby increased to RMB1,000,000 thousand.

## USE OF PROCEEDS

As estimated in the Prospectus, we intend to use the net proceeds from the Global Offering for the following purposes:

- 90%, or HK$626,200 thousand, will be injected into the PRC Operating Entity as registered capital; and
- the remaining 10%, or HK$69,600 thousand, will be used to provide funding for our working capital and other general corporate purposes.

The proposed use of the proceeds as stated in the Prospectus was based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds was actually utilised based on the actual development. As of 31 December 2013, the net proceeds were used for the following purposes:

| | **The proposed use of the proceeds as stated in the Prospectus** | **The actual use of the proceeds as of 31 December 2013** |
|---|---|---|
| Injected into the PRC Operating Entity as registered capital | HK$626,200 thousand | RMB500,000 thousand* |
| Used for working capital and other general corporate purposes | HK$69,600 thousand | RMB100,768 thousand |

* We commenced to increase the capital of the PRC Operating Entity through the PRC Shareholders immediately after the listing of the Company's shares on the Main Board of the Stock Exchange. As disclosed in the Prospectus, on 22 May 2013, Huifang Tongda, the 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 the Capital Contribution Amount to the PRC Shareholders subject to the PRC laws and regulations. The PRC Shareholders will contribute all loan proceeds 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.

As of 31 December 2013, we are in the process of capital injection, during which, Huifang Tongda has agreed to extend interest-free loans of RMB500,000 thousand to the PRC Shareholders pursuant to the PRC Shareholders Loan Agreement, and the PRC Shareholders will in turn contribute such amount to the registered capital of Wuzhong Jiaye and Hengyue Consulting.

On 12 February 2014, Wuzhong Jiaye and Hengyue injected the amount of RMB500,000 thousand into the PRC Operating Entity, which has successfully increased the approved registered capital of the PRC Operating Entity to RMB1,000,000 thousand.

## PROSPECTS

On 12 February 2014, the Group completed the increase of registered capital from RMB500,000 thousand to RMB1,000,000 thousand for the PRC Operating Entity. We believe the capital increase significantly improves the Group's business growth potential and resources and increase the scale of loans we can grant, thereby consolidating and boosting the market share and influence of the Group.

The Group will continue to balance the use of its resources, develop its business and control the risk. With the completion of capital increase, the Group's customer base of each loan portfolio will be further expanded. At the same time, we are analysing opportunities to expand into major cities in the Yangtze River Delta area beginning in the second half of 2014. In order to diversify our collateral portfolios, the Group will prudently expand the types of personal property we accept as collateral to include larger and more valuable types of personal property such as raw materials and finished products. These initiatives will expose us to new market potential currently unexplored. In addition, we are in the process of hiring and developing more talents who are experienced in risk management to further strengthen our risk management system and enhance our risk control efficiency.

## DIVIDEND

As disclosed in the Prospectus, all of our accumulated earnings prior to 31 December 2013 will be retained by the PRC Operating Entity and Huifang Tongda. The Board does not recommend a final dividend for the year ended 31 December 2013.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities since the date of listing.

## CORPORATE GOVERNANCE CODE

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

In the opinion of the Board, the Company has complied with all applicable principles and code provisions of the CG Code from the date of its listing.

## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 to all Directors, and the Directors have confirmed that they had complied with all relevant requirements as set out in the Model Code from the date of listing.

## ANNUAL RESULTS AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has met with the auditor of the Company to review the annual results of the Group for the year ended 31 December 2013.

The figures in respect of the results announcement of the Group for the year ended 31 December 2013 have been agreed upon by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong

Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 26 May 2014. A notice convening the annual general meeting will be published and dispatched to the shareholders of the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 21 May 2014 to Monday, 26 May 2014 (both dates inclusive). In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers 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 Tuesday, 20 May 2014.

## PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.cnhuirong.com). The annual report for the year ended 31 December 2013 containing all relevant information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

## DEFINITION

Unless otherwise required by the context, terms used in this results announcement shall have the same meanings as those defined in the Prospectus.

By Order of the Board
**China Huirong Financial Holdings Limited**
**Chen Yannan**
*Chairman*

Hong Kong, March 18, 2014

*As at the date of this announcement, the executive directors of the Company are Mr. Chen Yannan, Mr. Wu Min and Mr. Mao Zhuchun; the non-executive directors of the Company are Mr. Zhuo You, Mr. Zhang Cheng and Mr. Cao Jian; and the independent non-executive directors of the Company are Mr. Zhang Huaqiao, Mr. Feng Ke and Mr. Tse Yat Hong.*