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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

HIGHLIGHTS

	Six Months Ended 30 June		
	2017	2016	Change
	RMB'000	*RMB'000*	*%*
Operating Results			
Revenue	**134,016**	120,424	11.29
Net revenue	**102,924**	93,444	10.15
Profit attributable to equity holders	**19,939**	3,257	512.19
Basic earnings per share (RMB)	**0.019**	0.003	533.33

	As at 30 June 2017	As at 31 December 2016	Change
	RMB'000	*RMB'000*	*%*
Financial Position			
Total assets	**3,134,833**	3,136,179	–0.04
Loans to customers	**2,091,565**	2,024,425	3.32
Cash at bank and on hand	**862,057**	912,349	–5.51
Net assets	**1,814,312**	1,800,138	0.79

The board of directors (the "**Board**") of China Huirong Financial Holdings Limited (the "**Company**") hereby announces the interim results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2017 (the "**Reporting Period**") as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(ALL AMOUNTS IN RMB THOUSANDS UNLESS OTHERWISE STATED)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

(ALL AMOUNTS IN RMB THOUSANDS UNLESS OTHERWISE STATED)

	Note	**As at 30 June 2017 Unaudited**	As at 31 December 2016 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**2,774**	2,236
Intangible assets		**957**	1,021
Deferred income tax assets	*18*	**76,238**	72,494
		79,969	75,751
Current assets			
Other assets	*19*	**21,373**	22,657
Loans to customers	*20*	**2,091,565**	2,024,425
Financial assets designated at fair value through profit or loss	*21*	**79,869**	100,997
Cash at bank and on hand	*22*	**862,057**	912,349
		3,054,864	3,060,428
Total assets		**3,134,833**	3,136,179
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital	*23*	**8,111**	8,111
Share premium	*24*	**548,237**	548,237
Other reserves	*24*	**588,136**	584,739
Retained earnings		**474,282**	454,343
		1,618,766	1,595,430
Non-controlling interests		**195,546**	204,708
Total equity		**1,814,312**	1,800,138

	Note	As at 30 June 2017 Unaudited	As at 31 December 2016 Audited
Liabilities			
Current liabilities			
Other liabilities	*25*	**6,648**	16,742
Current income tax liabilities		**12,071**	30,360
Amounts due to related parties	*29(c)*	**27,633**	633
Bank borrowings	*26*	**1,274,169**	1,288,306
Total liabilities		**1,320,521**	1,336,041
Total equity and liabilities		**3,134,833**	3,136,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

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

On 1 July 2015, the Group acquired 40% of the equity interests in Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.* (蘇州吳中區東山農村小額貸款有限公司) ("**Dongshan Micro-finance**") from Jiangsu Wuzhong Jiaye Investment Co., Ltd.* (江蘇吳中嘉業投資有限公司) ("**Wuzhong Jiaye**") for a cash consideration of RMB126,414,800 (equivalent to approximately HK$158,018,500). Therefore Dongshan Micro-finance has become a subsidiary of the Group, which is mainly engaged in granting small amount loans and providing financing guarantee to customers in the PRC.

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

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

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

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

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

2 BASIS OF PREPARATION

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

2.1 Going-concern basis

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

3 ACCOUNTING POLICIES

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

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

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

Standards	**Key requirements**	**Effective from financial years starting on or after**
HKFRS 15	The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue from goods sold and services rendered and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of goods or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018. At this stage, the Group estimates that the impact of the new standards on the Group's financial statements is limited. The Group will make more detailed assessments of the impact over the next six months.	1 January 2018

Standards	Key requirements	Effective from financial years starting on or after
HKFRS 9	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 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. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such financial liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed. 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 HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.	1 January 2018

Standards	Key requirements	Effective from financial years starting on or after
	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 of 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.	
HKFRS 16	HKFRS 16 Lease 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 RMB10,836 thousand, see Note 28(a). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. 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 first interim period within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.	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.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

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

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

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

5.1.1 *Credit risk*

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

(a) *Credit risk mitigation policies*

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

- Real estate, including residential and commercial properties;
- Equity instruments, mainly equity interest in unlisted companies which are typically related to the borrowers; and

- Personal properties and inventory, including but not limited to precious metal, luxuries and inventories attributable to borrowers.

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

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

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

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

Personal property and inventory backed loans have less credit exposure as the Group physically takes possession or entrust an independent third-party to take possession of the collateral till loan repayment. For the six months ended 30 June 2017, there has been no incurred credit loss on the loans secured by personal property or inventory collateral after considering the amount recovered through repossessed assets. Consequently no collectively assessed impairment allowances were provided for loans secured by this collateral type.

Please refer to Note 20 for individually assessed and collectively assessed impairment allowances arising from equity interest backed loans, real estate backed loans, guaranteed loans and unsecured loans.

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

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

The above table represents a worst case scenario of credit risk exposure to the Group at 30 June 2017 and 31 December 2016, without taking into account of any collateral held for or other credit enhancements attached. The exposures set out above for assets are based on net carrying amounts as reported in the consolidated statement of financial position. The Group's cash at banks are mainly deposited in large commercial banks.

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

(d) *Loans to customers*

Loans to customers are summarised as follows:

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

(i) Loans to customers neither past due nor impaired

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

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

(ii) Loans to customers past due but not impaired

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

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

The Group accepted real estate collateral at fair value of approximately RMB1,660,376 thousand for real estate backed loans that were past due but not impaired as at 30 June 2017 (31 December 2016: RMB1,384,947 thousand).

(iii) Loans to customers individually impaired

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

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

The Group maintains a comprehensive client base. Loans receivable from the top five customers accounted for 28.1% of the total loans to customers as at 30 June 2017 (31 December 2016: 29.1%). Interest income from the top five customers accounted for 23.1% of total interest income for the six months ended 30 June 2017 (2016: 28.1%).

5.1.2 ***Market risk***

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity investments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's exposure to market risk is primarily attributable to interest rate risk arising from loans to customers, bank balances and bank and other borrowings. The Group's policies and procedures for monitoring and managing market risk had no changes since the end of last year.

(a) *Interest rate risk*

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

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

Based on the simulations performed and with other variables held constant, should the benchmark interest rate had been 100 basis points higher/lower, the profit before income tax would have been decreased/increased by approximately RMB2,205 thousand for the six months ended 30 June 2017(for the six months ended 30 June 2016: approximately RMB2,655 thousand), mainly as a result of higher/lower interest income on term deposits with banks and interest expense on fixed-rate bank and other borrowings arising from interest rate repricing.

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

(b) *Foreign exchange risk*

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

As at 30 June 2017, other than deposits with banks denominated in US dollar and Hong Kong dollar totaling RMB653,806 thousand (31 December 2016: RMB661,953 thousand)(Note 22), the Group did not have significant assets or liabilities that were denominated in currencies other than RMB. Should US dollar had weakened/strengthened by 1% against RMB with all other variables held constant, the profit before income tax would have been lower/higher of RMB6,538 thousand for the six months ended 30 June 2017(for the six months ended 30 June 2016: higher/lower RMB6,297 thousand).

5.1.3 *Liquidity risk*

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

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

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

5.2 Fair value of financial assets and liabilities

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

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

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

(a) *Fair value*

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2017 and 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	Level 1	**Level 2**	**Level 3**	**Total**
As at 30 June 2017				
Financial assets at fair value through profit or loss				
Financial assets designated at fair value through profit or loss				
— Equity Investments	**—**	**55,868**	**24,001**	**79,869**
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 Levels 1 and 2 financial assets during the period. Transfer between Levels 2 and 3 is addressed in the Level 3 reconciliation below.

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

Valuation techniques used to derive Level 2 fair values

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

Fair value measurements using significant unobservable inputs (Level 3)

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

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

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

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

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

6 SEGMENT INFORMATION

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

The Group's operation is primarily located in the PRC under three legal entities, i.e., Wuzhong Pawnshop, Suzhou Huifang Tongda Information Technology Company Limited* (蘇州匯方同達資訊科技有限公司) ("**Huifang Tongda**") and Dongshan Micro-finance. The principal business activity of the three entities is to grant loans to customers and provide financing guarantee in the Greater Suzhou Area.

The Group managed its business under one operating and reportable segment in accordance with the definition of a reportable segment under HKFRS 8 for the six months ended 30 June 2017 and 2016.

7 INTEREST INCOME

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

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

8 INTEREST EXPENSE

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

9 NET INVESTMENT GAIN

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

(a) For the six months ended 30 June 2017, fair value losses or gains are fair value change from financial instruments designated at fair value through profit and loss (For the six months ended 30 June 2016: Nil) (Note 21).

(b) In 2017, the Group disposed two 100% owned subsidiaries, Dang Tian Xia and Huifang Sihai and realised net gains of RMB8,150 thousand (2016: Nil).

10 OTHER OPERATING INCOME, NET

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

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

11 ADMINISTRATIVE EXPENSES

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

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

(b) Under the Exclusive Management and Consultation Service Agreement, Wuzhong Pawnshop has engaged Huifang Tongda on an exclusive basis to provide consultation and other ancillary services. Such consultancy service fee income is subject to output value-added tax at 6% while surcharges are 12% of value-added tax payable. Such value-added tax was not deductible and was recognised into administrative expenses before 1 May 2016.

12 EMPLOYEE BENEFIT EXPENSES

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

13 NET CHARGE OF IMPAIRMENT ALLOWANCE

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

14 OTHER (LOSSES)/GAINS, NET

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

15 INCOME TAX EXPENSE

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

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

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

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

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

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

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

16 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit of the Group attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2017 and 2016.

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

(b) Diluted earnings per share

	Unaudited Six months ended 30 June 2017	2016
Profit attributable to equity holders of the Company (RMB'000)	**19,939**	3,257
Weighted average number of ordinary shares in issue (in thousands)	**1,025,237**	1,025,237
Adjustments for:		
— Share options (in thousands)	**19,363**	—
	1,040,600	1,025,237
Weighted average number of ordinary shares for diluted earnings per share (RMB)	**0.019**	0.003

17 DIVIDENDS

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

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

18 DEFERRED INCOME TAX

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

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

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

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

19 OTHER ASSETS

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

20 LOANS TO CUSTOMERS

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

Loans to customers arise from the Group's lending services. The loan periods granted to customers are within one year. The real estate backed and equity interest backed loans provided to customers bear fixed interest rates ranging from 8.0% to 30.0 % per annum in the six months ended 30 June 2017 (2016: from 12.0% to 36.7%).

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

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

Loans to customers are all denominated in RMB.

As at 30 June 2017, renewed loans amounted to RMB157,543 thousand (31 December 2016: RMB109,980 thousand), all are real estate backed loans (31 December 2016: same). No renewed loans had substantially modified their original contractual terms for the six months ended 30 June 2017 (2016: same).

(a) Aging analysis of loans to customers

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

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

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

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

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

(c) Net charge of impairment on loans to customers

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

21 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2017 Unaudited	31 December 2016 Audited
Equity securities designated at fair value are analysed by issuers as follows:		
Listed — Public sector entities	**55,868**	66,447
Unlisted entities	**24,001**	34,550
	79,869	100,997

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

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

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

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

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

22 CASH AT BANK AND ON HAND

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

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

	30 June 2017	31 December 2016
	Unaudited	Audited
RMB	**208,251**	250,396
US dollar	**652,444**	661,231
Hong Kong dollar	**1,362**	722
	862,057	912,349

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

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

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

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

23 SHARE CAPITAL

	Number of shares	Ordinary shares HK$	Ordinary shares RMB
Issued and fully paid			
As at 30 June 2017 and 31 December 2016	1,025,237,000	10,252,370	8,111,008

24 SHARE PREMIUM AND OTHER RESERVES

		Other reserves				
	Share premium	Capital reserve	Statutory reserve	General reserve	Share-based payments reserve	Total
At 1 January 2017	**548,237**	**500,000**	**77,715**	**4,417**	**2,607**	**1,132,976**
Share-based payments *(b)*	**—**	**—**	**—**	**—**	**3,397**	**3,397**
At 30 June 2017	**548,237**	**500,000**	**77,715**	**4,417**	**6,004**	**1,136,373**
At 1 January 2016	548,237	500,000	73,902	4,417	—	1,126,556
Appropriation to reserves *(a)*	—	—	3,813	—	—	3,813
Share-based payments	—	—	—	—	2,607	2,607
At 31 December 2016	548,237	500,000	77,715	4,417	2,607	1,132,976

(a) Statutory reserve

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

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

The grant of share options to enable eligible participants as incentives or rewards for their contribution or potential contribution to the Group was approved on 13 September 2016. Under the share option scheme, the Company granted 50,000,000 share options to directors and selected employees on 13 September 2016 with an exercise price of HK$0.62 per share. Options are conditional on the employee completing one or two years' service (the vesting period). The options become exercisable starting one or two years from the grant date, subject to whether the Group achieved 60% or above of the target profit attributable to equity holders of the Company approved by the Board of Directors in 2016 and 2017 separately, or whether the Group achieved 60%

or above of the cumulative target profit attributable to equity holders of the Company approved by the Board of Directors in 2016 and 2017 together. The options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

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

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

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

25 OTHER LIABILITIES

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

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

26 BORROWINGS

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

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

As at 30 June 2017, bank borrowings with principal amount of RMB312,000 thousand (31 December 2016: RMB290,000 thousand) were secured by restricted term deposits of US$49,493 thousand (31 December 2016: US$48,149 thousand) (Note 22).

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

As at 30 June 2017, bank borrowings with principal amount of RMB370,000 thousand are guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (31 December 2016: same). As at 30 June 2017, bank borrowings with principal amount of RMB50,000 thousand are guaranteed by Jiangsu Wuzhong Group Co. Ltd* (江蘇吳中集團有限公司) ("**Wuzhong Group**") (31 December 2016: same). As at 30 June 2017, bank borrowings with principal amount of RMB120,000 thousand are guaranteed by Suzhou Huifang Technology Company Limited* (蘇州匯方科技有限公司) ("**Huifang Technology**") (31 December 2016: same).

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

The Group's borrowings are denominated in RMB.

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

(b) As at 30 June 2017, interests of holders of platform loans are borrowings from individuals investors through the P2P platform of Suzhou Qian Dai (31 December 2016: same).

As at 30 June 2017, the loans were funded by the above borrowings through Suzhou Qian Dai and guaranteed by Dongshan Micro-finance and were consolidated by the Group. Principal of such loans amounted to RMB281,000 thousand (31 December 2016: RMB 375,198 thousand).

(c) As at 30 June 2017, borrowings from micro-finance company with principal amount of RMB68,000 thousand are guaranteed by Wuzhong Group (31 December 2016: nil) (Note 21).

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

27 CONTINGENCIES

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

28 COMMITMENTS

(a) Operating lease commitments

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

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

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

(b) Capital commitments

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

(a) The Group set up Huifang Jiada on 15 December 2016. The registered capital is RMB5,000 thousand and has not been paid up by the Group as at 30 June 2017.

29 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or excise significant influence over the other party in making financial and operating decisions of the Group. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member are also considered as related parties.

(a) Name and relationship with related parties

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

(b) Significant transactions with related parties

The Group had the following significant transactions with related parties:

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

(c) Balances with related parties

	30 June 2017 Unaudited	31 December 2016 Audited
Amounts due to related parties		
Due to Wuzhong Jiaye	**27,000**	—
Due to BVI entities owned by the Ultimate Shareholders	**633**	633
	27,633	633

Balances with related parties were interest-free.

	30 June 2017	31 December 2016
	Unaudited	Audited
Borrowings provided by Directors and key management on P2P platform	**512**	4,204

(d) Key management compensation

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

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

(e) Key management personnel services provided by management entity

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. BUSINESS REVIEW AND DEVELOPMENT

We are principally engaged in lending business.

1.1 Loans

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

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

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

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

1.2 Entrusted loans

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

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

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

1.3 Online P2P lending business

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

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

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

1.4 Business of Dongshan Micro-finance

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

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

2. FINANCIAL REVIEW

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

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

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

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

Interest and consultancy fee income:

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

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

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

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

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

2.2 Administrative expenses

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

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

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

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

2.3 Net charge of impairment allowance

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

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

2.4 Income Tax Expenses

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

2.5 Profit attributable to equity holders

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

3. LOANS TO CUSTOMERS

3.1 Loan portfolios

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

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

3.2 Loan classification and impairment allowances

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

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

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

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

(ii) Loans to customers which were individually impaired as at 30 June 2017 amounted to RMB366,863 thousand, with an estimated loss of RMB207,089 thousand.

(iii) In light of the changes in market environment, impairment allowances were made to adequately reflect the Group's market risk exposure. As at 30 June 2017, the impairment allowance for loans secured by real estate collateral, loans secured by equity interest collateral, guaranteed loans and unsecured loans amounted to RMB253,628 thousand, representing 10.81% of the outstanding loans granted to customers before provision.

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

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

3.3 Loans under legal proceedings

As at 30 June 2017, among the loans to customers that were past due but not impaired, the Group was under legal proceedings in respect of the recovery of 37 loans, which were secured by real estate collateral that amounted to RMB428,384 thousand. No loss was expected to be incurred on such loans. The loans are secured by real estate collateral with a reasonably ascertainable market value and considered fully recoverable. Among the loans that were individually impaired, we have initiated legal proceedings for the recovery of 16 loans, which are secured by equity interest collateral that amounted to RMB152,971 thousand. Individually assessed impairment allowance of RMB101,794 thousand was provided on such loans.

4. CREDIT RISK MANAGEMENT

According to our internal policy, the principal amount of a loan we grant to a loan applicant is individually negotiated with the applicant, but the appraised loan-to-value ratio of the loan is capped at 70% for real estate collateral and 50% for equity interest collateral, respectively. The following table sets forth a breakdown by collateral type of (i) aggregate loan amount; (ii) appraised value of collateral at time of loan approval; and (iii) the weighted average appraised loan-to-value ratio as of the granting dates of loans outstanding as of the indicated dates:

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

5. MARKET RISK

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

6. TOTAL EQUITY AND CAPITAL MANAGEMENT

6.1 Total Equity

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

6.2 Gearing ratio management

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

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

7. BANK BORROWINGS AND PLEDGE OF ASSETS

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

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

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

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

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

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

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

(b) As at 30 June 2017, borrowings from micro-credit companies with principal amount of RMB68,000 thousand were guaranteed by Wuzhong Group (31 December 2016: Nil).

(c) As at 30 June 2017, securities company borrowings with principal amount of RMB20,200 thousand were pledged by 2,383,474 shares of Huifang Tongda (31 December 2016: Same).

(d) (i) As at 30 June 2017, interest of holders of platform loans was borrowings from individual investors through the P2P platform of Suzhou Qian Dai (31 December 2016: Same).

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

8. CAPITAL EXPENDITURE

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

9. SIGNIFICANT INVESTMENTS, ACQUISITION AND DISPOSAL

In June and November 2016, Huifang Tongda set up wholly-owned subsidiaries Dang Tian Xia and Huifang Sihai with paid-up capital of RMB150 thousand and RMB200 thousand, respectively. In June 2017, Huifang Tongda transferred its 100% equity interest in Dang Tian Xia and Huifang Sihai to Suzhou Xunlian Business Information Consulting Company Limited* (蘇州訊聯商務資訊諮詢有限公司) at a price of RMB7,000 thousand and RMB1,500 thousand, respectively. The transfer price had been fully received after the period.

10. CONTINGENCIES, CONTRACTUAL OBLIGATIONS, LIQUIDITY AND FINANCIAL RESOURCES

10.1 Contingencies

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

10.2 Commitments

(a) *Operating lease commitments*

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

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

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

(b) *Capital commitments*

	30 June 2017	31 December 2016
Huifang Jiada	**50,000**	—
Dang Tian Xia	**—**	5,000
Huifang Sihai	**—**	1,000

10.3 Liquidity and capital resources

a. *Cash Flow Analysis*

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

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

Net Cash Flow from Operating Activities

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

Net Cash Flow from Financing Activities

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

b. *Liquidity Risk*

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

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

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.

11. HUMAN RESOURCE AND EMPLOYEE BENEFITS

As at 30 June 2017, the Group had a total of 158 full-time employees, with an increase in number of 10 from 148 as at 31 December 2016. The increase was mainly due to the further expansion of online P2P Lending business which required more human resources. We will adjust the number of our employees and our remuneration policy based on the development of our business and review of our employees' performance.

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

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

12. FUTURE PLANS RELATING TO MATERIAL INVESTMENTS

Same as disclosed in this 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 PERIOD

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

PROSPECTS

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

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

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

DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Group did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2017.

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 Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

CHANGE IN DIRECTORS' INFORMATION

From 1 January 2017 to the date of this announcement, the appointment and resignation of Directors and changes in the Directors' information are as follows:

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

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

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

REVIEW OF INTERIM RESULTS

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement of the Company for the six months ended 30 June 2017 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cnhuirong.com) respectively. The 2017 interim report will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and our Company in due course.

By Order of the Board
China Huirong Financial Holdings Limited
WU Min
Chairman

Suzhou, China, 25 August 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.

* *For identification purpose only*