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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 2016

Highlights for the Year Ended 31 December 2016:

	For the year ended or as at 31 December		
	2016	2015	Change
	RMB'000	*RMB'000*	%
Operating Results			
Revenue	**248,334**	375,536	(33.9)
Net revenue	**187,816**	323,334	(41.9)
Profit attributable to equity holders	**40,078**	101,886	(60.7)
Basic earnings per share (RMB)	**0.04**	0.10	(60.0)

The Board of directors (the "**Board**") of China Huirong Financial Holdings Limited (the "**Company**") hereby announces the audited annual results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2016 (the "**Reporting Year**") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Interest income	*10*	**248,334**	375,536
Interest expense	*11*	**(65,639)**	(54,655)
Net interest income		**182,695**	320,881
Net loss from financial instruments designated at fair value through profit or loss	*12*	**(462)**	—
Other operating income	*13*	**5,583**	2,453
Net revenue		**187,816**	323,334
Administrative expenses	*14*	**(63,998)**	(67,580)
Net charge of impairment allowance on loans to customers	*4(c)*	**(106,610)**	(142,920)
Other gains, net		**45,769**	38,285
Profit before income tax		**62,977**	151,119
Income tax expense	*15*	**(8,259)**	(41,605)
Profit for the year		**54,718**	109,514
Attributable to:			
— Equity holders of the Company		**40,078**	101,886
— Non-controlling interests		**14,640**	7,628
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**54,718**	109,514
Attributable to:			
— Equity holders of the Company		**40,078**	101,886
— Non-controlling interests		**14,640**	7,628
Earnings per share from profit attributable to the equity holders of the Company (expressed in RMB)			
— Basic and diluted earnings per share	*16*	**0.04**	0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**2,236**	1,121
Intangible assets		**1,021**	559
Deferred income tax assets		**72,494**	47,261
		75,751	48,941
Current assets			
Other assets		**22,657**	19,876
Loans to customers	*4*	**2,024,425**	2,030,053
Financial assets designated at fair value through profit or loss	*5*	**100,997**	—
Cash at bank and on hand	*6*	**912,349**	670,547
		3,060,428	2,720,476
Total assets		**3,136,179**	2,769,417
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital		**8,111**	8,111
Share premium	*7*	**548,237**	548,237
Other reserves	*7*	**584,739**	578,319
Retained earnings		**454,343**	418,078
		1,595,430	1,552,745
Non-controlling interests		**204,708**	214,076
Total equity		**1,800,138**	1,766,821

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Current liabilities			
Other liabilities	*8*	**16,742**	16,015
Current income tax liabilities		**30,360**	32,412
Deferred income tax liabilities		**—**	2,913
Amounts due to related parties		**633**	684
Borrowings	*9*	**1,288,306**	950,572
Total liabilities		**1,336,041**	1,002,596
Total equity and liabilities		**3,136,179**	2,769,417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31 December 2016

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 (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. The financial statements of the Group have been prepared on a consolidated basis and are presented using the carrying values of the assets, liabilities and operating results of the companies comprising the Group including Wuzhong Pawnshop. The Company's shares were listed on the Stock Exchange on 28 October 2013.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

2.1.1 *Going-concern basis*

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of customer demand for the Group's collateral-backed loans, guaranteed loans, unsecured loans and guarantee services; (b) the collection of loan interest and principal upon maturity; and (c) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in operational performance, show that the Group should be able to operate within the level of its current facilities. After making assessment, 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 9.

2.1.2 *Changes in accounting policy and disclosures*

(a) *New and amended standards adopted by the Group*

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

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

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

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

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

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

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

Standards	**Key requirements**	**Effective from financial years starting on or after**
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. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. At this stage, the group is not able to estimate the impact of the new rules on the group's financial statements. The group will make more detailed assessments of the impact over the next twelve months. HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the group does not intend to adopt the standard before its effective date.	1 January 2018

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

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

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

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

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

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

3.2 Credit risk

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

(a) *Credit risk mitigation policies*

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

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

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

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

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

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

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

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

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

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loans to customers, gross		
Collateral-backed loans	**1,525,529**	1,626,651
— Real estate backed loans	**1,089,431**	1,059,644
— Equity interest backed loans	**419,901**	553,810
— Personal property backed loans	**16,197**	13,197
Guaranteed loans	**273,729**	261,941
Unsecured loans	**485,400**	321,082
	2,284,658	2,209,674
Less: Impairment allowances		
Collateral-backed loans	**(220,585)**	(161,823)
— Real estate backed loans	**(49,317)**	(40,832)
— Equity interest backed loans	**(171,268)**	(120,991)
— Personal property backed loans	**—**	—
Guaranteed loans	**(33,342)**	(13,595)
Unsecured loans	**(6,306)**	(4,203)
	(260,233)	(179,621)
	2,024,425	2,030,053

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

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

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

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

Please refer to Note 4 for individually assessed and collectively assessed impairment allowances arising from equity interest backed loans, real estate backed loans, guaranteed loans and unsecured loans.

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Credit risk exposures relating to assets are as follows:		
Other receivables	**16,990**	13,946
Loans to customers	**2,024,425**	2,030,053
Deposit with banks	**910,919**	669,147
	2,952,334	2,713,146

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

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

(d) ***Loans to customers***

Loans to customers are summarised as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**1,043,847**	1,150,290
Past due but not impaired	**880,398**	850,137
Individually impaired	**360,413**	209,247
Gross	**2,284,658**	2,209,674
Less: Impairment allowances	**(260,233)**	(179,621)
Net	**2,024,425**	2,030,053

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

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

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

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

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

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

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

(iii) *Loans to customers individually impaired*

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Gross individually impaired loans		
— Real estate backed loans	**117,131**	67,847
— Equity interest backed loans	**199,648**	117,861
— Guaranteed loans	**43,634**	23,539
	360,413	209,247
Impairment allowance made in respective of such loans		
— Real estate backed loans	**(32,780)**	(29,483)
— Equity interest backed loans	**(139,684)**	(86,866)
— Guaranteed loans	**(25,266)**	(10,769)
	(197,730)	(127,118)
Net individually impaired loans	**162,683**	82,129

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

The Group maintains a comprehensive client base. Loans receivable from the top five customers accounted for 29.1% of the total loans to customers as at 31 December 2016 (2015: 28.2%). Interest income from the top five customers accounted for 27.4% of total interest income for the year ended 31 December 2016 (2015: 29.6%).

3.3 Market risk

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

(a) ***Interest rate risk***

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

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

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

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

(b) ***Foreign exchange risk***

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

As at 31 December 2016, other than deposits with banks denominated in US dollar and Hong Kong dollar totaling RMB 661,953 thousand (2015: RMB607,216 thousand), 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 decreased/increased by RMB6,620 thousand (2015: decreased/increased by RMB6,072 thousand) lower/higher for the year ended 31 December 2016, mainly as a result of foreign exchange losses/gains on translation of US dollar and Hong Kong dollar denominated balances.

3.4 Liquidity risk

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

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

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

	Repayable on demand or within 1 month	**1–6 months**	**6–12 months**	**Past due**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016					
Cash at bank and on hand	510,169	146,580	261,255	—	918,004
Loans to customers	200,638	575,062	259,925	1,021,133	2,056,758
Total financial assets	710,807	721,642	521,180	1,021,133	2,974,762
Borrowings	(234,104)	(709,807)	(370,094)	—	(1,314,005)
Amounts due to related parties	(633)	—	—	—	(633)
Other financial liabilities	(5,763)	—	—	—	(5,763)
Total financial liabilities	(240,500)	(709,807)	(370,094)	—	(1,320,401)
Net liquidity gap	470,307	11,835	151,086	1,021,133	1,654,361
As at 31 December 2015					
Cash at bank and on hand	286,951	75,124	314,364	—	676,439
Loans to customers	58,999	693,922	393,944	908,543	2,055,408
Total financial assets	345,950	769,046	708,308	908,543	2,731,847
Borrowings	(88,629)	(655,112)	(295,980)	—	(1,039,721)
Amounts due to related parties	(684)	—	—	—	(684)
Other financial liabilities	(2,611)	—	—	—	(2,611)
Total financial liabilities	(91,924)	(655,112)	(295,980)	—	(1,043,016)
Net liquidity gap	254,026	113,934	412,328	908,543	1,688,831

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

3.5 Fair value of financial assets and liabilities

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

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

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

(a) *Fair value*

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

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

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

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

(i) *Financial instruments in level 1*

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

(ii) *Financial instruments in level 2*

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

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

Specific valuation techniques used to value financial instruments include:

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

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

3.6 Capital risk management

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

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

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Borrowings	**1,288,306**	950,572
Less: Cash and cash equivalents	**(191,216)**	(65,946)
Net debt	**1,097,090**	884,626
Total equity	**1,800,138**	1,766,821
Total capital	**2,897,228**	2,651,447
Gearing ratio	**38%**	33%

4 LOANS TO CUSTOMERS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loans to customers, gross		
Collateral backed loans	**1,525,529**	1,626,651
— Real estate backed loans	**1,089,431**	1,059,644
— Equity interest backed loans	**419,901**	553,810
— Personal property backed loans	**16,197**	13,197
Guaranteed loans	**273,729**	261,941
Unsecured loans	**485,400**	321,082
	2,284,658	2,209,674
Less: Impairment allowances		
— Individually assessed	**(197,730)**	(127,118)
— Collectively assessed	**(62,503)**	(52,503)
	(260,233)	(179,621)
Loans to customers, net	**2,024,425**	2,030,053

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

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

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

Loans to customers are all denominated in RMB. The impairment allowances are related to loans secured by equity interest backed loans, real estate backed loans, guaranteed loans and unsecured loans (2015: same).

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

(a) *Aging analysis of loans to customers*

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**713,123**	604,184
3–6 months	**188,504**	131,067
6–12 months	**93,313**	846,798
12–24 months	**615,558**	268,672
Over 24 months	**413,927**	179,332
	2,024,425	2,030,053

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

	As at 31 December 2016		
	Individually assessed	**Collectively assessed**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
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 year	**(25,998)**	**—**	**(25,998)**
Other transfer in	**11,674**	**(11,674)**	**—**
At end of year	**197,730**	**62,503**	**260,233**

	As at 31 December 2015		
	Individually assessed	Collectively assessed	Total
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	19,633	20,563	40,196
Acquisition of subsidiaries	13,535	3,789	17,324
Impairment losses recognised	93,291	59,072	152,363
Net write back of loan provision	(332)	(9,111)	(9,443)
Loans written off as un-collectible	(20,819)	—	(20,819)
Other transfer in	21,810	(21,810)	—
At end of year	127,118	52,503	179,621

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net charge of impairment allowance		
Individually assessed	**84,936**	92,959
Collectively assessed	**21,674**	49,961
	106,610	142,920

5 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Financial Assets designated at fair value are analysed by issuers as follows:		
Public sector entities	**66,447**	—
Unlisted entities	**34,550**	—
	100,997	—

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

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

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

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

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

6 CASH AT BANK AND ON HAND

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash on hand	**1,430**	1,400
Demand deposits with banks	**189,786**	64,546
Term deposits with banks with original maturities over 3 months	**721,133**	604,601
	912,349	670,547

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**250,396**	63,250
US dollar	**661,231**	607,219
Hong Kong dollar	**722**	78
	912,349	670,547

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash at bank and on hand	**912,349**	670,547
Less: Unrestricted term deposits with banks with original maturities over 3 months	**(327,123)**	(294,721)
Restricted term deposits pledged with banks	**(394,010)**	(309,880)
	191,216	65,946

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

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

7 SHARE PREMIUM AND OTHER RESERVES

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

(a) Statutory reserve

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

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

The grant of share options to 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 certain performance targets. The options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

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

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

8 OTHER LIABILITIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Accrued employee benefits	**10,088**	11,431
Turnover tax and other tax payable	**891**	1,963
Accrued expenses	**—**	10
Other financial liabilities	**5,763**	2,611
	16,742	16,015

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

9 BORROWINGS

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

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

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

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

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

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

The Group's borrowings are denominated in RMB.

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

(b) As at 31 December 2016, interests of holders of consolidated SEs are borrowings from individual investors through the internet financing platform of Suzhou Qian Dai.

As at 31 December 2016, the loans funded by the above borrowings through Suzhou Qian Dai and guaranteed by Dongshan Micro-finance were consolidated by the Group. The consolidated loans and interest receivables amounted to RMB375,198 thousand (2015: RMB62,886 thousand).

(c) As at 31 December 2016, borrowings from a securities company with principal amount of RMB20,200 thousand are pledged by listed equity investment held by the Group (2015: Nil).

10 INTEREST INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest income from loans to customers		
Collateral backed loans		
— Real estate backed loans	**87,167**	175,070
— Equity interest backed loans	**53,331**	122,704
— Personal property backed loans	**13,686**	13,917
Guaranteed loans	**34,697**	17,631
Unsecured loans	**48,745**	29,577
Interest income from bank deposits	**10,708**	16,637
	248,334	375,536

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

11 INTEREST EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest expense on bank borrowings	**44,703**	52,901
Other interest expenses *(Note 9)*	**20,936**	1,754
	65,639	54,655

12 NET LOSS FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Fair value losses — unlisted equity securities	**(6,909)**	—
Fair value gains — listed equity securities	**6,447**	—
	(462)	—

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

13 OTHER OPERATING INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Consultancy fee income — Suzhou Qian Dai (a)	**4,136**	775
Net gains from disposal of repossessed assets	**1,298**	1,615
Guarantee fee income — Dongshan Micro-finance	**146**	63
Others	**3**	—
	5,583	2,453

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

14 ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Employee benefit expenses	**28,950**	17,259
Advertising costs	**7,586**	2,137
Operating lease payments	**4,342**	3,439
Business tax and surcharges (a)	**4,064**	19,797
Transportation, meal and accommodation	**4,048**	4,592
Depreciation and amortisation	**1,023**	1,113
Professional and consultancy fees	**3,697**	3,396
Telephone, utilities and office expenses	**2,406**	2,430
Value-added tax and surcharges (b)	**1,787**	7,955
Auditors' remuneration		
— Audit services	**2,192**	3,800
— Non-audit services	**—**	—
Commission fee	**1,366**	168
Other expenses	**2,537**	1,494
	63,998	67,580

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

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

15 INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**36,405**	72,581
Deferred income tax	**(28,146)**	(30,976)
	8,259	41,605

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**62,977**	151,119
Tax calculated at domestic tax rates applicable to profits in the respective areas	**16,359**	38,028
Tax effect of:		
— Expenses not deductible for tax purposes	**834**	(121)
— Effect of different tax rates in countries in which the entity operates	**(668)**	—
— PRC withholding tax (a)	**(2,913)**	2,823
— Adjustment in respect of prior years (b)	**(5,353)**	875
Tax charge	**8,259**	41,605

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

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

The applicable Hong Kong profits tax rate is 16.5% on the estimated assessable profits of the Group.

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.

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

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

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

16 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share 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.

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

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share options under share-based payment scheme (Note 7(b)). For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

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

17 DIVIDENDS

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

18 COMMITMENTS

(a) Operating lease commitments

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

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

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

(b) Capital commitments

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

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

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

(c) Guarantees commitments

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Guarantees	**—**	1,060

MANAGEMENT DISCUSSION AND ANALYSIS

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

1. BUSINESS REVIEW AND DEVELOPMENT

1.1 *Loans to customers*

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

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

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

1.2 *Outstanding loans to customers*

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

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

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

1.3 *Online P2P lending business — Suzhou Qian Dai*

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

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

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

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

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

1.4 *Effective yield of loans to customers*

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

1.5 *Impairment allowance*

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

2. FINANCIAL REVIEW

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

The financial review is summarised as follows:

2.1 *Interest income, interest costs and net interest margin*

Interest income:

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

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

Interest cost:

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

Net interest margin:

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

2.2 *Administrative expenses*

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

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

2.2.1 *Employee benefit expenses*

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

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

2.2.2 *Share-based payments*

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

To further reward and motivate eligible participants for their contribution to the Group and align their interest with the Company, 50,000,000 share options to subscribe for up to a total of 50,000,000 Shares were granted to the directors and selected employees on 13 September 2016 (the "**Date of Grant**") with an exercise price of HK$0.62 per share. The exercise of the aforesaid share options is conditional upon (a) the achievement of certain performance targets by the relevant individual grantees and/or the Group, up to 50% of the share options so granted to him/her at any time during the period commencing from the 1st anniversary of the Date of Grant and ending on 12 September 2021; and (b) the achievement of certain performance targets by the relevant individual grantees and/or the Group, up to 100% of the share options so granted to him/her less the share options which have been exercised by him/her at any time during the period commencing from the 2nd anniversary of the Date of Grant and ending on 12 September 2021 (for more details, please refer to the announcement of the Company dated 13 September 2016). Employee benefit expense of RMB2,607 thousand was recognised for share options granted to directors and employees for the year ended 31 December 2016. Details of exercise price and number of share option are set out below:

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

2.2.3 *The ratio of administrative expenses to net revenue*

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

2.3 *Charge of impairment allowance*

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

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

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

2.4 *Income tax expenses*

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

2.5 *Profit attributable to equity holders and return on assets*

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

3. LOANS TO CUSTOMERS

3.1 *Loan portfolio*

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

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

3.2 *Loan classification and impairment allowances*

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

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

(i) Loans neither past due nor impaired

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

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

(ii) Loans past due but not impaired

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

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

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

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

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

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

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

3.3 *Loans under legal proceedings*

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

4. CREDIT RISK MANAGEMENT

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

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

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

5. TOTAL EQUITY AND CAPITAL MANAGEMENT

5.1 *Total Equity*

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

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

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

5.2 *Gearing ratio management*

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

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

6. BORROWINGS AND PLEDGE OF ASSETS

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

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

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

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

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

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

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

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

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

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

7. CAPITAL EXPENDITURE

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

8. SIGNIFICANT INVESTMENTS, ACQUISITION AND DISPOSAL

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

9. CONTINGENCIES, CONTRACTUAL OBLIGATIONS, LIQUIDITY AND FINANCIAL RESOURCES

9.1 *Contingencies*

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

9.2 *Commitments*

a. *Operating lease Commitments*

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

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

b. *Capital Commitments*

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

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

(b) The Group set up a new 100% owned legal entity Suzhou Huifang Sihai Regulation Company Limited (蘇州匯方四海調劑有限公司) on 30 November 2016. The registered capital is RMB 1,000 thousand and has not been paid up by the Group as at 31 December 2016.

c. *Guarantees commitments*

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

9.3 *Liquidity and capital resources*

a. *Cash flow analysis*

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

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

Net Cash Flow from Operating Activities

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

Net Cash Flow from Investing Activities

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

Net Cash Flow from Financing Activities

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

b. *Liquidity risk*

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

10. MARKET RISK

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

11. HUMAN RESOURCE AND EMPLOYEE BENEFITS

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

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

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

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

12. FUTURE PLANS RELATING TO MATERIAL INVESTMENTS

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

PROSPECTS

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

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

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

FINAL DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the Reporting Year.

CORPORATE GOVERNANCE PRACTICES

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

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

COMPLIANCE WITH THE 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 the Directors of the Company and they have confirmed that they have complied with the Model Code throughout the Reporting Year.

CHANGE IN DIRECTOR'S INFORMATION

During the period from the date of 2016 Interim Report to the date of this announcement, change in the information of the Director of the Company is as follows:

Mr. Feng Ke, an independent non-executive Director of the Company, was appointed as an independent non-executive director of Yingde Gases Group Company Limited (a company listed on the Main Board of the Stock Exchange, stock code: 02168) on 5 November 2016.

ANNUAL RESULTS AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has held a meeting with the auditor of the Company to review the annual results of the Group for the year ended 31 December 2016.

The figures in respect of the results announcement of the Group for the year ended 31 December 2016 have been reviewed and agreed 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 2017. A notice convening the annual general meeting of the Company 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 Monday, 22 May 2017 to Friday, 26 May 2017 (both dates inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on Friday, 19 May 2017.

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 2016 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 of the Company dated 16 October 2013.

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

Hong Kong, 17 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yannan, Mr. Wu Min and Mr. Zhang Changsong, the non-executive directors of the Company are Mr. Zhuo You, Mr. Zhang Cheng and Ms. Zhang Shu and the independent non-executive directors of the Company are Mr. Zhang Huaqiao, Mr. Feng Ke and Mr. Tse Yat Hong.