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 2018

HIGHLIGHTS

	Six Months Ended 30 June		
	2018	2017	Change
	RMB'000	*RMB'000*	*%*
Operating Results			
Interest income	**127,947**	134,016	–4.53%
Net interest income	**99,163**	93,626	5.91%
Profit attributable to equity holders	**25,339**	19,939	27.083%
Basic earnings per share (RMB)	**0.023**	0.019	21.053%

	As at 30 June 2018	As at 31 December 2017	Change
	RMB'000	*RMB'000*	*%*
Financial Position			
Total assets	**2,772,103**	3,034,269	–8.64%
Loans to customers	**1,824,771**	1,945,652	–6.21%
Cash at bank and on hand	**771,244**	941,645	–18.10%
Net assets	**1,854,701**	1,853,965	0.04%

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 2018 (the "**Reporting Period**") as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018
(All amounts in RMB thousands unless otherwise stated)

		Unaudited	
		Six months ended 30 June	
	Note	**2018**	2017
Continuing operations			
Interest income	*7*	**127,947**	134,016
Interest expense	*8*	**(28,784)**	(40,390)
Net interest income		**99,163**	93,626
Net investment (losses)/gains	*9*	**(21,517)**	7,129
Other operating income	*10*	**8,795**	2,169
Net other operating income		**86,441**	102,924
Administrative expenses	*11*	**(35,693)**	(33,665)
Net charge of impairment allowance	*13*	**(12,421)**	(15,223)
Other gains/(losses), net	*14*	**8,404**	(15,500)
Operating profit and profit before income tax		**46,731**	38,536
Income tax expense	*15*	**(15,041)**	(9,759)
Profit from continuing operations and profit for the period		**31,690**	28,777
Profit is attributable to:			
— Owners of the Company		**25,339**	19,939
— Non-controlling interests		**6,351**	8,838
		31,690	28,777
Other comprehensive income for the period, net of tax		**—**	—
Total comprehensive income for the period		**31,690**	28,777

	Note	Unaudited Six months ended 30 June **2018**	 2017
Total comprehensive income for the period is attributable to:			
— Owners of the Company		**25,339**	19,939
— Non-controlling interests		**6,351**	8,838
		31,690	28,777
Total comprehensive income for the period attributable to owners of the Company arises from:			
— Continuing operations		**25,339**	19,939
— Discontinued operations		**—**	—
		25,339	19,939
Earnings per share for profit from continuing operations attributable to the equity holders of the Company (expressed in RMB)			
— Basic earnings per share	*16*	**0.023**	0.019
— Diluted earnings per share	*16*	**0.023**	0.019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**2,533**	2,778
Intangible assets	*19*	**40,582**	1,217
Deferred income tax assets	*20*	**74,878**	72,562
Investments accounted for using the equity method		**1,500**	—
Total non-current assets		**119,493**	76,557
Current assets			
Other assets	*21*	**21,988**	19,454
Loans to customers	*22*	**1,824,771**	1,945,652
Amounts due from related parties	*31(c)*	**5,163**	—
Financial assets at fair value through profit or loss	*23*	**29,444**	50,961
Cash at bank and on hand	*24*	**771,244**	941,645
Total current assets		**2,652,610**	2,957,712
Total assets		**2,772,103**	3,034,269
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital	*25*	**8,632**	8,632
Share premium	*26*	**601,993**	601,993
Other reserves	*26*	**595,050**	594,066
Retained earnings		**511,999**	505,247
		1,717,674	1,709,938
Non-controlling interests		**137,027**	144,027
Total equity		**1,854,701**	1,853,965
Liabilities			
Current liabilities			
Other liabilities	*27*	**11,700**	14,014
Current income tax liabilities		**13,667**	14,689
Amounts due to related parties	*31(c)*	**633**	633
Borrowings	*28*	**891,402**	1,150,968
Total liabilities		**917,402**	1,180,304
Total equity and liabilities		**2,772,103**	3,034,269

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

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

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

On 1 July 2015, the Group acquired 40% of the equity interests in Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd. (蘇州吳中區東山農村小額貸款有限公司) ("Dongshan Micro-finance") from Jiangsu Wuzhong Jiaye Investment Co., Ltd. (江蘇吳中嘉業投資有限公司) ("Wuzhong Jiaye") for a cash consideration of RMB126,414,800. Dongshan Micro-finance then became a subsidiary of the Group. On 20 December 2017, the Group further acquired 20% of the equity interests in Dongshan Micro-finance from Zhang Dexue, Sheng Chunquan and Suzhou Hongyuan Municipal Construction Engineering Co., Ltd. for a cash consideration of RMB60,000,000. After the acquisition, the Group owns 60% of the equity interests in Dongshan Micro-finance. Dongshan Micro-finance is mainly engaged in granting small amount loans and providing financial guarantee to customers in the PRC.

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

On 25 May 2018, the Group set up a 100% owned subsidiary, Suzhou Huifang Supply Chain Management Company Limited (蘇州市匯方供應鏈管理有限公司) ("Huifang Supply Chain"), to engage in supply chain management and services in the PRC.

On 4 June 2018, the Group acquired 7.5% of the equity interests in Shenzhen Zuanying Internet Co., Ltd. (深圳鑽盈互聯網有限公司) ("Shenzhen Zuanying") for a cash consideration of RMB1,500,000 and appointed a director. Thus, the Group has significant influence over Shenzhen Zuanying and treated it as associate.

On 19 June 2018, the Group acquired 78% of the equity interests in Suzhou Huifang Anda Insurance Agency Company Limited (蘇州匯方安達保險代理有限公司) ("Huifang Anda"), formally named as Nanjing Shun'an Insurance Agency Company Limited (南京舜安保險代理有限公司), from Chen Yin and Xu Shizeng for a cash consideration of RMB3,921,528. Huifang Anda then became a subsidiary of the Group. Huifang Anda is mainly engaged in insurance agency business in Jiangsu Province, PRC.

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 24 August 2018.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants. The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim condensed consolidated financial information is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by the Group during the six months ended 30 June 2018.

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 interest and principal upon maturity; and (c) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in operational performance, show that the Group should be able to operate within the level of its current facilities. After making 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 28.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards as set out below.

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 — Financial Instruments,
- HKFRS 15 — Revenue from Contracts with Customers, and
- Amendment to HKAS 28 — Investments in associates and joint ventures.

The impact of the adoption of HKFRS 9 is disclosed in Note 3.2. Other new and amended standards effective for the financial period ending 30 June 2018 do not have material impacts on the Group.

3.2 Changes in accounting policies

The Group has adopted HKFRS 9 as issued by the HKASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of HKFRS 9 in previous periods.

As permitted by the transitional provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

Consequently, for notes disclosures, the consequential amendments to HKFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of HKFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments: Disclosures".

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Group. Further details of the specific HKFRS 9 accounting policies applied in the current period (as well as the previous HKAS 39 accounting policies applied in the comparative period) are described in more detail in Note 3.2.1 below.

(i) ***Classification and measurement of financial instruments***

The measurement category and the carrying amount of financial assets in accordance with HKAS 39 and HKFRS 9 at 1 January 2018 are compared as follows:

	HKAS 39 31 December 2017		**HKFRS 9 1 January 2018**	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets				
Cash at bank and on hand	Amortised cost (Loans and receivables)	941,645	Amortised cost	941,472
Financial assets at fair value through profit or loss ("FVTPL")	FVTPL	50,961	Fair value through profits or loss ("FVPL")	50,961
Loans to customers	Amortised cost (Loans and receivables)	1,945,652	Amortised cost	1,931,760
Other financial assets	Amortised cost (Interest receivable from bank deposits and other receivables)	13,209	Amortised cost	13,209

(ii) ***Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9***

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to Note 3.2.1 for more detailed information regarding the new classification requirements of HKFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with HKAS 39 to their new measurement categories upon transition to HKFRS 9 on 1 January 2018:

	HKAS 39 carrying amount 31 December 2017	**Reclassification**	**Remeasurement**	**HKFRS 9 carrying amount 1 January 2018**
Amortised Cost				
Cash at bank and on hand				
Opening balance under HKAS 39	941,645			
Remeasurement: Expected credit loss ("ECL") allowance			(173)	
Closing balance under HKFRS 9				941,472
Loans to customers				
Opening balance under HKAS 39	1,945,652			
Remeasurement: ECL allowance			(13,892)	
Closing balance under HKFRS 9				1,931,760
Other financial assets				
Opening balance under HKAS 39 and closing balance under HKFRS 9	13,209			13,209
Total financial assets measured at amortised cost	2,642,589		(14,065)	2,628,524

	HKAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1 January 2018
Fair value through profit or loss				
Financial assets at fair value through profit or loss (mandatory)				
Opening balance under HKAS 39 and Addition: From designated FVTPL (HKAS 39)		50,961		
Closing balance under HKFRS 9				50,961
Financial assets designated at fair value through profit or loss				
Opening balance under HKAS 39 and	50,961			
Subtraction: To mandatory FVPL (HKAS 39)		(50,961)		
Closing balance under HKFRS 9				—
Total financial assets measured at FVPL	50,961	—		50,961

The total after tax remeasurement loss of RMB10,548 thousand was recognised in opening reserves at 1 January 2018.

The following explains how applying the new classification requirements of HKFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

a. *Investment in equity securities previously designated at fair value through profit or loss*

The Group holds an investment of RMB50,961 thousands in equity securities which had previously been designated at fair value through profit or loss because of the restricted stock trade period. As part of the transition to HKFRS 9, this investment failed to meet the "solely payments of principal and interest" (SPPI) requirement and need to be measured at FVPL.

(iii) *Reconciliation of impairment allowance balance from HKAS 39 to HKFRS 9*

The following table reconciles the prior period's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 expected loss model at 1 January 2018:

Measurement category	Loss allowance under HKAS 39 31 December 2017	Reclassification	Remeasurement	Loss allowance under HKFRS 9 1 Janaury 2018
Loans and receivables (HKAS 39)/ Financial assets at amortised cost (HKFRS 9)				
Cash at bank	—	—	173	173
Loans to customers	209,241	—	13,892	223,133
Other financial assets	953	—	—	953
Total	210,194	—	14,065	224,259

3.2.1 *Financial assets and liabilities*

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(i) Classification and subsequent measurement

From 1 January 2018, the Group has applied HKFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);

- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans to customers, term deposits with banks and other financial assets.

Classification and subsequent measurement of debt instruments depend on:

- The Group's business model for managing the asset; and

- The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following two measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income ("FVOCI") are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the condensed consolidated statements of comprehensive income within 'Fair value change of loans to customers' in the period in which it arises. Income from these financial assets is included in 'Interest type income' using the effective interest rate concept for calculation.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instrument

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity instruments at FVOCI when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net investment (losses)/gains" line in the interim condensed consolidated statement of comprehensive income.

(ii) Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and with the exposure arising from term deposits with banks and other financial assets. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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 2017, with the exception of changes in estimates that are required in measuring of the ECL allowance mentioned below.

Measurement of the ECL allowance

The measurement of the ECL allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 5.1.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;

- Choosing appropriate models and assumptions for the measurement of ECL;

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and

- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 5.1.1(ii).

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements for the years ended December 31, 2017.

There have been no changes in the risk management policies since year end.

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.

(i) *Credit risk measurement — loans to customers*

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Possibility of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring ECL under HKFRS 9. Refer to Note 5.1.1(ii) for more details.

(ii) *ECL measurement*

HKFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group.

- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. Please refer to Note 5.1.1(ii) (a) for a description of how the Group determines when a significant increase in credit risk has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3". Please refer to 5.1.1(ii) (a) for a description of how the Group defines credit-impaired and default and Note 5.1.1(ii) (b)and(c) for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to Note 5.1.1 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward-looking information. Note 5.1.1(ii) (d) includes an explanation of how the Group has incorporated this in its ECL models.

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis (refer to Note 5.1.1(ii) (e)).

The following diagram summarises the impairment requirements under HKFRS 9:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition) 12-month ECLs	(Significant increase in credit risk since initial recognition) Lifetime ECLs	Credit-impaired assets) Lifetime ECLs

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

a. <u>Categories for "three-stage"</u>

The Group defines a loan as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- The loan is past due on its contractual payments for more than 90 days; and

- It is becoming probable that the borrower or guarantor will enter bankruptcy.

The Group considers a loan to have experienced a significant increase in credit risk (SICR) when it meets one or more of the following criteria:

- The loan is past due on its contractual payments for more than 30 days but no more than 90 (included) days;

- Decrease in the value of collateral; and

- Cash flow difficulties experienced by the borrower or guarantor.

The assessment of SICR incorporates forward-looking information (refer to Note 5.1.1(ii) (d) for further information) and is performed on a half-year basis by the Group. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Central Risk Management Department.

b. Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defines as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile. For the Group's amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to Note 5.1.1(ii) (d) for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation — such as how the maturity profile of the PDs and how collateral values change etc. — are monitored and reviewed on a half-year basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

c. Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECLs for each portfolio.

Based on industry best practice and the Group's analysis and assessment, the Group selected a series of economic variables (including GDP, industrial value-added (IVA) and CPI indexes, etc.) to establish statistical relationship between such economic variables and PDs. A forward-looking result on PDs was calculated based on forecasts of these economic variables.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

(iii) *Credit risk exposure*

a. Maximum exposure to credit risk — Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	2018				2017
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans to customers					
Collateral-backed loans					
— Real estate backed loans	335,269	15,213	833,903	1,184,385	1,172,861
— Equity interest backed loans	220,382	—	91,459	311,841	254,837
— Personal property backed loans	59,223	—	—	59,223	38,226
Guaranteed loans	137,945	—	69,190	207,135	205,783
Unsecured loans	264,573	—	460	265,033	483,186
Gross carrying amount	1,017,392	15,213	995,012	2,027,617	2,154,893
Loss allowance	(29,807)	(1,433)	(171,606)	(202,846)	(209,241)
Carrying amount	987,585	13,780	823,406	1,824,771	1,945,652
Term deposits with banks					
Credit grade					
AAA	634,367	—	—	634,367	513,290
AA+	—	—	—	—	170,438
Gross carrying amount	634,367	—	—	634,367	683,728
Loss allowance	(204)	—	—	(204)	—
Carrying amount	634,163	—	—	634,163	683,728
Other financial assets					
Gross carrying amount	17,742	—	—	17,742	14,162
Loss allowance	(1,039)	—	—	(1,039)	(953)
Carrying amount	16,703	—	—	16,703	13,209

Information on how the ECL is measured and how the three stages above are determined is included in Note 5.1.1(ii) "ECL measurement".

b. Maximum exposure to credit risk — Financial instruments not subject to impairment

As at 30 June 2018, the maximum credit risk exposure from financial assets not subject to impairment of the Group is from financial assets at fair value through profit or loss (2017: same) (Note 23).

(iv) *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 30.7% of the total loans to customers as at 30 June 2018 (31 December 2017: 28.2%). Interest income from the top five customers accounted for 20.3% of total interest income for the six months ended 30 June 2018 (2017: 19.9%).

(v) *Collateral and credit enhancement*

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

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

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

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

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

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

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

a. Credit-impaired loans to customers

As at 30 June 2018, the gross amount of real estate backed loans that are credit-impaired and the fair value of collateral held in order to mitigate potential credit losses are shown below:

	Real estate backed loans
30 June 2018	
Gross	833,903
Less: Impairment allowances *(Note 20(c))*	(70,148)
Net	763,755
Fair Value of collateral held	1,228,563

5.2 Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the group in determining the fair values of the financial instruments since the last annual financial report.

(a) *Fair value hierarchy*

To provide an indication about the reliability of the inputs used in determining fair value, the group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2018 and 31 December 2017 on a recurring basis:

	Level 1	**Level 2**	**Level 3**	**Total**
As at 30 June 2018				
Financial assets at fair value through profit or loss				
— Equity Investments	—	29,444	—	29,444

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

There were neither transfers between Levels 1 and 2 nor transfer between Levels 2 and 3 during the period.

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

The group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2018.

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

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

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

(b) ***Valuation techniques used to determine fair value***

The fair value of Level 2 equity instrument in public sector entity is based on the quoted market price considering the liquidity discount rate for the restricted stock trade period as at 30 June 2018 and 31 December 2017.

6 SEGMENT INFORMATION

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

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

The Group managed its business under one operating and reportable segment in accordance with the definition of a reportable segment under HKFRS 8 for the six months ended 30 June 2018 and 2017.

7 INTEREST INCOME

	Unaudited Six months ended 30 June	
	2018	2017
Interest income from loans to customers		
Collateral backed loans		
— *Real estate backed loans*	**51,525**	44,370
— *Equity interest backed loans*	**24,768**	27,760
— *Personal property and inventory backed loans*	**5,438**	4,389
Guaranteed loans	**17,291**	16,439
Unsecured loans	**21,008**	34,394
Interest income from bank deposits	**7,917**	6,664
	127,947	134,016

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, etc.

8 INTEREST EXPENSE

	Unaudited Six months ended 30 June	
	2018	2017
Interest expense on bank borrowings	**22,227**	23,268
Interest expense on micro-finance company borrowings	**2,757**	746
Other interest expenses	**3,800**	16,376
	28,784	40,390

9 NET INVESTMENT (LOSSES)/GAINS

	Unaudited Six months ended 30 June	
	2018	2017
Fair value losses — listed equity securities *(Note 23)*	**(21,517)**	(10,079)
Fair value gains — unlisted equity securities	**—**	8,951
Net gains from disposal of subsidiaries	**—**	8,150
Cash dividend of listed equity securities	**—**	107
	(21,517)	7,129

10 OTHER OPERATING INCOME

	Unaudited Six months ended 30 June **2018**	 2017
Consultancy fee income *(a)*	**8,284**	1,560
Net gains from disposal of repossessed assets	**258**	567
Other income	**252**	42
	8,795	2,169

(a) In February 2015, the Group established Suzhou Qian Dai, an internet finance platform providing service to borrowers as an intermedia agent between the borrowers and lenders, which charges the borrowers with a consultancy fee. The Group charged fixed consultancy fees at rates ranging from 1.5% to 13.6% per annum to the borrowers for the six months ended 2018 (2017: from 1.5% to 8.0%).

11 ADMINISTRATIVE EXPENSES

	Unaudited Six months ended 30 June **2018**	 2017
Employee benefit expenses *(Note 12)*	**18,795**	18,578
Professional and consultancy fees	**3,138**	1,698
Operating lease payments	**2,892**	2,428
Transportation, meal and accommodation	**2,343**	2,014
Advertising costs	**1,996**	3,663
Value-added tax and surcharges	**1,792**	714
Telephone, utilities and office expenses	**1,661**	1,106
Depreciation and amortization	**971**	492
Auditors' remuneration	**600**	300
Commission fee	**133**	876
Other costs	**1,372**	1,796
	35,693	33,665

12 EMPLOYEE BENEFIT EXPENSES

	Unaudited Six months ended 30 June **2018**	 2017
Wages and salaries	**7,318**	6,862
Discretionary bonuses	**7,053**	5,528
Other social security obligations	**2,436**	2,003
Pension	**1,004**	788
Share-based payments *(Note 26(b))*	**984**	3,397
	18,795	18,578

13 NET CHARGE OF IMPAIRMENT ALLOWANCE

	Unaudited Six months ended 30 June **2018**	 2017
Net charge of impairment allowance on loans to customers *(Note 22(b))*	**12,304**	15,010
Net charge of impairment allowance on other assets *(Note 21)*	**86**	213
Net charge of impairment allowance on term deposit with banks *(Note 24)*	**31**	—
	12,421	15,223

14 OTHER GAINS/(LOSSES), NET

	Unaudited Six months ended 30 June **2018**	 2017
Net foreign currency gains/(losses)	**8,184**	(15,650)
Government grants	**200**	150
Other	**20**	—
	8,404	(15,500)

15 INCOME TAX EXPENSE

	Unaudited Six months ended 30 June **2018**	 2017
Current income tax	**13,841**	13,503
Deferred income tax	**1,200**	(3,744)
	15,041	9,759

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	
	2018	2017
Profit before income tax	**46,731**	38,536
Tax calculated at tax rates applicable to profits in the respective area	**12,199**	9,758
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
— Entertainment	**288**	263
— Investment income from partnership attributable to non-controlling interests	**(102)**	—
— Sundry items	**127**	41
Subtotal	**12,512**	10,062
Unused tax losses for which no deferred tax asset has been recognised	**671**	159
Reversal of previously recognised deferred tax assets	**127**	—
Effect of different tax rates in countries in which the entity operates	**—**	(460)
Adjustment in respect of prior years	**1,731**	(2)
Tax charge	**15,041**	9,759

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.

For the six months ended 30 June 2018, the applicable Hong Kong profits tax rate is 8.25% on assessable profits up to $2,000,000; and 16.5% on any part of assessable profits over $2,000,000 (2017: 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.

For small and micro enterprises whose annual taxable income less than RMB1,000 thousand (including RMB1,000 thousand), the income tax provision is calculated at the applicable corporate tax rate of 20% on 50% of 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 2018 and 2017.

	Unaudited Six months ended 30 June	
	2018	2017
Profit attributable to equity holders of the Company (RMB'000)	**25,339**	19,939
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,025,237
Basic earnings per share (RMB)	**0.023**	0.019

(b) Diluted earnings per share

	Unaudited Six months ended 30 June	
	2018	2017
Profit attributable to equity holders of the Company (RMB'000)	**25,339**	19,939
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,025,237
Adjustments for:		
— Share options (in thousands)	**13,306**	19,363
	1,100,093	1,044,600
Weighted average number of ordinary shares for diluted earnings per share (RMB)	**0.023**	0.019

17 DIVIDENDS

A dividend of HK$0.0132 per ordinary share in respect of the year ended 31 December 2017 was declared at the annual general meeting ("AGM") of the Group held on 28 May 2018. It is determined that such dividend shall be paid out of the returned earnings account. Based on the total number of ordinary shares of 1,086,787 thousand outstanding on 31 December 2017, a total dividend of HK$14,346 thousand (equivalent to RMB11,991 thousand) was paid out by the company on 27 June 2018 (for the six months ended 30 June 2017: No dividends were declared or paid by any of the companies comprising the Group).

18 BUSINESS COMBINATION

On 19 June 2018, Huifang Tongda acquired 78% of the equity interests in Huifang Anda, an insurance agent for cash consideration of RMB3,921,528.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Unaudited 30 June 2018
Purchase consideration	
Cash paid	1,972
Cash payable	1,950
Total purchase consideration	3,922

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value
Cash and cash equivalents	430
Patents, trademarks and other rights *(Note 18)*	3,294
Other receivables	1,310
Other payables	(6)
Net identifiable assets acquired	5,028
Less: non-controlling interest	—
Add: goodwill	—
	5,028

19 INTANGIBLE ASSETS

	Land usage right	Software	Patents, trademarks and other rights	Total
At 31 December 2017				
Cost	—	1,595	—	1,595
Accumulated amortisation and impairment	—	(378)	—	(378)
Net book amount	—	1,217	—	1,217
Six months ended 30 June 2018				
Opening net book amount	—	1,217	—	1,217
Additions	36,151	309	—	36,460
Acquisition of subsidiary *(Note 18)*	—	—	3,294	3,294
Amortisation charge	(301)	(88)	—	(389)
Closing net book amount	35,850	1,438	3,294	40,582
At 30 June 2018				
Cost	36,151	1,904	3,294	41,349
Accumulated amortisation and impairment	(301)	(466)	—	(767)
Net book amount	35,850	1,438	3,294	40,582

20 DEFERRED INCOME TAX

The movement in deferred income tax assets and liabilities for the six months ended 30 June 2018 and the year ended 31 December 2017, 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	Impairment charge on term deposits with banks	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							
At 1 January 2018	**60,091**	**291**	**—**	**2,260**	**9,184**	**736**	**72,562**
Changes on initial application of HKFRS 9	**3,474**	**—**	**43**	**—**	**—**	**—**	**3,517**
Restated balance at 1 January 2018	**63,565**	**291**	**43**	**2,260**	**9,184**	**736**	**76,079**
(Charged)/credited to the consolidated statements of comprehensive income	**(3,147)**	**(32)**	**8**	**5,379**	**(3,512)**	**103**	**(1,201)**
At 30 June 2018	**60,418**	**259**	**51**	**7,639**	**5,672**	**839**	**74,878**
Audited							
At 1 January 2017	69,135	—	—	116	2,862	381	72,494
(Charged)/credited to the consolidated statements of comprehensive income	(9,044)	291	—	2,144	6,322	355	68
At 31 December 2017	60,091	291	—	2,260	9,184	736	72,562

As at 30 June 2018, no deferred income tax liabilities have been recognised for the PRC withholding tax which would be paid upon remittance (31 December 2017: same).

As at 30 June 2018, it is estimated that deferred income tax assets will be reversed over one year (31 December 2017: same).

21 OTHER ASSETS

	30 June 2018 Unaudited	31 December 2017 Audited
Interest receivable from bank deposits	**6,612**	6,905
Repossessed assets	**4,285**	6,245
Other receivables, net	**10,091**	6,304
Other receivables, gross	**11,130**	7,257
Less: ECL	**(1,039)**	N/A
Less: Impairment allowances	**N/A**	(953)
	21,988	19,454

22 LOANS TO CUSTOMERS

	30 June 2018 Unaudited	31 December 2017 Audited
Loans to customers, gross		
Collateral backed loans	**1,555,449**	1,465,924
— Real estate backed loans	**1,184,385**	1,172,861
— Equity interest backed loans	**311,841**	254,837
— Personal property and inventory backed loans	**59,223**	38,226
Guaranteed loans	**207,135**	205,783
Unsecured loans	**265,033**	483,186
	2,027,617	2,154,893
Less: ECL	**(202,846)**	N/A
Less: Impairment allowances	**N/A**	(209,241)
— Individually assessed	**N/A**	(177,469)
— Collectively assessed	**N/A**	(31,772)
Loans to customers, net	**1,824,771**	1,945,652

Loans to customers arise from the Group's lending services. The terms of loans granted are within one year. The real estate backed loans and equity interest backed loans granted to customers bear fixed interest rates ranging from 8.00% to 30.00 % per annum during the six months ended 30 June 2018 (2017: from 8.00% to 30.00%).

Guaranteed loans granted to customers bear fixed interest rates from 10.00% to 25.20% per annum during the six months ended 30 June 2018 (2017: from 7.00% to 18.00%).

Unsecured loans granted to customers bear fixed interest rates from 10.50% to 18.00% per annum during the six months ended 30 June 2018 (2017: from 8.00% to 18.00%).

Loans to customers are denominated in RMB, HKD or USD.

As at 30 June 2018, renewed loans amounted to RMB128,178 thousand (31 December 2017: RMB129,041 thousand), which are all real estate backed loans (31 December 2017: same). No renewed loans had substantially modified their original contractual terms for the six months ended 30 June 2018 (2017: same).

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

	30 June 2018	**31 December 2017**		
	Total	**Individually assessed**	**Collectively assessed**	**Total**
As at beginning of period/year	209,241	197,730	62,503	260,233
Changes on initial application of HKFRS 9	13,892	—	—	—
At beginning of period/year (restated)	223,133	197,730	62,503	260,233
Impairment losses recognised/(Net write back of loan provision)	12,304	37,371	(28,395)	8,976
Unwind of discount on allowances during the period	(22,954)	(44,607)	—	(44,607)
Loans written off as un-collectible	(9,637)	(15,361)	—	(15,361)
Other transfer in/(out)	—	2,336	(2,336)	—
As at end of period/year	202,846	177,469	31,772	209,241

(b) Net charge of impairment on loans to customers

	Unaudited Six months ended 30 June 2018	**2017**
Net charge of ECL	**12,304**	N/A
Net charge of impairment allowance	**N/A**	15,010
Individually assessed	**N/A**	31,107
Collectively assessed	**N/A**	(16,097)
	12,304	15,010

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018 Unaudited	31 December 2017 Audited
Equity securities designated at fair value are analysed by issuers as follows:		
Listed — Public sector entities	**29,444**	50,961

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

Listed equity securities with fair value of RMB29,444 thousand (31 December 2017: RMB50,961 thousand) have been pledged with a securities company to secure borrowings with principal amount of RMB23,000 thousand (31 December 2017: RMB27,000 thousand) from the securities company (Note 28(d)).

24 CASH AT BANK AND ON HAND

	30 June 2018 Unaudited	31 December 2017 Audited
Cash on hand	**2,069**	1,767
Demand deposits with banks	**135,012**	256,150
Term deposits with banks with original maturities over 3 months, net	**634,163**	683,728
Term deposits with banks with original maturities over 3 months, gross	**634,367**	683,728
Less: ECL	**(204)**	N/A
	771,244	941,645

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

	30 June 2018 Unaudited	31 December 2017 Audited
RMB	**116,060**	256,735
US dollar	**636,641**	633,797
Hong Kong dollar	**18,543**	51,113
	771,244	941,645

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

	30 June 2018 Unaudited	31 December 2017 Audited
Cash at bank and on hand	**771,244**	941,645
Less: Unrestricted term deposits with banks with original maturities over 3 months	**(2,629)**	(308,350)
Restricted term deposits pledged with banks with original maturities over 3 months	**(631,534)**	(375,378)
	137,081	257,917

As at 30 June 2018, restricted term deposits of US$95,478 thousand (31 December 2017: US$49,796 thousand), which is equivalent to RMB631,737 thousand (before impairment allowance) (31 December 2017: RMB325,378 thousand), were pledged with banks to secure bank borrowings with principal amount of RMB548,000 thousand (31 December 2017: RMB306,000 thousand) (Note 28).

As at 30 June 2018, no restricted term deposits denominated in RMB were pledged with banks to secure bank borrowings (31 December 2017: restricted term deposits of RMB50,000 thousand were pledged with banks to secure bank borrowings with principal amount of RMB47,500 thousand) (Note 28).

25 SHARE CAPITAL

	Number of shares	**Ordinary shares HK$**	**Ordinary shares RMB**
Issued and fully paid:			
As at 30 June 2018 and 31 December 2017	1,086,787,000	10,867,870	8,631,935

26 SHARE PREMIUM AND OTHER RESERVES

		Other reserves				
	Share premium	Capital reserve	Statutory reserve	General reserve	Share-based payments reserve	Total
At 1 January 2018	601,993	506,963	77,715	4,417	4,971	1,196,059
Share-based payments						
— Value of employee services *(b)*	—	—	—	—	984	984
At 30 June 2018	601,993	506,963	77,715	4,417	5,955	1,197,043
At 1 January 2017	548,237	500,000	77,715	4,417	2,607	1,132,976
Private placement of new shares	45,879	—	—	—	—	45,879
Issue of shares under employee share scheme	7,877	—	—	—	(1,908)	5,969
Share-based payments						
— Value of employee services *(b)*	—	—	—	—	4,272	4,272
Transactions with Non-controlling interests	—	6,963	—	—	—	6,963
At 31 December 2017	601,993	506,963	77,715	4,417	4,971	1,196,059

(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

There have been no changes regarding share-based payments. The following table should be read in conjunction with the annual report for the year ended 31 December 2017.

	Six months ended 30 June 2018	
	Average exercise price in HK$ per share option	**Number of share options (thousands)**
At 1 January	**0.62**	**28,007**
Granted	**—**	**—**
Exercised	**—**	**—**
Forfeited	**0.62**	**(769)**
At 30 June	**0.62**	**27,238**

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

27 OTHER LIABILITIES

	30 June 2018 Unaudited	31 December 2017 Audited
Accrued employee benefits	**5,192**	10,011
Turnover tax and other tax payable	**3,116**	1,553
Investment payable	**1,950**	—
Other financial liabilities	**1,442**	2,450
	11,700	14,014

As 30 June 2018, the Group's other financial liabilities were non-interest bearing (31 December 2017: same).

28 BORROWINGS

	30 June 2018 Unaudited	31 December 2017 Audited
Bank borrowings *(a)*	**769,242**	844,812
Interests of holders of consolidated structured entities — Suzhou Qian Dai *(b)*	**1,042**	191,421
Borrowings from micro-finance company *(c)*	**65,000**	68,174
Borrowings from securities company *(d)*	**23,000**	27,051
Private placement note *(e)*	**33,118**	19,510
	891,402	1,150,968

(a) Bank borrowings are denominated in RMB, which mature within one year and bear fixed interest rates ranging from 4.35% to 6.09% per annum during the six months ended 30 June 2018 (2017: 4.35% to 5.66%).

As at 30 June 2018, bank borrowings with principal amount of RMB548,000 thousand (31 December 2017: RMB306,000 thousand) were secured by restricted term deposits of US$95,478 thousand (31 December 2017: US$49,796 thousand) (Note 24).

As at 30 June 2018, no bank borrowings were secured by restricted term deposits denominated in RMB (31 December 2017: bank borrowings with principal amount of RMB47,500 thousand were secured by restricted term deposits of RMB50,000 thousand) (Note 24).

As at 30 June 2018, bank borrowings with principal amount of RMB220,000 thousand are guaranteed by Wuzhong Jiaye and the Ultimate Shareholders (31 December 2017: RMB370,000 thousand). As at 30 June 2018, no bank borrowings are guaranteed by Suzhou Huifang Technology Company Limited ("Huifang Technology") (31 December 2017: bank borrowings with principal amount of RMB120,000 thousand are guaranteed by Huifang Technology).

As at 30 June 2018, the Group had no undrawn borrowing facilities (31 December 2017: Nil).

(b) As at 30 June 2018, interests of holders of structured entities are borrowings from individuals investors through the Suzhou Qian Dai platform (31 December 2017: same). The loans funded by the above borrowings through Suzhou Qian Dai and guaranteed by Dongshan Micro-finance are consolidated by the Group. Principal of such loans amounted to RMB1,000 thousand (31 December 2017: RMB181,781 thousand).

(c) As at 30 June 2018, borrowings from micro-finance company with principal amount of RMB65,000 thousand are guaranteed by Jiangsu Wuzhong Group Co. Ltd ("Wuzhong Group") (31 December 2017: RMB68,000 thousand).

(d) As at 30 June 2018, borrowings from securities company with principal amount of RMB23,000 thousand are pledged by listed equity investment held by the Group (31 December 2017: RMB27,000 thousand) (Note 23).

(e) As at 30 June 2018, private placement note with principal amount of RMB32,050 thousand are guaranteed by Wuzhong Group (31 December 2017: note with principal amount of RMB19,510 thousand) (Note 31(b)).

29 CONTINGENCIES

As at 30 June 2018, the Group do not have any material contingent liabilities (2017: Nil).

30 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 2018 Unaudited	31 December 2017 Audited
No later than 1 year	**4,780**	5,722
Later than 1 year and no later than 5 years	**3,545**	5,335
Later than 5 years	**—**	—
	8,325	11,057

(b) Capital commitments

	30 June 2018 Unaudited	31 December 2017 Audited
Huifang Jiada *(a)*	**9,900**	9,950
Huifang Rongtong *(b)*	**40,000**	40,000
Huifang Rongda *(c)*	**38,000**	38,000
Huifang Anda *(d)*	**1,950**	—
	89,850	87,950

(a) The registered capital of Huifang Jiada is RMB50,000 thousand, of which RMB9,900 thousand has not been paid up by the Group as at 30 June 2018 (31 December 2017: RMB9,950).

(b) The registered capital of Huifang Rongtong is RMB100,000 thousand, of which RMB40,000 thousand has not been contributed by the Group as at 30 June 2018 (31 December 2017: same).

(c) The registered capital of Huifang Rongda is RMB50,000 thousand, of which RMB38,000 thousand has not been paid up by the Group as at 30 June 2018 (31 December 2017: same).

(d) The purchase consideration of Huifang Anda is RMB3,922 thousand, of which RMB1,950 thousand has not been paid by the Group as at 30 June 2018 (31 December 2017: Nil).

31 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
Shenzhen Zuanying Internet Co., Ltd. (深圳鑽盈互聯網有限公司) ("Shenzhen Zuanying")	Associate

(b) Significant transactions with related parties

The Group had the following significant transactions with related parties:

	Unaudited Six months ended 30 June	
	2018	2017
Other operating income from Shenzhen Zuanying	**4,931**	—
Bank borrowings guaranteed by Wuzhong Jiaye and Ultimate Shareholders (in principal amount at period end) *(Note 28)*	**220,000**	370,000
Borrowings guaranteed by Wuzhong Group (in principal amount at period end) *(Note 28)*	**97,050**	118,000
Interest expenses paid to Directors and key management on P2P platform	**32**	214

(c) Balances with related parties

	30 June 2018 Unaudited	31 December 2017 Audited
Amounts due from related parties		
Due from Shenzhen Zuanying	**5,163**	—

	30 June 2018 Unaudited	31 December 2017 Audited
Amounts due to related parties		
Due to BVI entities owned by the Ultimate Shareholders	**633**	633

Balances with related parties were interest-free.

	30 June 2018 Unaudited	31 December 2017 Audited
Borrowings provided by Directors and key management on P2P platform	**232**	512

(d) Key management compensation

Key management comprises five 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	
	2018	2017
Basic salaries	**2,266**	2,180
Discretionary bonuses	**1,599**	1,325
Pension and other social security obligations	**226**	243
Share-based payments	**372**	1,181
	4,463	4,929

(e) Key management personnel services provided by management entity

For the six months ended 30 June 2018, the Group paid RMB35 thousand to Tricor for the company secretary services (2017: RMB36 thousand).

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review and Development

The Company and its subsidiaries (the "**Group**") is 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 we granted during the indicated periods:

	Loans Six months ended 30 June	
	2018	2017
Total new loan amount granted (RMB' million)	**776**	807
Total number of new loans granted	**221**	141
Total loan amount renewed (RMB' million)	**127**	158
Total number of loans renewed	**82**	42

For the six months ended 30 June 2018, the total amount of new loans secured by real estate collateral, equity interest collateral, personal property collateral and inventory collateral we granted reduced slightly as compared with the same period last year, while the total number of new loans increased substantially as compared with the same period last year. The total amount of renewed loans we granted reduced slightly as compared with the same period last year, while the total number of renewed loans increased substantially as compared with the same period last year. The Company's businesses have developed to be smaller and more diverse.

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	
	2018	2017
Total new loan amount granted (RMB' million)	**61**	30
Total number of new loans granted	**2**	1

For the six months ended 30 June 2018, the entrusted loans we granted increased as compared with the same period last year, and total number of new loans granted also increased.

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 the 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	
	2018	2017
Total lending business amount (RMB' million)	**396**	1,272
Total number of lending business	**1,221**	1,111

For the six months ended 30 June 2018, the total amount of lending business of Suzhou Qian Dai decreased significantly as compared with the same period last year while total number maintained a slight increase, which was mainly due to the government regulations which impose a strict limit over single loan amount not to exceed RMB1 million for enterprises and RMB0.2 million for individuals, however, the number of borrowers remained a steady growth.

1.4 Business of Dongshan Micro-finance

For the six months ended 30 June 2018, 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	
	2018	2017
Total new loan amount granted (RMB' million)	**434**	271
Total number of new loans granted	**402**	95

For the six months ended 30 June 2018, the total amount of new loans granted by Dongshan Micro-finance recorded a relatively large increase as compared to the same period last year and the total number of new loans granted recorded a significant year-on-year increase, mainly due to the substantial increase of loans granted by Dongshan Micro-finance for mortgage redemption in the transaction of second hand properties.

1.5 Turnover Loan Business

For the six months ended 30 June 2018, the table below sets out the details of total new loans granted to small- and medium-sized enterprises and individuals under our turnover loan business during the indicated periods:

	Turnover loan business Six months ended 30 June	
	2018	2017
Total new loan amount granted (RMB' million)	**751**	—
Total number of new loans granted	**112**	—

For the six months ended 30 June 2018, as an emerging business, our turnover loan business recorded rapid growth. The total amount of new loans granted reached RMB751 million and the total number of new loans granted reached 112, such growth was mainly due to the establishment of the turnover loan funds jointly set up by the Company and local governments, which had effectively satisfied the funding needs of small- and medium-sized enterprises.

2. FINANCIAL REVIEW

For the six months ended 30 June 2018, the profit attributable to equity holders was RMB25,339 thousand (for the same period last year: RMB19,939 thousand), representing a year-on-year increase of 27.1%.

The increase in profit was mainly due to: (i) other gains increasing by 154.2% over the same period of the previous year, mainly attributable to the significant increase in consultancy service fee paid by customers to the online P2P Lending platform over the previous year; (ii) decrease in interest expenses of 28.7% from the same period last year; and (iii) a foreign exchange gain of RMB8,184 thousand resulted from higher exchange rate of the US dollar, compared with a foreign exchange loss of RMB15,650 thousand in the same period last year.

The key financial review for the six months ended 30 June 2018 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 2018, our interest income decreased for 4.53% from the same period last year to RMB127,947 thousand.

For the six months ended 30 June 2018, interest income from the top five customers accounted for 22.2% of total interest income (for the same period last year: 23.1%).

(ii) Consultancy fee income: For the six months ended 30 June 2018, consultancy fee income earned by the Group through the online P2P lending platform was RMB8,284 thousand (for the same period last year: RMB1,560 thousand).

Interest costs: For the six months ended 30 June 2018, interest costs were RMB28,784 thousand (for the same period last year: RMB40,390 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 (on annualized basis) was 7.2% for the six months ended 30 June 2018 (for the same period last year: 6.6%), representing an increase of 9% as compared to the same period last year.

2.2 Administrative expenses

The administrative expenses for the six months ended 30 June 2018 amounted to RMB35,693 thousand, representing a slight increase from RMB33,665 thousand for the same period last year.

The ratio of administrative expenses to net revenue was 41.3% for the six months ended 30 June 2018, as compared with 32.7% for the same period last year.

For the six months ended 30 June 2018, administrative expenses had increased by RMB2,028 thousand as compared with that of the same period last year, which was mainly due to an increase in service fees and consultancy fees, value-added tax and surcharges and depreciation and amortisation expenses from the same period last year, the increase was partially offset by the decrease of some expenses such as advertising expenses and handling fees.

2.3 Net charge of impairment allowance

For the six months ended 30 June 2018, net charge of impairment allowance was RMB12,421 thousand (for the same period last year: RMB15,223 thousand), which had decreased by 18.4% as compared with the same period last year.

Net charge of impairment allowance for the six months ended 30 June 2018 had slightly decreased, which was due to the collection of overdue loans and interests of RMB131 million by the management, and the slight decrease of the average default ratio of borrowers and the average impairment allowance ratio of loans as compared with the beginning of the period.

2.4 Income Tax Expenses

For the six months ended 30 June 2018, the income tax expenses amounted to RMB15,041 thousand (for the same period last year: RMB9,759 thousand), representing an increase of 54.1% as compared with the same period last year.

2.5 Profit attributable to equity holders

For the six months ended 30 June 2018, the profit attributable to equity holders was RMB25,339 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 2018	31 December 2017	Change %
Gross loans to customers, inclusive of principal and interest (RMB'000)			
Loans secured by real estate collateral	**1,184,385**	1,172,861	1%
Loans secured by equity interest collateral	**311,841**	254,837	22%
Loans secured by personal property and inventory collateral	**59,223**	38,226	55%
Guaranteed loans	**207,135**	205,783	1%
Unsecured loans	**265,033**	483,186	–45%
Total	**2,027,617**	2,154,893	–6%
Number of loans outstanding			
Loans secured by real estate collateral	**347**	264	
Loans secured by equity interest collateral	**23**	28	
Loans secured by personal property and inventory collateral	**1,009**	979	
Guaranteed loans	**96**	107	
Unsecured loans	**87**	297	
Total	**1,562**	1,675	
Average loan amount (RMB'000)			
Loans secured by real estate collateral	**3,413**	4,443	
Loans secured by equity interest collateral	**13,558**	9,101	
Loans secured by personal property and inventory collateral	**59**	39	
Guaranteed loans	**2,158**	1,923	
Unsecured loans	**3,046**	1,627	

3.2 Loan classification and impairment allowances

The following table sets out analysis on the credit risk exposures of loans to customers that are included in the ECL assessment:

	2018				2017
	Stages of ECL				
	Stage 1	**Stage 2**	**Stage 3**		
	ECL for 12 months	**ECL for the lifetime**	**ECL for the lifetime**	**Total**	Total
Loans to customers					
Secured loans					
—Real estate backed loans	**335,269**	**15,213**	**833,903**	**1,184,385**	1,172,861
—Equity interest backed loans	**220,382**	**—**	**91,459**	**311,841**	254,837
—Personal property backed loans	**59,223**	**—**	**—**	**59,223**	38,226
Guaranteed loans	**137,945**	**—**	**69,190**	**207,135**	205,783
Unsecured loans	**264,573**	**—**	**460**	**265,033**	483,186
Total carrying amount	**1,017,392**	**15,213**	**995,012**	**2,027,617**	2,154,893
Impairment allowances	**(29,807)**	**(1,433)**	**(171,606)**	**(202,846)**	(209,241)
Carrying amount	**987,585**	**13,780**	**823,406**	**1,824,771**	1,945,652

(i) The Group adopted the HKFRS 9 — Financial Instruments issued by the HKASB in July 2014 with effect from 1 January 2018 to replace the HKAS 39 adopted by the Group previously. Such change constitutes a change in accounting policies, and adjustments of relevant amounts were recognized in the financial statements;

(ii) 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 2018, the impairment allowance for loans secured by real estate collateral, loans secured by equity interest collateral, guaranteed loans and unsecured loans amounted to RMB202,846 thousand, representing approximately 10% of the total outstanding loans granted to customers (before provision); impairment allowance of RMB6,395 thousand in total was reversed by the Company as compared with the same period last year.

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

	30 June 2018	31 December 2017
Loans secured by real estate collateral	**(77,436)**	(78,844)
Loans secured by equity interest collateral	**(66,463)**	(91,325)
Loans secured by personal property and inventory collateral	**(1,010)**	—
Guaranteed loans	**(46,783)**	(33,631)
Unsecured loans	**(11,154)**	(5,441)
	(202,846)	(209,241)

3.3 Loans under legal proceedings

As at 30 June 2018, the balance of loans under legal proceedings accounted for 30.4% of the balance of loans to customers, representing a slight decrease from 33.3% as at 31 December 2017. For the six months ended 30 June 2018, the aggregate principal and interest of new loans under legal proceedings and loans under legal proceedings concluded was RMB23,000 thousand and RMB127,706 thousand, respectively.

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 80% 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 2018	31 December 2017
Aggregate loan amount (RMB' million)		
Real estate collateral	**1,184,385**	1,172,861
Equity interest collateral	**311,841**	254,837
Appraised value of collateral at time of loan approval (RMB' million)		
Real estate collateral	**2,208**	2,141
Equity interest collateral	**1,369**	1,189
Range of appraised loan-to-value ratios		
Real estate collateral	**7.5%–80%**	7%–70%
Equity interest collateral	**4%–50%**	4%–48%
Weighted average appraised loan-to-value ratio		
Real estate collateral	**59%**	55%
Equity interest collateral	**32%**	34%

5. TOTAL EQUITY AND CAPITAL MANAGEMENT

5.1 Total Equity

The total equity as at 30 June 2018 was RMB1,854,701 thousand, representing an increase of RMB736 thousand or 0.04% as compared with that as at 31 December 2017. The increase was mainly due to the increase of profit during the six months ended 30 June 2018. The profit attributable to equity holders for the six months ended 30 June 2018 amounted to RMB25,339 thousand.

5.2 Gearing ratio management

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

Our gearing ratio as at 30 June 2018 was 28.9%, as compared with 32.5% as at 31 December 2017.

6. BANK BORROWINGS AND PLEDGE OF ASSETS

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

	30 June 2018	31 December 2017
Bank borrowings *(a)*	**769,242**	844,812
Interests of holders of consolidated SEs — Suzhou Qian Dai *(b)*	**1,042**	191,421
Borrowings from micro-credit company *(c)*	**65,000**	68,174
Borrowings from securities company *(d)*	**23,000**	27,051
Targeted financing plan *(e)*	**33,118**	19,510
	891,402	1,150,968

(a) Bank borrowings are with maturity within one year and bear fixed interest rates ranging from 4.35% to 6.09% per annum in the six months ended 30 June 2018 (2017: 4.35% to 5.66%).

As at 30 June 2018, bank borrowings with principal amount of RMB548,000 thousand (31 December 2017: RMB306,000 thousand) were secured by restricted term deposits of US$95,478 thousand (31 December 2017: US$49,796 thousand) of the Group.

As at 30 June 2018, no bank borrowing (31 December 2017: RMB47,500 thousand) was secured by restricted term deposits dominated in RMB (31 December 2017: RMB50,000 thousand) of the Group.

As at 30 June 2018, bank borrowings with principal amount of RMB220,000 thousand were guaranteed by Wuzhong Jiaye and the Ultimate Controller (31 December 2017: RMB370,000 thousand). As at 30 June 2018, no bank borrowing was guaranteed by Suzhou Huifang Technology Company Limited* (蘇州匯方科技有限公司) ("**Huifang Technology**") (31 December 2017: RMB120,000 thousand was guaranteed by Huifang Technology).

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 2018, the Group had no undrawn borrowing facilities (31 December 2017: nil).

(b) As at 30 June 2018, interests of holders of platform loans are borrowings from individuals investors through the P2P platform of Suzhou Qian Dai (31 December 2017: same).

As at 30 June 2018, 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 RMB1,000 thousand (31 December 2017: RMB181,781 thousand).

(c) As at 30 June 2018, borrowings from micro-finance company with principal amount of RMB65,000 thousand are guaranteed by Jiangsu Wuzhong Group Co., Ltd. ("Wuzhong Group") (31 December 2017: RMB68,000 thousand).

(d) As at 30 June 2018, borrowings from a securities company with principal amount of RMB23,000 thousand are pledged by listed equity investment held by the Group (31 December 2017: RMB27,000 thousand).

(e) As at 30 June 2018, private placement note with principal amount of RMB32,050 thousand are guaranteed by Wuzhong Group (31 December 2017:RMB19,510 thousand).

7. CAPITAL EXPENDITURE

Our capital expenditure consists primarily of purchases of property, plant and equipment and intangible assets. Our capital expenditure was RMB36,736 thousand for the six months ended 30 June 2018, as compared with RMB1,029 thousand for the same period last year.

8. SIGNIFICANT INVESTMENTS, ACQUISITION AND DISPOSAL

On 19 June 2018, the Group entered into an equity transfer agreement to acquire 78% equity interest in Nanjing Shunan Insurance Agency Company Limited* (南京舜安保險代理有限公司) (whose name has been subsequently changed to Suzhou Huifang Anda Insurance Agency Company Limited* (蘇州匯方安達保險代理有限公司) ("Huifang Anda")) from CHEN Ying (陳穎) and XU Shizeng (許石曾) for a cash consideration of RMB3,921,528.

On 4 June 2018, the Group entered into a capital increase agreement with, among others, Shenzhen Zuanying Internet Company Limited* (深圳市鑽盈互聯網有限公司) ("Zuanying"), pursuant to which the Group agreed to contribute RMB1,500,000 in cash to Zuanying's share capital, resulting in the Group's obtaining of 7.5% of the equity interest in Zuanying.

As none of the applicable percentage ratio(s) (as calculated in accordance with Rule 14.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) for the aforesaid transactions exceeds 5%, none of the aforesaid transactions constitutes a notifiable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

9. CONTINGENCIES, CONTRACTUAL OBLIGATIONS, LIQUIDITY AND FINANCIAL RESOURCES

9.1 Contingencies

As at 30 June 2018, the Group did not have any significant contingent liabilities except the following commitments (2017: Same).

9.2 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 2018	31 December 2017
No later than 1 year	**4,780**	5,722
Later than 1 year and no later than 5 years	**3,545**	5,335
Later than 5 years	**—**	—
Total	**8,325**	11,057

(b) *Capital commitments*

	30 June 2018	31 December 2017
Huifang Jiada	**9,900**	9,950
Huifang Rongtong	**40,000**	40,000
Huifang Rongda	**38,000**	38,000
Huifang Anda	**1,950**	—
Total	**89,850**	87,950

9.3 Liquidity and capital resources

a. *Cash Flow Analysis*

As at 30 June 2018, the Group's cash and cash equivalents amounted to RMB137,081 thousand, representing a decrease of RMB20,623 thousand as compared with that of the same period last year. The following table sets forth a summary of our cash flows for the indicated periods:

	Six months ended 30 June	
	2018	2017
Net cash inflow/(outflow) from operating activities	**191,253**	(9,069)
Net cash (outflow)/inflow from investing activities	**(39,838)**	7,121
Net cash outflow from financing activities	**(272,327)**	(31,198)
Net decrease in cash and cash equivalents	**(120,912)**	(33,146)
Exchange gains/loss on cash and cash equivalents	**76**	(366)

Net Cash Flow from Operating Activities

During the Reporting Period, net cash inflow from operating activities amounted to RMB191,253 thousand, mainly due to the recovery of overdue loan of RMB130,516 thousand by the management in the first half year.

Net Cash Flow from Financing Activities

During the Reporting Period, net cash outflow from financing activities amounted to RMB272,327 thousand, mainly due to (i) dividends paid to non-controlling interests of RMB10,800 thousand and dividends paid to the Company's equity holders of RMB10,786 thousand; (ii) repayment of borrowings of RMB69,960 thousand; (iii) the remaining balance of loans credited in relation to the online P2P platform was RMB1,042 thousand, representing a decrease of RMB190,379 thousand as compared to that of the end of 2017.

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 2018					
Cash at bank and on hand	**139,718**	**151,338**	**497,991**	**—**	**789,047**
Loans to customers	**128,806**	**742,179**	**133,480**	**864,138**	**1,868,603**
Total financial assets	**268,524**	**893,517**	**631,471**	**864,138**	**2,657,650**
Borrowings	**52,089**	**209,247**	**657,681**	**—**	**919,017**
Amounts due to related parties	**633**	**—**	**—**	**—**	**633**
Other financial liabilities	**1,442**	**—**	**—**	**—**	**1,442**
Total financial liabilities	**54,164**	**209,247**	**657,681**	**—**	**921,092**
As at 31 December 2017					
Cash at bank and on hand	617,857	219,231	116,281	—	953,369
Loans to customers	104,183	645,581	317,342	929,827	1,996,933
Total financial assets	722,040	864,812	433,623	929,827	2,950,302
Borrowings	164,723	844,406	154,912	—	1,164,041
Amounts due to related parties	633	—	—	—	633
Other financial liabilities	2,449	—	—	—	2,449
Total financial liabilities	167,805	844,406	154,912	—	1,167,123

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.

10. HUMAN RESOURCE AND EMPLOYEE BENEFITS

As at 30 June 2018, the Group had a total of 162 full-time employees, with an increase in number of 1 from 161 as at 31 December 2017. 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 2018, employee remuneration and benefits increased slightly by RMB217 thousand to RMB18,795 thousand from the same period 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.

11. FUTURE PLANS RELATING TO MATERIAL INVESTMENTS

Save 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.

12. EVENTS AFTER REPORTING PERIOD

Save as disclosed in this announcement, no significant event has happened after 30 June 2018.

PROSPECTS

The Company's operation was impacted by the macro-economic situations and national policies in the first half of the year. However, the management has adopted a prudent operation and standardized management approach to cope with both internal and external pressures and achieved steady improvement on the Company's profitability. We believe that the market condition is likely to encounter a downturn for a relatively long period, thus the Company will still face relatively heavy operation pressure.

Looking forward, we will accelerate the liquidation of stock assets to improve cash reserve and further reduce financing costs. We will promote the nationwide coverage of the traditional credit business, represented by its real estate mortgage, develop loan relending funds business and steadily enhance credit assets quality and profitability. In line with the new change of market conditions and national policies, the Group will pursue healthy development in P2P Lending business and continue to explore quality targets in compliance with regulatory requirements. The civilian goods business will be focused on the diversity and flexibility of products by continuously operating on a small and diverse basis. We will deeply explore the development potential of the factoring business, strive for a healthy and secure business environment and actively seek development in the area of supply chain finance. In addition, in respect of the newly acquired insurance agency business, we will complete the process of building its team as soon as practicable to provide customized services to premium customers.

We will continuously uphold the principles of offering diversified products to small and medium enterprises and individuals and actively tap into the national market on the basis of consolidating regional markets. We target to provide quality services for customers and create value for investors by equipping traditional businesses with financial technologies and extending the value chain of financial services.

DIVIDEND

The Board did not recommend an interim dividend for the six months ended 30 June 2018.

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2018.

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 principles and code provisions set out in the CG Code during the six months ended 30 June 2018, 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. Specific enquiry has been made of all Directors of the Company, 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 2018.

CHANGE IN DIRECTORS' INFORMATION

From 1 January 2018 to the date of this announcement, the appointment and resignation of Directors and changes in the Directors' information are as follows:

Mr. CHEN Yannan has resigned as an executive director of the Company with effect from 28 May 2018.

Mr. LING Xiaoming has been appointed as a non-executive director of the Company with effect from 28 May 2018.

Mr. FENG Ke, an independent non-executive Director of the Company, has ceased to be an independent director of China Greatwall Technology Group Co., Ltd. (the shares of which are listed on the Shenzhen Stock Exchange, stock code: 000066) since 3 April 2018.

Mr. ZHANG Huaqiao, an independent non-executive Director of the Company, has ceased to be an independent non-executive director of Wanda Hotel Development Company Limited (the shares of which are listed on the Stock Exchange, stock code: 169) and Sinopec Oilfield Service Corporation (the shares of which are listed on the Stock Exchange, stock code: 1033) since 30 May 2018 and 20 June 2018, respectively.

REVIEW OF INTERIM RESULTS

The audit committee 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 2018. In addition, the independent auditor of the Company has reviewed the unaudited interim results for the six months ended 30 June 2018 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 2018 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cnhuirong.com) respectively. The 2018 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, 24 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Wu Min and Mr. Zhang Changsong, the non-executive directors of the Company are Mr. Zhuo You, Mr. Zhang Cheng, Mr. Ling Xiaoming 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.