CHINA HUIRONG FINANCIAL HOLDINGS LIMITED
中國匯融金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1290)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Highlights for the Year Ended 31 December 2018:

	For the year ended or as at 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	*%*
Operating Results			
Interest income	**305,194**	272,353	12
Total equity	**1,897,028**	1,853,965	2
Profit attributable to equity holders	**60,996**	50,904	20
Basic earnings per share (RMB)	**0.056**	0.050	12

The Board of directors (the "**Board**") of China Huirong Financial Holdings Limited (the "**Company**") hereby announces the audited annual results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2018 (the "**Reporting Year**") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	**Year ended 31 December 2018**	2017
Interest income	*5*	**305,194**	272,353
Interest expense	*6*	**(54,637)**	(74,237)
Net interest income		**250,557**	198,116
Net investment (losses)/gains	*7*	**(18,681)**	2,499
Expected credit losses/Impairment losses	*10*	**(107,292)**	(10,142)
Net losses on derecognition of financial assets measured at amortized cost		**(58)**	N/A
Other operating income	*8*	**22,225**	6,413
Net other operating income		**(103,806)**	(1,230)
General and administrative expenses	*9*	**(73,721)**	(66,922)
Other gains/(losses), net	*11*	**37,765**	(36,382)
Operating profit and profit before income tax		**110,795**	93,582
Income tax expense	*12*	**(37,994)**	(28,396)
Profit for the year		**72,801**	65,186
Profit is attributable to:			
— Owners of the Company		**60,996**	50,904
— Non-controlling interests		**11,805**	14,282
Earnings per share for profit attributable to the owners of the Company (expressed in RMB Yuan)			
— Basic earnings per share	*13*	**0.056**	0.050
— Diluted earnings per share	*13*	**0.056**	0.049
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**72,801**	65,186

		Year ended 31 December	
	Note	**2018**	2017
Total comprehensive income for the year is attributable to:			
— Owners of the Company		**60,996**	50,904
— Non-controlling interests		**11,805**	14,282
		72,801	65,186

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment		**2,334**	2,778
Intangible assets		**40,735**	1,217
Deferred income tax assets		**70,644**	72,562
Investments accounted for using the equity method		**1,500**	—
Financial asset at fair value through profit or loss	*16*	**440**	—
Total non-current assets		**115,653**	76,557
Current assets			
Other current assets		**116,999**	19,454
Loans to customers	*15*	**1,738,283**	1,945,652
Financial assets at fair value through profit or loss	*16*	**31,327**	50,961
Cash at bank and cash on hand	*17*	**797,964**	941,645
Total current assets		**2,684,573**	2,957,712
Total assets		**2,800,226**	3,034,269
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE COMPANY			
Share capital		**8,632**	8,632
Share premium	*18*	**601,993**	601,993
Other reserves	*18*	**596,266**	594,066
Retained earnings		**547,656**	505,247
		1,754,547	1,709,938
Non-controlling interests		**142,481**	144,027
Total equity		**1,897,028**	1,853,965

	Note	As at 31 December 2018	2017
LIABILITIES			
Current liabilities			
Other current liabilities	*19*	**21,778**	14,014
Current income tax liabilities		**29,455**	14,689
Amounts due to related parties		**633**	633
Dividends payable		**1,256**	—
Borrowings	*20*	**850,076**	1,150,968
Total current liabilities and total liabilities		**903,198**	1,180,304
Total equity and liabilities		**2,800,226**	3,034,269

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

(All amounts in RMB thousands unless otherwise stated)

1 GENERAL INFORMATION

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

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

In preparation for the initial listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has undertaken a reorganization (the "Reorganization") 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 Reorganization 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 Reorganization 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 value 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 of Huifang Rongtong. 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 RMB1.5 million and appointed a director. Investment in Shenzhen Zuanying is accounted for using the equity method of accounting.

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.

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

The Group meets its day-to-day working capital requirements through its bank and other financial institution facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank and other financial institution finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 20.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on 26 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) *Compliance with HKFRS and HKCO*

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

(ii) *Historical cost convention*

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

- financial assets and liabilities at fair value through profit or loss ("FVPL") — measured at fair value.

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

The Group has applied the following standards and amendments for the first time for their annual reporting year commencing 1 January 2018:

- *HKFRS 9 Financial Instruments ("HKFRS 9")*
- *HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")*
- *Annual Improvements 2014–2016 cycle*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Group also elected to adopt the following amendments early.

- *Annual Improvements to HKFRS Standards 2015–2017 Cycle.*

The Group has changed its accounting policies and applied the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 were not restated. Most of the other amendments listed above did not have any significant impact on the amounts recognized in prior years and are not expected to significantly affect the current or future years.

(iv) *New standards and interpretations relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2018 by the Group*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting years and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB10.0 million. Of these commitments, none of them relate to short-term leases or low value leases which will both be recognized on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognize right-of-use assets of approximately RMB19.1 million on 1 January 2019, lease liabilities of approximately RMB18.5 million (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018) and deferred income tax liabilities of approximately RMB94 thousand. Overall net assets will be approximately RMB0.5 million higher, and net current assets will be approximately RMB0.1 million higher due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately RMB0.1 million for 2019 as a result of adopting the new rules. Adjusted EBITDA is expected to increase by approximately RMB6.6 million, as the operating lease payments were included in EBITDA, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately RMB 6.6 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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

2.2 Changes in accounting policies

Standards and amendments adopted by the Group at 1 January 2018

HKFRS 15	Revenue from contracts with customers
HKFRS 9	Financial instruments

(a) *HKFRS 15*

The HKICPA has issued a new standard for the recognition of revenue. This standard replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The Group has adopted HKFRS 15 on 1 January 2018 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognized in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group principally engaged in lending services through granting loans to customers. The Group also engaged in consultancy and insurance intermediary services. Consultancy and insurance fee income are recognized when services transfers to a customer. The adoption of HKFRS 15 on 1 January 2018 does not result in a significant impact on the Group's financial positions and performance.

(b) *HKFRS 9*

The Group has adopted HKFRS 9 with a transition date on 1 January 2018. HKFRS 9 addresses the classification and measurement of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments- Disclosures".

The Group applies the new rules retrospectively from 1 January 2018 without restating any comparative information as at 31 December 2017. Any adjustments to the carrying amounts of financial assets at the date of transition were recognized in the opening retained earnings of the current year. Consequently, the amendments to HKFRS 7 disclosures have only applied to the current year. The comparative year's notes disclosures repeat those disclosures made in the prior year.

Certain of the Group's accounting policies have been changed to comply with the adoption of HKFRS 9 such as recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The adoption of HKFRS 9 on 1 January 2018 does not result in any other significant impact on the Group's financial positions and performance except the following table which shows the adjustments for each individual line item.

(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 cash on hand	Amortized cost (loans and receivables)	941,645	Amortized cost	941,472
Investment securities	FVPL (designated)	50,961	FVPL (mandatory)	50,961
Loans to customers	Amortized cost (loans and receivables)	1,945,652	Amortized cost	1,931,760
Interest receivable from bank deposits and other receivables	Amortized cost (loans and receivables)	13,209	Amortized cost	13,209

There were no changes to the classification and measurement of financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

(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 2.3 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:

	Note	**HKAS 39 carrying amount 31 December2017**	**Reclassification**	**Remeasurement**	**HKFRS 9 carrying amount 1 January 2018**
Amortized Cost					
Cash at bank and cash on hand					
Opening balance under HKAS 39		941,645	—	—	—
Remeasurement: ECL allowances		—	—	(173)	—
Closing balance under HKFRS 9		—	—	—	941,472
Loans to customers					
Opening balance under HKAS 39		1,945,652	—	—	—
Remeasurement: ECL allowances		—	—	(13,892)	—
Closing balance under HKFRS 9		—	—	—	1,931,760
Interest receivable from bank deposits and other receivables					
Opening balance under HKAS 39 and closing balance under HKFRS 9		13,209	—	—	13,209
Total financial assets measured at amortized cost		2,900,506	—	(14,065)	2,886,441

	Note	HKAS 39 carrying amount 31 December2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1 January 2018
FVPL					
FVPL (mandatory)					
Opening balance under HKAS 39		—	—	—	—
Addition: From FVPL (designated) (HKAS 39)	*(a)*	—	50,961	—	—
Closing balance under HKFRS 9		—	—	—	50,961
FVPL (designated)					
Opening balance under HKAS 39		50,961	—	—	—
Subtraction: To FVPL (mandatory) (HKFRS 9)	*(a)*	—	(50,961)	—	—
Closing balance under HKFRS 9		—	—	—	—
Total FVPL		50,961	—	—	50,961

The total after tax remeasurement loss of RMB10.5 million was recognized in opening retained earnings 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 RMB51.0 million in equity securities which had previously been designated at fair value through profit or loss as the securities were in the stock lockup period. As part of the transition to HKFRS 9, this investment is equity instrument so required to be classified as FVPL (mandatory), instead of designated FVPL.

(iii) Reconciliation of loss allowances balance from HKAS 39 to HKFRS 9

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

Measurement category	Loss allowances under HKAS 39 31 December 2017	Reclassification	Remeasurement	Loss allowances under HKFRS 9 1 January 2018
Loans and receivables (HKAS 39)/ Financial assets at amortized cost (HKFRS 9)				
Cash at bank and cash on hand	—	—	173	173
Loans to customers	209,241	—	13,892	223,133
Interest receivable from bank deposits and other receivables	953	—	—	953
Total	210,194	—	14,065	224,259

(iv) HKAS 39 applied to comparative year

Financial assets

(i) *Classification*

The Group classified its financial assets in the following categories:

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

The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its investments at initial recognition. The Group only held financial assets at fair value through profit or loss and loans and receivables.

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

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

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

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

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

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

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

b. Loans and receivables

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

(ii) *Recognition and derecognition*

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

Financial assets were derecognized when the rights to receive cash flows from the financial assets had expired or had been transferred and the Group had transferred substantially all the risks and rewards of ownership.

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

(iii) *Measurement*

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

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

Loans and receivables were initially recognized at fair value, which was the cash given to originate the loans including any transaction costs, and measured subsequently at amortized cost using the effective interest method.

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

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

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

Impairment of financial assets

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

The criteria that the Group used to determine whether there was objective evidence of an impairment loss included:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions:
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;

- Deterioration in the value of collateral; and
- Filing of a lawsuit against the borrower.

The Group first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. If the Group determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment of impairment.

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

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

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

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

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

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

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

Financial liabilities

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

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

Other financial liabilities were recognized initially at fair value net of transaction costs incurred and were subsequently stated at amortized cost. Any difference between proceeds net of transaction costs and the redemption value was recognized in the consolidated statement of comprehensive income over the year of the other financial liabilities using the effective interest method.

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

2.3 Financial assets and liabilities

The Group has adopted HKFRS 9 on 1 January 2018 to measure and account for financial instruments.

Measurement methods

Amortized cost and effective interest rate

The amortized 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 amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowances.

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 amortized cost before any ECL allowances) or to the amortized cost of a financial liability. The calculation does not consider ECLs 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. For purchased or originated credit-impaired ("POCI") financial assets — assets that are credit-impaired at initial recognition — the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECLs in estimated future cash flows.

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 recognized 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:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.

(b) Financial assets that are not "POCI" but have subsequently become credit-impaired (or "stage 3"), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the ECL allowances).

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

2.3.1 Financial assets

(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:

- Amortized cost (AC);
- Fair value through profit or loss (FVPL); and
- Fair value through other comprehensive income (FVOCI).

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 current assets (excluding repossessed assets).

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

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

- AC: 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 amortized cost. The carrying amount of these assets is adjusted by any ECL allowances recognized and measured as described in Note 4.1(a)(ii). Interest income from these financial assets is included in "interest income" using the effective interest rate method.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), net and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortized cost or financial assets at 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 recognized in profit or loss and presented in the consolidated statement of comprehensive income within "net investment (losses)/gains" in the period in which it arises.

For the year ended 31 December 2018, the Group only holds debt instruments measured at amortized cost.

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 year following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

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 FVOCI. 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 recognized in

OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized 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 consolidated statement of comprehensive income.

For the year ended 31 December 2018, the Group only holds equity instruments measured at fair value through profit or loss.

(ii) ***Impairment***

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

Note 4.1(a)(ii) provides more detail of how the ECL allowances are measured.

(iii) ***Derecognition other than modification***

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognize the transferred asset to the extent of its continuing involvement and recognize the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortized cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortized cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

2.3.2 Financial liabilities

(i) *Classification and subsequent measurement*

In both the current and prior year, financial liabilities are classified as subsequently measured at amortized cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss; and

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent years, the Group recognizes any expense incurred on the financial liability.

(ii) *Derecognition*

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

(iii) ***Interest expenses***

Interest expenses are calculated by applying the effective interest rate to the gross carrying amount of financial liabilities and are expensed in the year in which they are incurred.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

3.1 Critical accounting estimates

(a) ***Measurement of ECL allowances***

The measurement of the ECL allowances for financial assets measured at amortized cost is an area that requires the use of ECL 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 allowances is further detailed in Note 4.1, which also sets out key sensitivities of the ECL allowances to changes in these elements.

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

- determination of relevant key models and parameters;
- criteria for determining whether or not there was a significant increase in credit risk ("SICR") and definition of default or credit impairment;
- estimated future cash flows for loans to customers in stage 3; and
- economic variables for forward-looking measurement, and the application of economic scenarios and relative weightings.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 4.1(a)(ii).

(b) ***Impairment allowances on loans to customers applied to comparative year***

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

(c) ***Income taxes***

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

4 FINANCIAL RISK MANAGEMENT

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

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

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

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

4.1 Financial risk factors

(a) *Credit risk*

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge on obligation. Significant changes in the economy, or those in credit quality of 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, but can also from interest receivable from bank deposits and other receivables.

(i) *Credit risk measurement of 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 Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). Refer to Note 4.1(a)(ii) for more details.

(ii) *ECL allowances measurement*

In accordance with HKFRS 9, the Group constructed a "three-stage" ECL model to measure ECL allowances based on changes in credit quality since initial recognition of a loan:

- Stage 1: 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.

- Stage 2: If a 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 4.1(a)(ii)(a) for a description of how the Group determines when a SICR has occurred.

- Stage 3: If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3". Please refer to Note 4.1(a)(ii)(b) for a description of how the Group defines credit-impaired and default.

Financial instruments in Stage 1 have their ECL allowances measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL allowances measured based on ECLs on a lifetime basis. Please refer to Note 4.1(a)(ii)(c) for a description of inputs, assumptions and estimation techniques used in measuring the ECL allowances. A pervasive concept in measuring ECL allowances in accordance with HKFRS 9 is that it should consider forward-looking information. Note 4.1(a)(ii)(d) includes an explanation of how the Group has incorporated this in its ECL models.

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

a. SICR

The Group's loans to customers all have maturities from 6 to 12 months. The Group manages the credit risk of its loan portfolio mainly by monitoring the over-due status of borrowers. The Group considers a loan to have experienced a SICR when it meets one or more of the following quantitative and qualitative criteria:

Quantitative criteria:

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

Qualitative criteria:

- Default in other financial institutions; and
- Under-going law sue.

The assessment of SICR incorporates forward-looking information (refer to Note 4.1(a)(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. Definition of default and credit-impaired assets

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

Quantitative criteria:

- The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria:

- The debtor is likely to go bankrupt or carry out other financial restructuring.
- The Group has made concessions to the debtor in financial difficulty for economic or legal reasons.

The criteria above have been applied to all financial instruments of the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, LGD and EAD throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

c. **Measuring ECL allowances — Model inputs, assumptions and estimation techniques**

The ECL allowance is measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Group's loans to customers all have maturities from 6 to 12 months. Thus the Group measures ECL allowances for loans to customers over their life time basis. ECL allowances are the discounted product of the PD, LGD, and EAD, 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).
- 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).
- EAD is based on the amounts the Group expects to be owed at the time of default.

The ECL allowance is determined by projecting the PD, LGD and EAD for every six months and for each individual exposure or collective segment. These three components are multiplied together and adjusts their duration(if there is no early repayment or default). This effectively calculates an ECL allowance for every six months, which is then discounted back to the reporting date and summed. The discount rate used in the ECL allowance calculation is the original effective interest rate.

For Loans to cutomers in Stage 1, the Group first calulates the annual 12-month PD and then tranfer it to monthly PD. For Loans to customers in Stages 2 and 3, the Lifetime PDs are developed by monitoring how defaults develop in a portfolio from the point of time when a loan experienced SICR to its lifetime. The lifetime PDs are based on historical observed data taking into consideration forward-looking factors and are assumed to be the same across all loans to customers within a portfolio. This is supported by historical analysis.

The lifetime LGDs are determined based on the factors that affect the recoverable amounts post default. These vary by product type.

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

- For unsecured loans to customers, the Group will preserve the borrower's personal assets, such as commercial properties to mitigate the credit risk. Thus the LGDs are determined based on the factors similar to secured loans to customers.

Forward-looking economic information is also included in determining the 12-month and lifetime PDs and LGDs. These assumptions vary by product type. Refer to Note 4.1(a)(ii)(d) for an explanation of forward-looking information and its inclusion in ECL allowance calculations.

For loans to customers classified into Stages 1 and 2, the management assessed ECL allowances using the risk parameter modelling approach that incorporates key parameters, including PD, LGD and EAD. For impaired loans to customers in Stage 3, the management assesses ECL allowances by estimating the cash flows from the loans taking into consideration of forward-looking factors.

The assumptions underlying the ECL allowance 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 year.

d. Forward-looking information incorporated in the ECL models

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

Based on analysis and assessment, the Group selected a series of economic variables (including Urban Per Capita Disposable Income, National Housing Sensitive index and Business Climate Index, etc.) to establish statistical relationship between such economic variables and PDs, LGDs. A forward-looking result on PDs and LGDs was calculated based on forecasts of these economic variables.

The following table illustrates how economic variables apply to different portfolios.

	PDs	LGDs
Secured loans to customers	Urban Per Capita Disposable Income	National Housing Sensitive index
Unsecured loans to customers	Urban Per Capita Disposable Income	Business Climate Index

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.

Economic variable assumptions

The most significant year-end assumptions used for the ECL allowances estimate as at 31 December 2018 are set out below. The scenarios "Base", "Upside" and "Downside" were used for all portfolios.

		2019
Urban Per Capita Disposable Income	Base	7.17
	Upside	7.32
	Downside	7.03
National Housing Sensitive index	Base	96.13
	Upside	96.64
	Downside	95.63
Business Climate Index	Base	113.13
	Upside	114.46
	Downside	111.81

The weightings assigned to each economic scenario at 31 December 2018 and 1 January 2018 were as follows:

	Base	**Upside**	**Downside**
All portfolios	80%	10%	10%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL allowances for such factors. This is reviewed and monitored for appropriateness on a half-year basis.

The most significant assumptions affecting the ECL allowances are as follows:

(i) *Urban Per Capita Disposable Income*, given its impact on secured and unsecured borrowers' ability to meet their contractual payments;

(ii) *National Housing Sensitive Index*, given the significant impact it has on property collateral loans; and

(iii) *Business Climate Index*, given the significant impact on non-collateral borrowers' performance.

<u>*Sensitivity analysis*</u>

Set out below are the changes to the ECL allowances as at 31 December 2018 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

Secured loans to customers		**Urban Per Capita Disposable Income**		
		–1%	**No change**	**+1%**
National Housing Sensitive index	+1%	–0.26%	–0.30%	–0.33%
	No change	0.04%	—	–0.08%
	–1%	0.33%	0.29%	0.27%

Unsecured loans to customers		**Urban Per Capita Disposable Income**		
		–1%	**No change**	**+1%**
Business Climate index	+1%	–0.17%	–0.31%	–0.44%
	No change	0.14%	—	–0.06%
	–1%	0.63%	0.48%	0.42%

As at 31 December 2018, weighted average ECL allowances for loans to customers under the three economic scenarios (upside, base and downside) will increase by less than 5% compared to ECL allowances for loans to customers under the base economic scenario.

If the weighting assigned to the upside economic scenario increases by 10% and the weighting assigned to base economic scenario decreases by 10%, the ECL allowances for loans to customers will decrease by less than 5%. If the weighting assigned to downside economic scenario increases by 10% and the weighting assigned to base economic scenario decreases by 10%, the ECL allowances for loans to customers will increase by less than 5%.

The Group made a sensitivity analysis on the ECL allowances, assuming all loans to customers past due on their contractual payments for no more than 30 (included) days that are originally categorized in Stage 1 have experienced a SICR and are categorized in Stage 2. The table below shows the change in ECL allowances recognized in the consolidated statement of financial position:

Loans to customers	**As at 31 December 2018**
ECL allowances assuming loans to customers past due for no more than 30 (included) days move down to Stage 2	334,302
ECL allowances assuming loans to customers past due for no more than 30 (included) days included in Stage 1	331,601
Difference amount	2,701
Difference percentage	0.81%

(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 recognized. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	As at 31 December				
	2018				**2017**
	ECL staging				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Total**
Loans to customers					
Secured loans to customers (a)	425,994	9,537	841,624	1,277,155	1,211,087
Unsecured loans to customers(b)	596,490	—	196,239	792,729	943,806
Gross carrying amount	1,022,484	9,537	1,037,863	2,069,884	2,154,893
Loss allowances	(32,328)	(1,669)	(297,604)	(331,601)	(209,241)
Carrying amount	990,156	7,868	740,259	1,738,283	1,945,652

	As at 31 December				
	2018				2017
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Term deposits with banks					
Credit grade					
AAA	663,439	—	—	663,439	513,290
AA+	—	—	—	—	170,438
A	953	—	—	953	—
Gross carrying amount	664,392	—	—	664,392	683,728
Loss allowances	(164)	—	—	(164)	—
Carrying amount	664,228	—	—	664,228	683,728
Other current assets (excluding repossessed assets)					
Gross carrying amount	101,455	—	—	101,455	14,162
Loss allowances	(2,352)	—	—	(2,352)	(953)
Carrying amount	99,103	—	—	99,103	13,209

(a) Secured loans to customers comprise real estate backed loans and personal property backed loans.

(b) Unsecured loans to customers comprise equity interest backed loans, guaranteed loans and unsecured loans.

Information on how the ECL allowances are measured and how the three stages above are determined is included in Note 4.1(a)(ii) "ECL allowances measurement".

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

The Group maintains a diversified client base. Loans receivable from the top five customers accounted for 30.4% of the total loans to customers as at 31 December 2018 (31 December 2017: 28.2%). Interest income from the top five customers accounted for 24.4% of total interest income for the year ended 31 December 2018 (2017: 19.9%).

(v) *Collateral and other credit enhancement*

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for loans granted. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. 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's policies regarding obtaining collateral have not significantly changed during the reporting year and there has been no significant change in the overall quality of the collateral held by the Group since the prior year.

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, business 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, business 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. **Fair Value of collateral of credit-impaired loans**

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

As at 31 December 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
31 December 2018	
Gross exposure	841,624
Less: ECL allowances	(156,899)
Carrying amount	684,725
Fair Value of collateral held	1,287,455

(vi) *Write-off policy*

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was RMB2.7 million. The Group still seeks to recover amounts it is legally owned in full, but which have been partially written off due to no reasonable expectation of full recovery.

(b) ***Market risk***

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

(i) *Interest rate risk*

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

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

Based on the simulations performed and with other variables held constant, should the benchmark interest rate had been 100 basis points higher/lower, the profit before income tax would have been decreased/increased by approximately RMB1.3 million for the year ended 31 December 2018 (2017: RMB2.4 million), mainly as a result of higher/lower interest income on term deposits with banks and interest expense on fixed-rate borrowings arising from interest rate repricing.

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

(ii) *Foreign exchange risk*

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

Exposure

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

	As at 31 December			
	2018		2017	
	USD	***HKD***	*USD*	*HKD*
Cash at bank and cash on hand	**587,273**	**9,833**	633,797	51,113
Loans to customers	**17,230**	**19,322**	—	—
	604,503	**29,155**	633,797	51,113

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

	Year ended 31 December	
	2018	2017
Exchange gains/(losses)	**34,397**	(39,633)

As at 31 December 2018, other than deposits with banks denominated in US dollar and Hong Kong dollar totaling RMB597.1 million (2017: RMB684.9 million) (Note 17) and loans to customers denominated in US dollar and Hong Kong dollar totaling RMB36.6 million (2017: Nil), the Group did not have significant assets or liabilities that were denominated in currencies other than RMB. Should US dollar and Hong Kong dollar had weakened/strengthened by 1% against RMB with all other variables held constant, the profit before income tax would have been RMB6.3 million (2017: RMB6.8 million) lower/higher for the year ended 31 December 2018, mainly as a result of foreign exchange losses/gains on translation of US dollar and Hong Kong dollar denominated balances.

(iii) *Price risk*

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position as at fair value through profit or loss (Note 16).

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

The Group's equity investment are publicly traded. If the stock price increase/decrease by 5%, the profit before income tax would have been RMB1.6 million (2017: RMB2.5 million) higher/lower for the year ended 31 December 2018.

(c) ***Liquidity risk***

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

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

(i) *Financing arrangements*

The Group has no undrawn borrowing facilities as at 31 December 2018 (31 December 2017: Nil).

(ii) *Maturities of financial assets and liabilities*

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

	Repayable on demand or within 1 month	**1–6 months**	**6–12 months**	**Past due**	**Total**
As at 31 December 2017					
Cash at bank and cash on hand	617,857	219,231	116,281	—	953,369
Financial assets at fair value through profit or loss	26,266	—	24,695	—	50,961
Loans to customers	104,183	645,581	317,342	929,827	1,996,933
Total financial assets	748,306	864,812	458,318	929,827	3,001,263
Borrowings	(164,723)	(844,406)	(154,912)	—	(1,164,041)
Amounts due to related parties	(633)	—	—	—	(633)
Other financial liabilities	(2,450)	—	—	—	(2,450)
Total financial liabilities	(167,806)	(844,406)	(154,912)	—	(1,167,124)
Net liquidity gap	580,500	20,406	303,406	929,827	1,834,139

	Repayable on demand or within 1 month	1–6 months	6–12 months	Past due	Total
As at 31 December 2018					
Cash at bank and cash on hand	458,585	191,828	166,844	—	817,257
Financial assets at fair value through profit or loss	27,765	4,002	—	—	31,767
Loans to customers	115,662	663,469	251,207	758,713	1,789,051
Total financial assets	602,012	859,299	418,051	758,713	2,638,075
Borrowings	(275,023)	(423,527)	(166,795)	—	(865,345)
Amounts due to related parties	(633)	—	—	—	(633)
Other financial liabilities	(3,344)	—	—	—	(3,344)
Total financial liabilities	(279,000)	(423,527)	(166,795)	—	(869,322)
Net liquidity gap	323,012	435,772	251,256	758,713	1,768,753

4.2 Fair value of financial assets and liabilities

The Group's financial assets and liabilities are categorized as "loans to customers", "financial assets at fair value through profit or loss", "interests receivable from bank deposits", "other receivables", "borrowings", "amounts due to related parties" and "other financial liabilities" respectively.

"Loans to customers", "interests receivable from bank deposits", "other receivables", "borrowings", "amounts due to related parties" and "other financial liabilities" are stated at amortized cost. As these financial assets and liabilities mature within one year, the carrying amounts approximate to their fair value at each balance sheet date.

Financial assets at fair value through profit or loss are equity investments held by the Group as at 31 December 2018 (2017: same).

(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.

	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Financial assets designated at fair value through profit or loss				
— Equity Investments	—	50,961	—	50,961
	Level 1	**Level 2**	**Level 3**	**Total**
As at 31 December 2018				
Financial assets at fair value through profit or loss				
— Equity Investments	**—**	**31,767**	**—**	**31,767**

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

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2018.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the end of the reporting year. 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 maximize 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 instruments is based on the quoted market price considering the liquidity discount rate for the stock lockup period as at 31 December 2018 and 31 December 2017.

(c) *Valuation processes*

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

4.3 Capital risk management

(a) *Risk management*

The Group's objectives when managing capital are to

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

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

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

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

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain a gearing ratio below 50% and to meet the compliance requirements of Wuzhong Pawnshop on aggregate amount of loans to customers at all times. The gearing ratio as at 31 December 2018 and 31 December 2017 were as follows:

	As at 31 December	
	2018	2017
Borrowings *(Note 20)*	**850,076**	1,150,968
Less: Cash and cash equivalents *(Note 17)*	**(133,736)**	(257,917)
Net debt	**716,340**	893,051
Total equity	**1,897,028**	1,853,965
Total capital	**2,613,368**	2,747,016
Gearing ratio	**27%**	33%

(i) *Loan covenants*

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

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

Huifang Tongda has complied with the covenants for the year ended 31 December 2018 (2017: Nil).

The Group has no other financial covenants under the terms of the rest borrowing facilities for the year ended 31 December 2018 (2017: Same).

5 INTEREST INCOME

	Year ended 31 December	
	2018	2017
Interest income from loans to customers		
Secured loans to customers	**173,939**	109,289
Unsecured loans to customers	**114,008**	150,005
Interest income from bank deposits	**17,247**	13,059
	305,194	272,353

6 INTEREST EXPENSE

	Year ended 31 December	
	2018	2017
Interest expense on bank borrowings	**44,994**	44,631
Interest expense on micro-finance company borrowings	**5,844**	3,786
Other interest expenses	**3,799**	25,820
	54,637	74,237

7 NET INVESTMENT (LOSSES)/GAINS

	Year ended 31 December	
	2018	2017
Fair value losses — listed equity securities *(Note 16)*	**(19,634)**	(15,486)
Cash dividend of listed equity securities	**953**	429
Net gains from disposal of unlisted equity securities	**—**	9,406
Net gains from disposal of subsidiaries	**—**	8,150
	(18,681)	2,499

8 OTHER OPERATING INCOME

	Year ended 31 December	
	2018	2017
Consultancy fee income (a)	**21,059**	5,275
Net gains from disposal of repossessed assets	**452**	1,051
Insurance intermediary fee (b)	**379**	—
Others	**335**	87
	22,225	6,413

(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 year ended 31 December 2018 (2017: from 1.5% to 8.0%).

(b) Huifang Anda charged insurance intermediary fee for insurance agency service from Insurance companies at a rate ranging from 10% to 55% based on amounts insured (2017: Nil).

9 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2018	2017
Employee benefit expenses *(Note 2.2.1)*	**40,608**	36,980
Operating lease payments	**6,009**	5,041
Professional and consultancy fees	**5,808**	4,205
Transportation, meal and accommodation	**4,363**	3,462
Telephone, utilities and office expenses	**3,276**	2,283
Auditors' remuneration	**2,900**	2,400
Depreciation and amortization	**2,835**	981
Advertising costs	**2,724**	5,470
Value-added tax surcharges	**2,720**	1,577
Commission fee	**288**	1,111
Other expenses	**2,190**	3,412
	73,721	66,922

10 ECLs/IMPAIRMENT LOSSES

	Year ended 31 December	
	2018	2017
Net charge of ECLs/impairment losses on loans to customers *(Note 15(b))*	**105,901**	8,976
Net charge of ECLs/impairment losses on other current assets	**1,399**	1,166
Net (reverse) of ECLs/impairment losses on term deposit with banks *(Note 17)*	**(8)**	—
	107,292	10,142

11 OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2018	2017
Net foreign currency gains/(losses)	**34,397**	(39,633)
Government grants	**3,299**	3,150
Others	**69**	101
	37,765	(36,382)

12 INCOME TAX EXPENSE

This note provides an analysis of the Group's income tax expense, shows what amounts are recognized directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

(a) Income tax expense

	Year ended 31 December	
	2018	2017
Current tax		
Current tax on profits for the year	**32,559**	28,464
Adjustments for current tax of prior years	**—**	—
Total current tax expense	**32,559**	28,464
Deferred income tax		
Decrease in deferred tax assets	**5,435**	(68)
Total deferred tax benefit	**5,435**	(68)
Income tax expense	**37,994**	28,396

All income tax expense is attributable to profit from continuing operations in the year ended 31 December 2018 (2017: same).

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Year ended 31 December	
	2018	2017
Operating profit and profit before income tax	**110,795**	93,582
Tax calculated at domestic tax rates applicable to profits in the respective areas	**28,225**	24,589
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
— Entertainment	**495**	336
— Investment income attributable to non- controlling interests	**(362)**	—
— Cash dividends of listed equity securities	**(238)**	—
— Share-based payments	**165**	(1,043)
— Sundry items	**40**	71
Subtotal	**28,325**	23,953
Reversal of previously recognized deferred tax assets	**7,108**	—
Adjustments for current tax of prior years	**1,495**	—
Unused tax losses for which no deferred tax asset has been recognized	**1,066**	323
Effect of different tax rates in countries in which the entity operates	**—**	(460)
PRC withholding tax	**—**	4,580
Income tax expense	**37,994**	28,396

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

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

The applicable Hong Kong profits tax rate for Huifang Investment is 8.25% and for other entities incorporated in HK is 16.5% on the assessable profits earned or derived in Hong Kong for the year ended 31 December 2018 (2017: The applicable Hong Kong profits tax rate is 16.5% on the assessable profits earned or derived in Hong Kong).

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.

(c) Tax losses

	Year ended 31 December	
	2018	2017
Unused tax losses for which no deferred tax asset has been recognized @ 16.5%	**3,705**	1,959
Unused tax losses for which no deferred tax asset has been recognized @ 8.25%	**1,687**	—
Unused tax losses for which no deferred tax asset has been recognized @ 25%	**1,262**	—
Unused tax losses for which no deferred tax asset has been recognized	**6,654**	1,959
Potential tax benefit @ 16.5%	**611**	323
Potential tax benefit @ 8.25%	**139**	—
Potential tax benefit @ 25%	**316**	—
Potential tax benefit	**1,066**	323

The unused tax losses were incurred by the Company, Huifang Investment, Sifang Investment, Rongda Investment and Huifang Supply China and those are not likely to generate taxable income in the foreseeable future. They can be carried forward indefinitely. See Note 20 for information about recognized tax losses and Note 2.17 for significant judgements made.

13 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**60,996**	50,904
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,027,425
Basic earnings per share (RMB Yuan)	**0.056**	0.050

All profit attributable to owners of the Company is from continuing operations.

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: share options under share-based payment (Note 18(b)). For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**60,996**	50,904
Weighted average number of ordinary shares in issue (in thousands)	**1,086,787**	1,027,425
Adjustments for:		
— Share options (in thousands)	**11,886**	12,532
Dilutive earnings per share (RMB)	**0.056**	0.049

All profit attributable to owners of the Company is from continuing operations.

14 DIVIDENDS

A dividend in respect of the year ended 31 December 2018 of HK$0.0130 per share, amounting to a total dividend of HK$14.1 million (equivalent to approximately RMB12.4 million), is to be proposed at the annual general meeting on 28 May 2019 (2017: A dividend in respect of the year ended 31 December 2017 of HK$0.0132 per share, amounting to a total dividend of HK$14.3 million (equivalent to approximately RMB12.0 million), was proposed at the annual general meeting on 28 May 2018). These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2018	2017
Proposed final dividend of HK$0.0130 (2017: HK$0.0132) per ordinary share	**12,379**	11,991

15 LOANS TO CUSTOMERS

	As at 31 December	
	2018	2017
Loans to customers, gross		
Collateral backed loans	**1,665,999**	1,465,924
— *Real estate backed loans*	**1,254,966**	1,172,861
— *Equity interest backed loans*	**388,844**	254,837
— *Personal property backed loans*	**22,189**	38,226
Guaranteed loans	**199,926**	205,783
Unsecured loans	**203,959**	483,186
	2,069,884	2,154,893
Less: ECL allowances	**(331,601)**	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	**1,738,283**	1,945,652

Loans to customers arise from the Group's lending services. The loan periods granted to customers are within one year. The real estate backed and equity interest backed loans provided to customers bear fixed interest rates ranging from 12.00% to 25.00% per annum in the year ended 31 December 2018 (2017: from 8.00% to 30.00%).

Guaranteed loans granted to customers bear fixed interest rates from 6.00% to 25.20% per annum in the year ended 31 December 2018 (2017: from 7.00% to 18.00%).

Unsecured loans granted to customers bear fixed interest rates from 10.00% to 18.00% per annum in the year ended 31 December 2018 (2017: from 8.00% to 18.00%).

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

As at 31 December 2018, renewed loans amounted to RMB170.2 million (2017: RMB129.0 million), which are all real estate backed loans (2017: same).

(a) Aging analysis of loans to customers

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

	As at 31 December			
	2018			2017
	Secured loans to customers	Unsecured loans to customers	Total	Total
Within 3 months	141,619	300,041	441,660	422,999
3–6months	120,439	177,711	298,150	381,777
6–12 months	148,417	91,343	239,760	211,050
Past due (i)	701,072	57,641	758,713	929,826
	1,111,547	626,736	1,738,283	1,945,652

(i) ***Past due loans to customers net of ECL allowances***

	As at 31 December			
	2018			2017
	Secured loans to customers	Unsecured loans to customers	Total	Total
Past due within one month	8,479	2,107	10,586	40,459
Past due between one and three months	7,868	—	7,868	16,436
Past due over three months	684,725	55,534	740,259	872,931
	701,072	57,641	758,713	929,826

(b) Movements on ECL allowances for loans to customers in 2018

The following tables explain the changes in loss allowances between the beginning of and the end of the annual year due to these factors:

Secured loans to customers

	Year ended 31 December 2018			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 1 January 2018	3,931	79	74,834	78,844
Changes on initial application of HKFRS 9	2,913	504	—	3,417
Restated loss allowances as at 1 January 2018	6,844	583	74,834	82,261
Transfers:				
Transfers from Stage 1 to Stage 2	(3,542)	11,602	—	8,060
Transfers from Stage 2 to Stage 3	—	(8,409)	40,370	31,961
New loans to customers originated	11,608	—	—	11,608
Changes in PDs/LGDs/EADs	—	—	70,466	70,466
Unwind of discount	—	—	5,373	5,373
Loans to customers derecognized during the year other than write-offs	(7,869)	(2,107)	(36,970)	(46,946)
Write-offs	—	—	(1,314)	(1,314)
Recovery of the loans written-off in previous years	—	—	4,139	4,139
Loss allowances as at 31 December 2018	7,041	1,669	156,898	165,608

Unsecured loans to customers

	Year ended 31 December 2018			
	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
Loss allowances as at 1 January 2018	14,847	—	115,550	130,397
Changes on initial application of HKFRS 9	10,475	—	—	10,475
Restated loss allowances as at 1 January 2018	25,322	—	115,550	140,872
Transfers:				
Transfers from Stage 1 to Stage 2	(951)	8,706	—	7,755
Transfers from Stage 2 to Stage 3	—	(1,133)	2,094	961
New loans to customers originated	206,139	—	—	206,139
Changes in PDs/LGDs/EADs	—	—	28,313	28,313
Unwind of discount	—	—	21,069	21,069
Loans to customers derecognized during the year other than write-offs	(205,223)	(7,573)	(27,537)	(240,333)
Write-offs	—	—	(1,360)	(1,360)
Recovery of the loans written-off in previous years	—	—	2,577	2,577
Loss allowances as at 31 December 2018	25,287	—	140,706	165,993

(c) Significant changes in gross carrying amount of loans to customers that contributed to changes in the ECL allowances

The following table explains changes in the gross carrying amount of the loans to customers that help explain their significance to the changes in the ECL allowances for loans to customers:

Secured loans to customers

	Year ended 31 December 2018			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Gross carrying amount as at 1 January 2018	344,838	6,115	860,134	1,211,087
Transfers:				
Transfers from Stage 1 to Stage 2	(123,505)	123,505	—	—
Transfers from Stage 2 to Stage 3	—	(93,434)	93,434	—
Loans to customers derecognized during the year other than write-offs	(425,832)	(26,649)	(188,509)	(640,990)
New loans to customers originated	629,324	—	—	629,324
Changes in interest accrual	1,169	—	77,879	79,048
Write-offs	—	—	(1,314)	(1,314)
Gross carrying amount as at 31 December 2018	425,994	9,537	841,624	1,277,155

Unsecured loans to customers

	Year ended 31 December 2018			
	Stage 1 12-month ECLs	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Gross carrying amount as at 1 January 2018	717,314	—	226,492	943,806
Transfers:				
Transfers from Stage 1 to Stage 2	(93,108)	93,108	—	—
Transfers from Stage 2 to Stage 3	—	(11,568)	11,568	—
Loans to customers derecognized during the year other than write-offs	(4,299,402)	(81,540)	(71,383)	(4,452,325)
New loans to customers originated	4,264,586	—	—	4,264,586
Changes in interest accrual	7,100	—	30,922	38,022
Write-offs	—	—	(1,360)	(1,360)
Gross carrying amount as at 31 December 2018	596,490	—	196,239	792,729

(d) **Movements on loss allowances for loans to customers in 2017**

	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
At beginning of year	197,730	62,503	260,233
Impairment losses recognized	102,759	—	102,759
Net write back of loan provision	(65,388)	(28,395)	(93,783)
Unwind of discount on allowances during the year	(44,607)	—	(44,607)
Loans to customers written off as un-collectable	(15,361)	—	(15,361)
Other transfer in/(out)	2,336	(2,336)	—
At end of year	177,469	31,772	209,241

(e) **Movements on gross carrying amount of loans to customers in 2017**

	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
At beginning of year	360,413	1,924,245	2,284,658
New loans to customers originated	—	1,078,045	1,078,045
Loans to customers matured	(129,368)	(1,056,581)	(1,185,949)
Loans to customers written off as un-collectable	(21,861)	—	(21,861)
Other transfer in/(out)	192,379	(192,379)	—
At end of year	401,563	1,753,330	2,154,893

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at fair value through profit or loss

The Group classifies the following financial assets at fair value through profit or loss (FVPL):

- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognize fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December	
	2018	2017
Non-current assets		
Equity securities at fair value through profit or loss	**440**	—
Current assets		
PRC Listed equity securities	**31,327**	50,961
	31,767	50,961

Listed equity securities with fair value of RMB31.3 million (31 December 2017: RMB51.0 million) have been pledged with a securities company to secure borrowings with principal amount of RMB15.5 million (31 December 2017: RMB27.0 million) from the securities company (Note 20(c)).

(ii) Amounts recognized in profit or loss

During the year, the following (losses)/gains were recognized in profit or loss:

	Year ended 31 December	
	2018	2017
Fair value losses — listed equity securities *(Note 7)*	**(19,634)**	(15,486)
Cash dividend of listed equity securities *(Note 7)*	**953**	429
	(18,681)	(15,057)

(iii) Risk exposure and fair value measurements

Information about the Group's exposure to price risk is provided in Note 4.1. For information about the methods and assumptions used in determining fair value please refer to Note 4.2.

17 CASH AT BANK AND CASH ON HAND

	As at 31 December	
	2018	2017
Cash on hand	**1,444**	1,767
Demand deposits with banks	**132,292**	256,150
Term deposits with banks with original maturities over 3 months, net	**664,228**	683,728
Term deposits with banks with original maturities over 3 months, gross	**664,392**	683,728
Less: ECL allowances	**(164)**	N/A
	797,964	941,645

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**200,858**	256,735
US dollar	**587,437**	633,797
Hong Kong dollar	**39,833**	51,113
	798,128	941,645

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

	As at 31 December	
	2018	2017
Cash at bank and cash on hand	**797,964**	941,645
Less: Unrestricted term deposits with banks with original maturities over 3 months	**(126)**	(308,350)
Restricted term deposits pledged with banks with original maturities over 3 months	**(664,102)**	(375,378)
	133,736	257,917

As at 31 December 2018, restricted term deposits of US$85.2 million (2017: US$49.8 million), which is equivalent to RMB584.6 million (2017: RMB325.4 million), were pledged with banks to secure bank borrowings with principal amount of RMB491.0 million (2017: RMB306.0 million) (Note 20).

As at 31 December 2018, restricted term deposits of RMB78.7 million (2017: RMB50.0 million) were pledged with banks to secure bank borrowings with principal amount of RMB74.0 million (2017: RMB47.5 million) (Note 20).

18 SHARE PREMIUM AND OTHER RESERVES

		Other reserves				
	Share premium	Capital reserve	Statutory reserve	General reserve	Share-based payments reserve	Total
At 1 January 2017	548,237	500,000	77,715	4,417	2,607	1,132,976
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)(i)	—	—	—	—	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
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)(i)	—	—	—	—	2,200	2,200
At 31 December 2018	601,993	506,963	77,715	4,417	7,171	1,198,259

(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

The grant of share options to enable eligible participants as incentives or rewards for their contribution or potential contribution to the Group was approved on 13 September 2016. Under the share option scheme, the Company granted 50,000,000 share options to directors and selected employees on 13 September 2016 with an exercise price of HK$0.62 per share. Options are conditional on the employee completing one or two years' service (the vesting period). The options become exercisable starting one or two years from the grant date, subject to whether the Group achieved 60% or above of the target profit attributable to owners of the Company approved by the Board of Directors in 2016 and 2017 separately, or whether the Group achieved 60% or above of the cumulative target profit attributable to owners of the Company approved by the Board of Directors in 2016 and 2017 together. The options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Set below are summaries of options granted and forfeited under the plan:

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

	Year ended 31 December 2018	
	Average exercise price in HK$ per share option	**Number of share options (thousands)**
As at 1 January	**0.62**	**28,007**
Granted	**—**	**—**
Exercised	**—**	**—**
Forfeited	**0.62**	**(769)**
Aa at 31 December	**0.62**	**27,238**
Vested and exercisable at 31 December 2018	**0.62**	**27,238**

(i) ***Share-based payments — value of employee services***

Options are granted for no consideration and vest based on whether the Group achieved the profit target described above. The weighted average fair value of options granted in 2016 determined using the Black-Scholes valuation model was HK$0.82 per option. The significant inputs into the model were weighted average share price of HK$0.62 at the grant date, exercise price shown above, volatility of 51.79%, no dividend yield, an expected option life of five years, and an annual risk-free interest rate of 0.66%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices from the listing date.

Share options outstanding at the end of the year will expire on 12 September 2021.

Employee benefit expense of RMB2.2 million was recognized for share options granted to directors and employees for the year ended 31 December 2018 (2017: RMB4.3 million).

19 OTHER CURRENT LIABILITIES

	As at 31 December	
	2018	2017
Accrued employee benefits	**11,034**	10,011
Turnover tax and other tax payable	**3,010**	1,553
Investment payable	**390**	—
Other financial liabilities	**7,344**	2,450
	21,778	14,014

As at 31 December 2018, the Group's other financial liabilities were non-interest bearing. The fair value approximates their carrying amounts due to their short maturities (2017: same).

20 BORROWINGS

	As at 31 December	
	2018	2017
Bank borrowings (a)	**766,286**	844,812
Borrowings from microfinance companies (b)	**55,000**	68,174
Borrowings from securities company (c)	**15,540**	27,051
Private placement note (d)	**13,250**	19,510
Interests of holders of consolidated SEs — Suzhou Qian Dai	**—**	191,421
	850,076	1,150,968

(a) Bank borrowings are all with maturity within one year and bear fixed interest rates ranging from 4.35% to 6.09% per annum in the year ended 31 December 2018 (2017: fixed rate from 4.35% to 5.66%).

As at 31 December 2018, bank borrowings with principal amount of RMB491.0 million (2017: RMB306.0 million) were secured by restricted term deposits of US$85.2 million (2017: US$49.8 million) (Note 17).

As at 31 December 2018, bank borrowings with principal amount of RMB74.0 million (2017: RMB47.5 million) were secured by restricted term deposits of RMB78.7 million (2017: RMB50.0 million) (Note 17).

As at 31 December 2018, bank borrowings with principal amount of RMB200.0 million (31 December 2017: RMB370.0 million) were guaranteed by Wuzhong Jiaye and the Ultimate Shareholders.

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

The Group's borrowings are denominated in RMB.

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

(b) As at 31 December 2018, borrowings from microfinance companies with principal amount of RMB55.0 million are guaranteed by Wuzhong Group (31 December 2017: RMB68.0 million).

(c) As at 31 December 2018, borrowings from a securities company with principal amount of RMB15.5 million are pledged by listed equity investment held by the Group (2017: RMB27.0 million) (Note 16).

(d) As at 31 December 2018, private placement note with principal amount of RMB12.5 million are guaranteed by Wuzhong Group (31 December 2017: RMB19.5 million).

21 COMMITMENTS

(a) Operating lease commitments

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

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

	As at 31 December	
	2018	2017
Within one year	**4,665**	5,722
Later than one year but no later than 5 years	**5,302**	5,335
	9,967	11,057

(b) Capital commitments

	As at 31 December	
	2018	2017
Hillcrest Associated Limited (a)	**438**	—

(a) The purchase consideration of Hillcrest Associated Limited is HKD1.0 million, of which HKD0.5 million (equivalent to RMB0.4 million) has not been paid by the Group as at 31 December 2018 (31 December 2017: Nil).

22 ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for current borrowings are:

		As at 31 December	
	Note	**2018**	2017
Current			
Floating charge			
Cash at bank and cash on hand	*17*	**664,102**	375,378
Financial assets at fair value through profit or loss	*16*	**31,327**	50,961
Total current assets pledged as security		**695,429**	426,339
Total non-current assets pledged as security		**—**	—
Total assets pledged as security		**695,429**	426,339

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

1 Business Review and Development

1.1 *Loans to customers*

The following table sets out the details of new loans and renewed loans, including loans secured by real estate collateral, equity interest collateral, unsecured loans and guaranteed loans we granted as at 31 December 2018:

	Year ended 31 December	
	2018	2017
Total new loan amount granted (RMB in millions)	**4,728**	3,624
Total number of new loans granted	**1,701**	1,280
Total loan amount renewed (RMB in millions)	**362**	129
Total number of loans renewed	**223**	81

During the Reporting Year, total new loan amount and total number of new loans we granted, including loans secured by real estate collateral, equity interest collateral, unsecured loans and guaranteed loans, represent significant increase as compared with last year. This increase was due to the business growth driven by the expansion of the Group and its types of products.

1.2 *Types of the outstanding loans to customers*

As at 31 December 2018, our outstanding loans to customers were RMB2,069.9 million. The following table sets forth our gross amount of outstanding loans to customers for the indicated periods:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Loans to customers, gross		
Real estate backed loans	**1,254,966**	1,172,861
Equity interest backed loans	**388,844**	254,837
Personal property backed loans	**22,189**	38,226
Guaranteed loans	**199,926**	205,783
Unsecured loans	**203,959**	483,186
	2,069,884	2,154,893

As of 31 December 2018, the outstanding loans of Wuzhong Pawnshop were RMB1,059.1 million, of which the outstanding loans secured by real estate collateral were RMB1,098.1 million, which almost reached the statutory limit, and the outstanding loans secured by equity interest collateral were RMB388.8 million; the outstanding entrusted loans of Huifang Tongda were RMB19.4 million; the outstanding loans of Dongshan Micro-finance were RMB450.5 million; and the outstanding loans of Huida Factoring were RMB54.3 million. The gross amount of outstanding loans to customers was RMB2,069.9 million, representing a decrease of RMB85.0 million, or 3.9% as compared with 2017.

1.3 *Online P2P lending business — Suzhou Qian Dai*

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

During the Reporting Year, Suzhou Qian Dai launched 1,862 projects in total. The number of its registered users reached 60,950 and the outstanding balance of its projects amounted to RMB339.2 million as at 31 December 2018.

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

	Year ended 31 December	
	2018	2017
Total lending business amount (RMB in millions)	**639**	1,684
Total number of lending business	**1,862**	2,870

Affected by stringent regulation on the online lending industry in 2018, Suzhou Qian Dai further reduced its business scale in accordance with the policy requirements. The total loan amount of its lending business in the year decreased by 62.1% as compared to last year, and the total number of loan of its lending business decreased by 35.1% as compared to last year, which showed a trend of decrease in the amount per transaction.

1.4 *Effective loan yield*

During the Reporting Year, the effective loan yield increased to 15.5% (excluded the effect of discounting) from that of last year (2017: 14.5%). The increase in loan yield was attributable to Huifang Rongtong's efforts to expand the sub-loan fund business which has short loan term and high return with annualized interest rate ranging from 18.0% to 25.2%.

1.5 *Expected credit loss ("ECL") allowances*

The Group has adopted HKFRS 9 with effect from 1 January 2018. HKFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments — Disclosures".

The Group applies the new standards retrospectively from 1 January 2018 without restating any comparative information as at 31 December 2017. Any adjustments to the carrying amounts of financial assets at the date of initial application were recognized in the opening retained earnings of the current year. Consequently, the amendments to HKFRS 7 disclosures in accordance with HKFRS 9 have only applied to the current year. The comparative year's notes disclosures repeat those disclosures made in the prior year.

In accordance with HKFRS 9, the Group constructed a "three-stage" ECL model to measure ECL allowances based on changes in credit quality since initial recognition of a loan. The ECL allowance is measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the PD, LGD, and EAD.

The following tables explain the changes in loss allowances between the beginning of and the end of the annual year due to these factors:

	Year ended 31 December 2018			
Secured loans to customers (a)	**Stage 1 12-month ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
Loss allowances as at 1 January 2018	3,931	79	74,834	78,844
Changes on initial application of HKFRS 9	2,913	504	—	3,417
Restated loss allowances as at 1 January 2018	6,844	583	74,834	82,261
Transfers among three stages	(3,542)	3,193	40,370	40,021
New loans to customers originated	11,608	—	—	11,608
Changes in PDs/LGDs/EADs	—	—	70,466	70,466
Unwind of discount	—	—	5,373	5,373
Loans to customers derecognized during the year other than write-offs	(7,869)	(2,107)	(36,970)	(46,946)
Write-offs	—	—	(1,314)	(1,314)
Recovery of the loans to customers written-off in previous years	—	—	4,139	4,139
Loss allowances as at 31 December 2018	7,041	1,669	156,898	165,608

Unsecured loans to customers (b)	Year ended 31 December 2018 Stage 1 12-month ECLs	 Stage 2 Lifetime ECLs	 Stage 3 Lifetime ECLs	 Total
Loss allowances as at 1 January 2018	14,847	—	115,550	130,397
Changes on initial application of HKFRS 9	10,475	—	—	10,475
Restated loss allowances as at 1 January 2018	25,322	—	115,550	140,872
Transfers between three stages	(951)	7,573	2,094	8,716
New loans to customers originated	206,139	—	—	206,139
Changes in PDs/LGDs/EADs	—	—	28,313	28,313
Unwind of discount	—	—	21,069	21,069
Loans to customers derecognized during the year other than write-offs	(205,223)	(7,573)	(27,537)	(240,333)
Write-offs	—	—	(1,360)	(1,360)
Recovery of the loans to customers written-off in previous years	—	—	2,577	2,577
Loss allowances as at 31 December 2018	25,287	—	140,706	165,993

(a) Secured loans to customers comprise real estate backed loans and personal property backed loans.

(b) Unsecured loans to customers comprise equity interest backed loans, guaranteed loans and unsecured loans.

As at 31 December 2018, the impairment allowances provide by the Group amounted to RMB 331.6 million, representing 16.0% of the total outstanding loans to customers (before allowances).

2 Financial Review

During the Reporting Year, the profit from continuing operations of the Group was RMB 72.8 million, representing an increase of 12% as compared with 2017.

The major financial review is as follows:

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

Interest income:

In 2018, the interest income throughout the year increased by 12.3% as compared to that of last year, mainly due to the increase in unwind interest in accordance with the adoption of HKFRS9.

Interest income from the top five customers accounted for 24.4% of total interest income for the year ended 31 December 2018 (2017: 19.9%).

Interest cost:

During the Reporting Year, our interest costs amounted to RMB54.6 million (2017: RMB74.2 million), representing an decrease of 26% from that in 2017. The decrease of interest cost was mainly due to the significant reduction of the loans granted through P2P platform, which caused the interest expense in 2018 decreased by RMB21.6 million as compared to that of last year.

Net interest margin:

Net interest margin equals net interest income for the year divided by the average of the beginning and the ending balances of interest-earning assets, which equals the sum of the balances of loans to customers and deposits with banks. Net interest margin was 9.2% during the Reporting Year (2017: 6.8%).

2.2 *Administrative expenses*

The administrative expenses during the Reporting Year amounted to RMB73.7 million (2017: RMB66.9 million), representing an increase of RMB6.8 million or 10% from that of 2017. The increase was mainly due to:

The Group has newly recruited a certain number of employees to establish its branches and carry out its supply chain technology finance business, which resulted in an increase in employee benefit expenses of RMB3.6 million in 2018; at the same time, the Group purchased certain land use rights during the year, which resulted in an increase in depreciation and amortization of RMB1.9 million in 2018.

2.2.1 *Employee benefit expenses*

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Wages and salaries	**14,462**	14,321
Discretionary bonuses	**17,024**	12,307
Pension	**1,990**	1,677
Other social security obligations	**4,932**	4,403
Share-based payments	**2,200**	4,272
	40,608	36,980

As at 31 December 2018, the Group had a total of 168 full-time employees, with an increase of 7 people from 161 people 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. As of 31 December 2018, the employee benefit expenses were RMB40.6 million, representing an increase of RMB3.6 million or 9.8% as compared to that of previous year.

2.2.2 *Share-based payments*

To reward and motivate eligible participants for their contribution to the Group and align their interest with the Company, the Group granted 50,000,000 share options to subscribe for up to a total of 50,000,000 shares to the directors and selected employees on 13 September 2016 (the "**Date of Grant**") with an exercise price of HK$0.62 per share. As of 31 December 2018, the remaining share options was 27,238,000. During the year, none of share options granted to directors and employees were exercised. Details of exercise price and number of share options are set out below:

	2018	
	Average exercise price *HK$ per share*	**Number of share options** *(in thousands)*
At 1 January	—	28,007
Granted	0.62	—
Forfeited	0.62	(769)
At 31 December	0.62	27,238

2.2.3 *The ratio of administrative expenses to net operating income*

During the Reporting Year, the ratio of administrative expenses to net operating income, which equals the sum of net interest income and other net operating income of the Group, was 50.2% (2017: 34.0%).

2.3 *Net charge of ECLs/impairment losses*

During the Reporting Year, net charge of ECLs was RMB107.3 million (2017: net charge of impairment losses was RMB10.1 million).

	Year ended 31 December	
	2018	2017
Net charge of ECLs/impairment losses on loans to customers	**105,901**	8,976
Net charge of ECLs/impairment losses on other current assets	**1,399**	1,166
Net charge of ECLs/impairment losses on term deposit with banks	**(8)**	—
	107,292	10,142

During the Reporting Year, the impairment loss of assets increased by RMB97.2 million, or by approximately 958% as compared to that in the previous year, which was mainly due to the application of HKFRS 9 by the Group since 1 January 2018. HKFRS 9 introduces a new impairment model for financial assets, which requires the recognition of impairment allowances based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39.

2.4 *Income tax expenses*

During the Reporting Year, the income tax expenses amounted to RMB38.0 million, representing an increase of 34.3% as compared with 2017 (2017: RMB28.4 million), which was mainly due to the reversal of previously recognized deferred tax assets from impairment allowances on loans by Wuzhong Pawnshop, tax losses from some overseas subsidiaries and Huifang Supply Chain and adjustments for exchange differences of prior years.

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

During the Reporting Year, profit attributable to equity holders was RMB61.0 million (2017: RMB50.9 million), representing an increase of 20% as compared with 2017. During the Reporting Year, return on average assets was 2.1% (2017: 1.6%) and return on average equity was 3.3% (2017: 2.8%).

3 Loans to Customers

3.1 *Loan portfolio*

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

	As at 31 December	
	2018	2017
Gross loans to customers, inclusive of principal and interest (RMB'000)		
Real estate backed loans	**1,254,966**	1,172,861
Equity interest backed loans	**388,844**	254,837
Personal property backed loans	**22,189**	38,226
Guaranteed loans	**199,926**	205,783
Unsecured loans	**203,959**	483,186
Total	**2,069,884**	2,154,893
Number of loans outstanding		
Real estate backed loans	**429**	264
Equity interest backed loans	**28**	28
Personal property backed loans	**840**	979
Guaranteed loans	**62**	107
Unsecured loans	**87**	297
Total	**1,446**	1,675
Average loan amount (RMB'000)		
Real estate backed loans	**2,925**	4,443
Equity interest backed loans	**13,887**	9,101
Personal property backed loans	**26**	39
Guaranteed loans	**3,225**	1,923
Unsecured loans	**2,344**	1,627
Total	**22,407**	17,133

3.2 *Loan classification and ECL allowances/impairment allowances*

The Group has adopted HKFRS 9 with a transition date on 1 January 2018. HKFRS 9 addresses the classification and measurement of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new impairment model requires the recognition of impairment allowances based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39.

In accordance with HKFRS 9, the Group constructed a "three-stage" ECL model to measure ECL allowances based on changes in credit quality since initial recognition of a loan:

- Stage 1: 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.

- Stage 2: If a SICR since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired.

- Stage 3: If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

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

	As at 31 December				
	2018				2017
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans to customers					
Secured loans to customers	425,994	9,537	841,624	1,277,155	1,211,087
Unsecured loans to customers	596,490	—	196,239	792,729	943,806
Gross carrying amount	1,022,484	9,537	1,037,863	2,069,884	2,154,893
Loss allowances	(32,328)	(1,669)	(297,604)	(331,601)	(209,241)
Carrying amount	990,156	7,868	740,259	1,738,283	1,945,652

In the "three-stage" ECL model constructed by the Group, loans to customers in Stage 1 have their ECL allowances measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Loans to customers in Stage 2 or 3 have their ECL allowances measured based on

ECLs on a lifetime basis. As at 31 December 2018, the ECL allowances for secured and unsecured loans to customers amounted to RMB 331.6 million, representing 16.0% of the total outstanding loans to customers (before ECL allowances).

The following table sets forth the breakdown of our ECL allowances/impairment allowances of the Group as at the indicated dates:

	As at 31 December				
	2018				2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Secured loans to customers	7,041	1,669	156,898	165,608	78,844
Unsecured loans to customers	25,287	—	140,706	165,993	130,397
Total	32,328	1,669	297,604	331,601	209,241

3.3 *Loans under legal proceedings*

RMB'000		**31 December 2018 Involving principal and interest**	31 December 2017 Involving principal and interest
Real estate backed loans	Number of clients	**41**	36
	Outstanding loans	**444,674**	538,649
Equity interest backed loans	Number of clients	**11**	12
	Outstanding loans	**111,246**	136,500
Guaranteed loans	Number of clients	**17**	19
	Outstanding loans	**40,012**	42,916
Total	Number of clients	**69**	67
	Outstanding loans	**595,932**	718,065

As of 31 December 2018, the outstanding loans under legal proceedings (as originally presented) accounted for 28.8% of the outstanding loans to customers, representing a decrease from 33.3% as at the end of 2017.

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:

	As at 31 December	
	2018	2017
Aggregate loan amount (RMB in thousands)		
Real estate collateral	**1,254,966**	1,172,861
Equity interest collateral	**388,844**	254,837
Appraised value of collateral at time of pawn loan approval (RMB in millions)		
Real estate collateral	**1,961**	2,141
Equity interest collateral	**1,319**	1,189
Range of appraised loan-to-value ratio of pawn loans		
Real estate collateral	**9%–71%**	7%–70%
Equity interest collateral	**4%–50%**	4%–48%
Weighted average appraised loan-to-value ratio of pawn loans		
Real estate collateral	**53%**	55%
Equity interest collateral	**36%**	34%

5. Total Equity and Capital Management

5.1 *Total Equity*

The total equity as at 31 December 2018 was RMB1,897.0 million, representing an increase of RMB43.1 million or 2.3% as compared with that as at 31 December 2017. The increase was due to an increase of the net profit attributable to equity holders amounting to RMB61.0 million during the Reporting Year.

5.2 *Gearing ratio management*

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

Our gearing ratio as at 31 December 2018 was 27.4% (2017: 32.5%).

6. Borrowings

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Bank borrowings (a)	**766,286**	844,812
Borrowings from micro-finance company (b)	**55,000**	68,174
Borrowings from securities company (c)	**15,540**	27,051
Borrowings from targeted financing plan (d)	**13,250**	19,510
Interests of holders of consolidated SEs		
— Suzhou Qian Dai	**—**	191,421
	850,076	1,150,968

(a) (i) Bank borrowings are with maturity within one year and bear interest rates ranging from 4.35% to 6.09% per annum in the year ended 31 December 2018 (2017: From 4.35% to 5.66%).

(ii) As at 31 December 2018, bank borrowings with principal amount of RMB491.0 million were secured by restricted term deposits at bank of US$85.2 million (equivalent to approximately RMB584.6 million) (as at 31 December 2017: bank borrowings with principal amount of RMB306.0 million were secured by restricted term deposits at bank of US$49.8 million (equivalent to approximately RMB325.4 million)).

(iii) As at 31 December 2018, bank borrowings with principal amount of RMB74.0 million were secured by restricted term deposits at bank of RMB78.73 million (as at 31 December 2017: bank borrowings with principal amount of RMB47.5 million were secured by restricted term deposits at bank of RMB50.0 million).

(iv) As at 31 December 2018, bank borrowings with principal amount of RMB200.0 million were guaranteed by Wuzhong Jiaye and the Ultimate Controller (2017: RMB370.0 million).

(b) As at 31 December 2018, the loan with principal amount of RMB55.0 million from micro-finance companies was guaranteed by Jiangsu Wuzhong Group Co., Ltd. (2017: RMB68.0 million).

(c) As at 31 December 2018, the loan with principal amount of RMB15.5 million from securities company was pledged by the shares of listed company held by the Group (2017: RMB27.0 million).

(d) As at 31 December 2018, the loan with principal amount of RMB12.5 million from Suzhou Financial Assets Trading Center was guaranteed by Jiangsu Wuzhong Group Co., Ltd. (2017: RMB19.5 million).

7. Capital Receipt and Expenditure

Our capital receipt and expenditure primarily consists of the payment of purchases of property, intangible assets, purchases of subsidiaries, associates, and financial assets at fair value through profit or loss. During the Reporting Year, the Group recorded a net capital expenditure of RMB43.7 million (2017: net capital receipt of RMB6.3 million), of which RMB37.2 million was used to acquire a construction land for headquarters of the Group.

8. Significant Investments, Acquisition and Disposal

As at 1 September 2018, Huifang Investment, a subsidiary of China Huirong, has subscribed 10% of the equity interest in Hillcrest Associates Limited (嶺峰合夥人有限公司) at the cost of HK$1 million, which was regarded as an investment targeted at Translink platform as was approved by the Board's resolution. Since Shenzhen Ruanyin Information Technology Company Limited* (深圳軟銀資料科技有限公司) was the business entity for operation of Translink's blockchain and big data platform, and was wholly owned by Hillcrest Associates Limited (嶺峰合夥人有限公司) , the investment was achieved by way of a direct acquisition of the equity interest of Hillcrest Associates Limited (嶺峰合夥人有限公司).

9. Contingencies, Contractual Obligations, Liquidity and Financial Resources

9.1 *Contingencies*

As at 31 December 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 irrevocable operating lease agreements. The leases have various terms, clauses for upgrading and renewal rights. The future aggregate minimum lease payments under irrevocable operating leases agreements are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**4,665**	5,722
Later than 1 year and no later than 5 years	**5,302**	5,335
	9,967	11,057

The future aggregate minimum lease payments represent a decrease as compared with 2017, which was mainly due to the closing of part of the pawn shops as the adjustment on the Group's business to meet the need of transformation and upgrade.

b. *Capital Commitments*

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Hillcrest Associates Limited (嶺峰合夥人有限公司) (a)	**438**	—
	438	—

(a) The purchase consideration of Hillcrest Associates Limited (嶺峰合夥人有限公司) is HKD1.0 million, of which HKD0.5 million (equivalent to RMB0.4 million) has not been paid by the Group as at 31 December 2018 (31 December 2017: Nil).

9.3 *Liquidity and capital resources*

a. *Cash flow analysis*

As at 31 December 2018, the Group's cash and cash equivalents amounted to RMB133.7 million, representing a decrease of RMB124.2 million as compared to that as at 31 December 2017. The following table sets forth a summary of our cash flows for the indicated periods:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net cash inflow from operating activities	**232,251**	219,329
Net cash (outflow)/inflow from investing activities	**(43,657)**	6,283
Net cash outflow from financing activities	**(313,337)**	(158,237)
Net (decrease)/increase in cash and cash equivalents	**(124,743)**	67,375
Exchange gains/(losses) on cash and cash equivalents	**562**	(674)
Cash and cash equivalents at the beginning of the year	**257,917**	191,216
Cash and cash equivalents at the end of the year	**133,736**	257,917

Net Cash Flow from Operating Activities

During the Reporting Year, net cash inflow from operating activities amounted to RMB232.3 million. The net cash inflow from operating activities was mainly due to the recovery of part of loans to customers during the year.

Net Cash Flow from Investing Activities

During the Reporting Year, net cash outflow from investing activities amounted to RMB43.7 million.

Net Cash Flow from Financing Activities

During the Reporting Year, net cash outflow from financing activities amounted to RMB313.3 million.

b. *Liquidity risk*

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

10. Market Risk

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

11. Human Resource and Employee Benefits

As at 31 December 2018, the Group had a total of 168 full-time employees, with an increase of seven people from 161 people 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.

During the Reporting Year, employee benefit expenses were RMB40.6 million, representing an increase of RMB3.6 million or 9.8% as compared to that of previous year. Details are set out below:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Wages and salaries	**14,462**	14,321
Discretionary bonuses	**17,024**	12,307
Pension	**1,990**	1,677
Other social security obligations	**4,932**	4,403
Share-based payments	**2,200**	4,272
	40,608	36,980

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

12. Future Plans relating to Material Investments

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

13. Events after Reporting Year

Same as disclosed in this announcement, besides final dividend to be declared, there is no significant event after 31 December 2018.

PROSPECTS

The year of 2018 marks a crucial year for the Company's internal transformational change, during which we continued to improve our organizational structure and optimize our management systems and procedures and hence greatly strengthened our capacity and efficiency on management. The next three years will be an important period for the Company to realize transformational development, as the inclusive finance business of China Huirong featuring low credit-line, steady portfolio and diversified risk has expanded its coverage to over 10 cities of the PRC, the brand image of Huirong was being widely recognized, and the establishment of our standardized product offerings that comprised property-guaranteed loan, bank bridge loan, loans for operation, and loan for mortgage has improved efficiency and reduced risk while further clarifying the direction for our development. In addition, the Company accelerated its exploration of fin-tech business, developed new products, adopted new technologies and integrated financial technology risk control methods with standardization, streamlining and intelligence to achieve the leapfrog development of China Huirong. As a result, the management is full of confidence in the future development of the Group.

All achievements earned in the past constitute a solid foundation for our future development. Looking forward to 2019, the management will focus on building our four principal business segments, namely inclusive finance business division, internet finance business division, technology finance business division and reinsurance agent business division. The Group will keep its impetus of geographic expansion to achieve nationwide coverage, insist dual-driver development of inclusive finance and technology finance, maintains balance between strategic development and creating profits, and spares no efforts to develope itself into a technology-driven, service-driven, marketing-driven and innovation-driven group that provides comprehensive fin-tech services, so as to offer a broad range of financial products and hence provide satisfactory return to the Shareholders.

FINAL DIVIDEND

The Board has proposed to declare a final dividend of HK$0.0130 per Share in respect of the year ended 31 December 2018 (the "**2018 Final Dividend**") (2017: HK$0.0132). The 2018 Final Dividend will be paid to the Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 4 June 2019. Based on the 1,086,787,000 Shares in issue as at 31 December 2018, the payment of the 2018 Final Dividend is expected to amount to approximately HK$14,128,231, which will be paid on or before Friday, 28 June 2019. The retained profit will be primarily used for the Group's business developments and/or acquisitions in the PRC.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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 throughout the Reporting Year, except for code provision A.2.1 which requires that the role of chairman and chief executive officer should be separate and should not be performed by the same person. 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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiry has been made to all the Directors of the Company and they have confirmed that they have complied with the Model Code throughout the Reporting Year.

ANNUAL RESULTS AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The audit committee of the Company has held a meeting with the auditor of the Company to review the annual results of the Group for the year ended 31 December 2018.

The figures in respect of the results announcement of the Group for the year ended 31 December 2018 have been reviewed and agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 28 May 2019. A notice convening the annual general meeting of the Company will be published and dispatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019 (both dates inclusive) and from Monday, 3 June 2019 to Tuesday, 4 June 2019 (both dates inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on Wednesday, 22 May 2019. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the forthcoming annual general meeting), all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at the abovementioned address for registration by 4:30 p.m. on Friday, 31 May 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.cnhuirong.com). The annual report for the year ended 31 December 2018 containing all relevant information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

DEFINITION

Unless otherwise required by the context, terms used in this announcement shall have the same meanings as those defined in the prospectus of the Company dated 16 October 2013.

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

Suzhou, China, 26 March 2019

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.