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CHINA HUIRONG FINANCIAL HOLDINGS LIMITED

中國匯融金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1290)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

AND

SUPPLEMENTAL ANNOUNCEMENT ON DISCLOSEABLE TRANSACTION

HIGHLIGHTS

	Six months ended 30 June		Change %
	2023 RMB'000 Unaudited	2022 RMB'000 Unaudited	
Operating Results			
Operating income	317,157	305,419	4%
Operating cost	202,974	191,717	6%
Profit attributable to owners of the Company	27,619	18,149	52%
Basic earnings per share (RMB)	0.025	0.017	47%
	As at 30 June 2023 RMB'000 Unaudited	As at 31 December 2022 RMB'000 Audited	Change %
Financial Position			
Total assets	2,975,311	2,985,146	0%
Total liabilities	834,324	873,816	-5%
Loans to customers	2,120,233	2,107,055	1%
Cash at bank and cash on hand	287,205	309,139	-7%
Net assets	2,140,987	2,111,330	1%

The board (the “Board”) of directors (the “Directors”) of China Huirong Financial Holdings Limited (the “Company” or “China Huirong”) hereby announces the interim results of the Company and its subsidiaries (together, the “Group” or “we”) for the six months ended 30 June 2023 (the “Reporting Period”) as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

(All amounts in RMB thousands unless otherwise stated)

		Six months ended 30 June	
		2023	2022
	<i>Note</i>	Unaudited	Unaudited
Interest income	6	128,610	125,126
Sales of goods	7	187,980	178,474
Consultancy fee income	8	109	723
Commission fee income	9	415	1,096
Finance lease income		43	—
Operating income		<u>317,157</u>	<u>305,419</u>
Interest expense	10	(17,192)	(14,618)
Costs of sales	7	(185,782)	(177,099)
Operating cost		<u>(202,974)</u>	<u>(191,717)</u>
Net investment gains/(losses)	11	3,994	(286)
Credit impairment losses	12	(39,453)	(39,966)
Net gains on derecognition of financial assets measured at amortised cost		—	1,911
Other operating income/(expenses)	13	5,215	(1,711)
Net operating income		83,939	73,650
General and administrative expenses		(39,774)	(34,514)
Other gains, net	14	949	1,755
Operating profit		45,114	40,891
Share of profit of a joint venture accounted for using the equity method		2,134	—
Profit before income tax		47,248	40,891
Income tax expense	15	(10,721)	(12,399)
Profit for the period		<u>36,527</u>	<u>28,492</u>

		Six months ended 30 June	
		2023	2022
	<i>Note</i>	Unaudited	Unaudited
Profit for the period is attributable to:			
— Owners of the Company		27,619	18,149
— Non-controlling interests		<u>8,908</u>	<u>10,343</u>
		<u><u>36,527</u></u>	<u><u>28,492</u></u>
Earnings per share (expressed in RMB)			
— Basic earnings per share	<i>16(a)</i>	<u>0.025</u>	<u>0.017</u>
— Diluted earnings per share	<i>16(b)</i>	<u>0.025</u>	<u>0.017</u>
Other comprehensive income for the period, net of tax		<u>—</u>	<u>—</u>
Total comprehensive income for the period		<u><u>36,527</u></u>	<u><u>28,492</u></u>
Total comprehensive income for the period is attributable to:			
— Owners of the Company		27,619	18,149
— Non-controlling interests		<u>8,908</u>	<u>10,343</u>
		<u><u>36,527</u></u>	<u><u>28,492</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

(All amounts in RMB thousands unless otherwise stated)

	<i>Note</i>	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	18	54,486	54,682
Right-of-use assets	19	16,029	17,690
Investments accounted for using the equity method	20	8,934	26,005
Investment properties	21	192,969	192,969
Intangible assets		770	1,127
Loans to customers	22	272,251	258,969
Finance lease receivables		9,404	—
Deferred income tax assets	23	96,400	85,555
Other non-current assets		<u>718</u>	<u>—</u>
Total non-current assets		<u>651,961</u>	<u>636,997</u>
Current assets			
Inventories		13,761	2,163
Other current assets		55,722	66,127
Commission fee receivables		162	3
Loans to customers	22	1,847,982	1,848,086
Finance lease receivables		9,640	—
Financial assets at fair value through profit or loss	24	108,878	122,631
Cash at bank and cash on hand	25	<u>287,205</u>	<u>309,139</u>
Total current assets		<u>2,323,350</u>	<u>2,348,149</u>
Total assets		<u>2,975,311</u>	<u>2,985,146</u>

		As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
	<i>Note</i>		
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	8,662	8,662
Share premium	27	604,478	604,478
Other reserves	27	593,122	593,122
Retained earnings		<u>664,724</u>	<u>666,325</u>
		1,870,986	1,872,587
Non-controlling interests		<u>270,001</u>	<u>238,743</u>
Total equity		<u><u>2,140,987</u></u>	<u><u>2,111,330</u></u>
LIABILITIES			
Non-current liabilities			
Lease liabilities	19	2,078	2,597
Borrowings	28	193,000	197,000
Deferred income tax liabilities	23	<u>21,931</u>	<u>18,508</u>
Total non-current liabilities		<u>217,009</u>	218,105
Current liabilities			
Other current liabilities	29	62,250	90,835
Current income tax liabilities		23,907	28,127
Amounts due to related parties		633	633
Dividends payable		30,481	1,261
Lease liabilities	19	1,897	2,627
Borrowings	28	<u>498,147</u>	<u>532,228</u>
Total current liabilities		<u>617,315</u>	<u>655,711</u>
Total liabilities		<u><u>834,324</u></u>	<u><u>873,816</u></u>
Total equity and liabilities		<u><u>2,975,311</u></u>	<u><u>2,985,146</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2023

(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 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) (hereinafter collectively referred to as the “Ultimate Shareholders”).

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 secured and unsecured loans to customers in the People’s Republic of China (the “PRC”).

On 28 October 2013, the Company’s shares were listed on The Stock Exchange of Hong Kong Limited.

This interim condensed consolidated financial information has been approved and authorised for issue by the Board on 30 August 2023.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The interim condensed consolidated financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this interim condensed consolidated financial information is to be read in conjunction with the annual report for the year ended 31 December 2022 and any public announcement made by the Company during the six months ended 30 June 2023.

The Group continues to adopt the going concern basis in preparing its interim condensed consolidated financial information.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those set out in the consolidated financial statements for the year ended 31 December 2022.

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

3.2 Impact of standards issued but not yet applied by the Group

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 periods and on foreseeable future transactions.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group continually evaluates its critical accounting estimates and judgements applied based on historical experience and other factors, including reasonable expectations of future events.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

5. SEGMENT INFORMATION

The Board is the Group's chief operating decision-maker, which assesses the financial performance and position of the Group and makes strategic decisions.

The Group manages its business under two operating and reportable segments for the six months ended 30 June 2023 (2022: same).

(a) Business segments

From business perspective, the Group provides services through two main business segments listed below:

Inclusive finance business division: The inclusive finance business division mainly refers to provision of lending services in the PRC. From a product perspective, the inclusive finance business division principally engaged in lending services through granting secured loans and unsecured loans to customers.

Ecology finance business division: The division mainly dedicates services to supply chain, loan facilitation technology, factoring, insurance agency and equity investment business.

(b) Segment analysis

The profit or loss before income tax for each reportable segment including incomes and expenses from external transactions and from transactions with other segments, and other items in the consolidated statement of comprehensive income are allocated based on the operations of the segment.

Segment assets and segment liabilities are measured in the same way as in the consolidated statement of financial position. These assets and liabilities are allocated based on the operations of the segment.

Six months ended 30 June 2023

Unaudited	Inclusive finance business division	Ecology finance business division	Headquarters and others	Elimination	Total
External operating income	105,975	205,941	5,241	—	317,157
Internal operating income	64	261	6,449	(6,774)	—
External operating cost	(4,799)	(189,293)	(8,882)	—	(202,974)
Internal operating cost	(3,339)	(3,881)	—	7,220	—
Net investment gains	1	304	3,689	—	3,994
Credit impairment losses	(40,863)	(1,186)	2,596	—	(39,453)
Other operating income	955	2,930	5,524	(4,194)	5,215
General and administrative expenses	(16,109)	(4,798)	(22,615)	3,748	(39,774)
Other gains, net	59	—	890	—	949
Share of profit of a joint venture accounted for using the equity method	—	2,134	—	—	2,134
Profit/(loss) before income tax	<u>41,944</u>	<u>12,412</u>	<u>(7,108)</u>	<u>—</u>	<u>47,248</u>
Capital expenditure	<u>(1,012)</u>	<u>(19)</u>	<u>(13,159)</u>	<u>—</u>	<u>(14,190)</u>

As at 30 June 2023

Unaudited	Inclusive finance business division	Ecology finance business division	Headquarters and others	Elimination	Total
Segment assets	1,540,763	833,798	607,338	(6,588)	2,975,311
Segment liabilities	<u>(215,096)</u>	<u>(207,034)</u>	<u>(418,248)</u>	<u>6,054</u>	<u>(834,324)</u>

Six months ended 30 June 2022

Unaudited	Inclusive finance business division	Ecology finance business division	Headquarters and others	Elimination	Total
External operating income	105,310	194,000	6,109	—	305,419
Internal operating income	306	352	5,801	(6,459)	—
External operating cost	(3,418)	(179,982)	(8,317)	—	(191,717)
Internal operating cost	(3,683)	(2,190)	(306)	6,179	—
Net investment (losses)/gains	—	(369)	83	—	(286)
Credit impairment losses	(33,833)	(2,113)	(4,020)	—	(39,966)
Net gains on derecognition of financial assets measured at amortised cost	1,911	—	—	—	1,911
Other operating (expenses)/income	(2,336)	50	1,287	(712)	(1,711)
General and administrative expenses	(11,560)	(2,894)	(21,052)	992	(34,514)
Other (losses)/gains, net	—	(25)	1,780	—	1,755
Profit/(loss) before income tax	<u>52,697</u>	<u>6,829</u>	<u>(18,635)</u>	<u>—</u>	<u>40,891</u>
Capital expenditure	<u>(884)</u>	<u>(177)</u>	<u>(8,027)</u>	<u>—</u>	<u>(9,088)</u>

As at 31 December 2022

Audited	Inclusive finance business division	Ecology finance business division	Headquarters and others	Elimination	Total
Segment assets	1,525,168	680,881	783,263	(4,166)	2,985,146
Segment liabilities	<u>(197,245)</u>	<u>(200,191)</u>	<u>(480,906)</u>	<u>4,526</u>	<u>(873,816)</u>

6. INTEREST INCOME

Six months ended 30 June

2023 2022

Unaudited Unaudited

Interest income from loans to customers

— Secured loans to customers

82,639 74,978

— Unsecured loans to customers

43,125 47,209

Interest income from bank deposits

2,846 2,939

128,610 125,126

7. SALES OF GOODS AND COSTS OF SALES

Six months ended 30 June

2023 2022

Unaudited Unaudited

Sales of goods

— *As principal*

187,980 178,474

Costs of sales

— *As principal*

(185,782) (177,099)

8. CONSULTANCY FEE INCOME

Six months ended 30 June

2023 2022

Unaudited Unaudited

Loan consultancy fee income

109 723

9. COMMISSION FEE INCOME

Six months ended 30 June

2023 2022

Unaudited Unaudited

Commission fee income from guarantee business	—	755
Insurance agency commission fee income	<u>415</u>	<u>341</u>
	<u>415</u>	<u>1,096</u>

10. INTEREST EXPENSE

Six months ended 30 June

2023 2022

Unaudited Unaudited

Interest expense on bank borrowings	12,302	14,379
Interest expense on micro-finance company borrowings	2,033	3
Interest expense on other borrowings	2,432	—
Other interest expenses	<u>425</u>	<u>236</u>
	<u>17,192</u>	<u>14,618</u>

11. NET INVESTMENT GAINS/(LOSSES)

Six months ended 30 June

2023 2022

Unaudited Unaudited

Fair value gains/(losses)		
— financial assets at fair value through profit or loss	5,608	(626)
Net (losses)/gains from disposal of financial assets	(1,937)	340
Others	<u>323</u>	<u>—</u>
	<u>3,994</u>	<u>(286)</u>

12. CREDIT IMPAIRMENT LOSSES**Six months ended 30 June****2023** 2022**Unaudited** Unaudited

Credit impairment losses on loans to customers	39,371	41,170
Credit impairment losses on financial guarantees	—	(1,359)
Credit impairment losses on other current assets	82	155
	<u>39,453</u>	<u>39,966</u>

13. OTHER OPERATING INCOME/(EXPENSES)**Six months ended 30 June****2023** 2022**Unaudited** Unaudited

Net gains/(losses) from disposal of repossessed assets	1,015	(2,367)
Rental income	3,681	399
Others	519	257
	<u>5,215</u>	<u>(1,711)</u>

14. OTHER GAINS, NET**Six months ended 30 June****2023** 2022**Unaudited** Unaudited

Net foreign currency gains	880	1,755
Government grants	69	—
	<u>949</u>	<u>1,755</u>

15. INCOME TAX EXPENSE**Six months ended 30 June****2023** 2022**Unaudited** Unaudited

Current income tax	18,143	8,875
Deferred income tax	(7,422)	3,524
	<u>10,721</u>	<u>12,399</u>

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

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
Profit before income tax	<u>47,248</u>	<u>40,891</u>
Tax calculated at domestic tax rates applicable to profits in the respective area	11,762	10,418
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
— Entertainment expenses	57	41
— Investment income attributable to non-controlling interests	—	(951)
— Sundry items	<u>(1,019)</u>	<u>108</u>
Subtotal	<u>10,800</u>	<u>9,616</u>
Adjustment for current income tax of prior years	—	105
Unused tax losses for which no deferred tax asset has been recognised	596	634
Previously unrecognised tax losses now recouped to reduce current income tax	(675)	(232)
PRC withholding tax	<u>—</u>	<u>2,276</u>
Income tax expense	<u>10,721</u>	<u>12,399</u>

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

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

The applicable Hong Kong profits tax rate is 16.5% on the assessable profits earned or derived in Hong Kong for the six months ended 30 June 2023 (2022: same).

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

For small and micro enterprises with annual taxable income not exceeding RMB1 million, the income tax provision is calculated at the applicable corporate tax rate of 20% (2022: 20%) on 25% (2022: 12.5%) of the taxable income amount, and for those with annual taxable income more than RMB1 million but less than RMB3 million, the income tax provision is calculated at the applicable corporate tax rate of 20% (2022: 20%) on 25% (2022: 25%) of the taxable income amount.

Pursuant to the CIT Law, a 5% or 10% (2022: 10%) withholding tax is levied on the dividends declared to overseas investors from companies established in Mainland China.

16. 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 six months ended 30 June 2023 and 2022.

	Six months ended 30 June	
	2023 Unaudited	2022 Unaudited
Profit for the period attributable to owners of the Company (RMB'000)	<u>27,619</u>	<u>18,149</u>
Weighted average number of ordinary shares in issue (in thousands)	<u>1,090,335</u>	<u>1,090,335</u>
Basic earnings per share (RMB)	<u><u>0.025</u></u>	<u><u>0.017</u></u>

(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. Diluted earnings per share is same as the basic earnings per share for the six months ended 30 June 2023 and 2022 as the Group has no category of dilutive potential ordinary shares in issue.

17. DIVIDENDS

A dividend of HK\$0.03 per ordinary share in respect of the year ended 31 December 2022 was declared at the annual general meeting (“AGM”) of the Company held on 12 June 2023. It was determined that such dividend would be paid out of the retained earnings account. Based on the total number of ordinary shares of 1,090,335 thousand outstanding on 31 December 2022, a total dividend of HK\$32.7 million (equivalent to RMB29.2 million) was paid out by the Company on 7 July 2023 (2022: A dividend of HK\$0.04 per ordinary share in respect of the year ended 31 December 2021 was declared at the AGM of the Company held on 26 May 2022. It was determined that such dividend would be paid out of the retained earnings account. Based on the total number of ordinary shares of 1,090,335 thousand outstanding on 31 December 2021, a total dividend of HK\$43.6 million (equivalent to RMB37.3 million) was paid out by the Company on 15 June 2022).

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings Unaudited	Vehicles Unaudited	Electronics and other equipment Unaudited	Total Unaudited
Cost				
At 1 January 2023	51,484	367	8,618	60,469
Additions	—	253	843	1,096
Disposals	—	—	(980)	(980)
	<u>51,484</u>	<u>620</u>	<u>8,481</u>	<u>60,585</u>
At 30 June 2023	<u>51,484</u>	<u>620</u>	<u>8,481</u>	<u>60,585</u>
Accumulated depreciation				
At 1 January 2023	(901)	(109)	(4,777)	(5,787)
Additions	(475)	(69)	(700)	(1,244)
Disposals	—	—	932	932
	<u>(1,376)</u>	<u>(178)</u>	<u>(4,545)</u>	<u>(6,099)</u>
At 30 June 2023	<u>(1,376)</u>	<u>(178)</u>	<u>(4,545)</u>	<u>(6,099)</u>
Carrying amount				
At 30 June 2023	<u>50,108</u>	<u>442</u>	<u>3,936</u>	<u>54,486</u>
	Audited	Audited	Audited	Audited
At 31 December 2022	<u>50,583</u>	<u>258</u>	<u>3,841</u>	<u>54,682</u>

19. LEASES

This note provides information for leases where the Group is a lessee.

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
Right-to-use assets		
Land-use rights (<i>note (a)</i>)	12,088	12,259
Properties	<u>3,941</u>	<u>5,431</u>
	<u>16,029</u>	<u>17,690</u>
Lease liabilities		
Current	1,897	2,627
Non-current	<u>2,078</u>	<u>2,597</u>
	<u>3,975</u>	<u>5,224</u>

Note:

- (a) As at 30 June 2023, land-use rights are pledged with banks to secure non-current bank borrowings with principal amount of RMB193.0 million (31 December 2022: RMB197.0 million) which is borrowed specifically for paying the construction and operation costs of Zhonghui Financial Building (note 28(a)).

The movement of right-of-use assets is as follows:

	Land-use rights Unaudited	Properties Unaudited	Total Unaudited
Cost			
At 1 January 2023 and 30 June 2023	<u>15,246</u>	<u>20,667</u>	<u>35,913</u>
Accumulated depreciation			
At 1 January 2023	(2,987)	(15,236)	(18,223)
Additions	<u>(171)</u>	<u>(1,490)</u>	<u>(1,661)</u>
At 30 June 2023	<u>(3,158)</u>	<u>(16,726)</u>	<u>(19,884)</u>
Carrying amount			
At 30 June 2023	<u>12,088</u>	<u>3,941</u>	<u>16,029</u>
	Audited	Audited	Audited
At 31 December 2022	<u>12,259</u>	<u>5,431</u>	<u>17,690</u>

For short-term lease and low-value asset lease, the Group chooses not to recognise the right-of-use assets and lease liabilities.

20. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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), for a cash consideration of RMB1.5 million.

The Group invested RMB16.0 million to set up Suzhou Cibe Management Consulting Partnership (LP) (蘇州次貝企業管理諮詢合夥企業(有限合夥)) (“Suzhou Cibe”) together with another party and obtained 90% of the equity interest of Suzhou Cibe in 2021. During the six months ended 30 June 2022, the Group and the general partner invested RMB13.5 million and RMB1.5 million respectively in Suzhou Cibe. According to the Partnership Agreement, the operating decisions of the partnership shall be unanimously agreed by both partners. Therefore, the Group has joint control over Suzhou Cibe and the investment is accounted for using the equity method of accounting.

The carrying amount of equity-accounted investments has changed as follows in the six months ended 30 June 2023:

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
At 1 January	26,005	17,475
Additions	—	13,490
Deductions	(17,071)	—
Profit for the period	2,134	—
Dividend received	(2,134)	—
	<hr/>	<hr/>
At 30 June	<u>8,934</u>	<u>30,965</u>

21. INVESTMENT PROPERTIES

	Six months ended 30 June 2023		
	Unaudited		
	Zhonghui Financial Building <i>(notes (a), (b))</i>	Other	Total
At fair value			
At 1 January	<u>191,289</u>	<u>1,680</u>	<u>192,969</u>
At 30 June	<u>191,289</u>	<u>1,680</u>	<u>192,969</u>
	Six months ended 30 June 2022		
	Unaudited		
	Zhonghui Financial Building <i>(notes (a), (b))</i>	Other	Total
At fair value			
At 1 January	<u>202,018</u>	<u>1,680</u>	<u>203,698</u>
At 30 June	<u>202,018</u>	<u>1,680</u>	<u>203,698</u>

Notes:

- (a) The investment property is a self-constructed building, named Zhonghui Financial Building. The construction of the building started in January 2020 and was completed in December 2021. Part of the building is held by the Group for long-term rental yields through renting it to external parties as commercial and office property, and is measured at fair value. The fair value of the building as at 30 June 2023 almost has no change from 31 December 2022.
- (b) As at 30 June 2023, the investment property named Zhonghui Financial Building is pledged with banks to secure non-current bank borrowings with principal amount of RMB193.0 million (31 December 2022: RMB197.0 million), which is borrowed specifically for paying the construction and operation costs of Zhonghui Financial Building (note 28(a)).

22. LOANS TO CUSTOMERS

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
Non-current		
Loans to customers, gross		
Unsecured loans	278,619	264,828
— Guaranteed loans	278,619	262,538
— Other unsecured loans	—	2,290
Less: ECL allowances	(6,368)	(5,859)
Loans to customers, net	<u>272,251</u>	<u>258,969</u>
Current		
Loans to customers, gross		
Secured loans	1,652,985	1,617,499
— Real estate backed loans	1,347,306	1,409,990
— Movable property backed loans	305,679	207,509
Unsecured loans	940,781	940,587
— Equity interest backed loans	486,658	461,471
— Guaranteed loans	254,868	233,014
— Other unsecured loans	199,255	246,102
Less: ECL allowances	2,593,766	2,558,086
Secured loans	(501,724)	(491,743)
Unsecured loans	(244,060)	(218,257)
Loans to customers, net	<u>1,847,982</u>	<u>1,848,086</u>

Loans to customers arise from the Group's lending services. The current loan periods granted to customers are within one year. The terms of non-current loans granted to customers are between two to five years.

The real estate backed and equity interest backed loans provided to customers bear fixed interest rates ranging from 8.0% to 24.0% per annum for the six months ended 30 June 2023 (2022: same). Movable property backed loans granted to customers bear fixed interest rates from 8.0% to 54.0% per annum for the six months ended 30 June 2023 (2022: same). Guaranteed loans granted to customers bear fixed interest rates from 5.5% to 18.0% per annum for the six months ended 30 June 2023 (2022: same). Other unsecured loans granted to customers bear fixed interest rates from 8.0% to 16.0% per annum for the six months ended 30 June 2023 (2022: from 3.8% to 17.0% per annum).

As at 30 June 2023, renewed loans amount to RMB266.2 million (31 December 2022: RMB254.8 million), which include real estate backed loans, equity interest backed loans and guaranteed loans (31 December 2022: 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:

Unaudited	As at 30 June 2023		Total
	Secured loans	Unsecured loans	
Non-current			
Within 3 months	—	43,923	43,923
3–6 months	—	39,019	39,019
6–12 months	—	48,848	48,848
12–24 months	—	92,352	92,352
Over 24 months	—	48,109	48,109
	<u>—</u>	<u>272,251</u>	<u>272,251</u>

Unaudited	As at 30 June 2023		Total
	Secured loans	Unsecured loans	
Current			
Within 3 months	255,670	360,963	616,633
3–6 months	215,807	151,217	367,024
6–12 months	285,078	79,476	364,554
12–24 months	62,363	51,135	113,498
Over 24 months	6,751	15,687	22,438
Past due (<i>note (i)</i>)	325,592	38,243	363,835
	<u>1,151,261</u>	<u>696,721</u>	<u>1,847,982</u>

Audited	As at 31 December 2022		Total
	Secured loans	Unsecured loans	
Non-current			
Within 3 months	—	12,073	12,073
3–6 months	—	46,877	46,877
6–12 months	—	25,448	25,448
12–24 months	—	130,544	130,544
Over 24 months	—	44,027	44,027
	<u>—</u>	<u>258,969</u>	<u>258,969</u>

Audited	As at 31 December 2022		
	Secured loans	Unsecured loans	Total
Current			
Within 3 months	216,776	227,680	444,456
3–6 months	301,545	139,388	440,933
6–12 months	186,882	289,426	476,308
12–24 months	63,113	6,771	69,884
Over 24 months	7,012	35,195	42,207
Past due (<i>note (i)</i>)	<u>350,428</u>	<u>23,870</u>	<u>374,298</u>
	<u><u>1,125,756</u></u>	<u><u>722,330</u></u>	<u><u>1,848,086</u></u>

Note:

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

Unaudited	As at 30 June 2023		
	Secured loans	Unsecured loans	Total
Past due within three months	10,184	27,097	37,281
Past due between three months and one year	38,877	9,979	48,856
Past due between one year and three years	14,130	—	14,130
Past due over three years	<u>262,401</u>	<u>1,167</u>	<u>263,568</u>
	<u><u>325,592</u></u>	<u><u>38,243</u></u>	<u><u>363,835</u></u>

Audited	As at 31 December 2022		
	Secured loans	Unsecured loans	Total
Past due within three months	24,636	16,237	40,873
Past due between three months and one year	28,805	6,356	35,161
Past due between one year and three years	13,630	—	13,630
Past due over three years	<u>283,357</u>	<u>1,277</u>	<u>284,634</u>
	<u><u>350,428</u></u>	<u><u>23,870</u></u>	<u><u>374,298</u></u>

23. DEFERRED INCOME TAX

(a) Deferred income tax assets

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
The balance comprises temporary differences attributable to:		
ECL allowances charge on financial assets	95,589	85,525
Net losses from financial instruments at fair value through profit or loss	—	981
Recoverable tax losses	<u>4,708</u>	<u>6,151</u>
Total deferred income tax assets	<u>100,297</u>	<u>92,657</u>
Offsetting of deferred income tax liabilities pursuant to off-setting provisions	<u>(3,897)</u>	<u>(7,102)</u>
Net deferred income tax assets	<u><u>96,400</u></u>	<u><u>85,555</u></u>

The movement in deferred income tax assets for the six months ended 30 June 2023, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Unaudited	ECL allowances charge on financial assets	Net losses from financial instruments at fair value through profit or loss	Recoverable tax losses	Total
At 1 January 2022	87,048	2,944	5,068	95,060
(Charged)/credited to the consolidated statement of comprehensive income	<u>(2,529)</u>	<u>(1,044)</u>	<u>49</u>	<u>(3,524)</u>
At 30 June 2022	<u>84,519</u>	<u>1,900</u>	<u>5,117</u>	<u>91,536</u>
At 1 January 2023	85,525	981	6,151	92,657
Credited/(charged) to the consolidated statement of comprehensive income	<u>10,064</u>	<u>(981)</u>	<u>(1,443)</u>	<u>7,640</u>
At 30 June 2023	<u><u>95,589</u></u>	<u><u>—</u></u>	<u><u>4,708</u></u>	<u><u>100,297</u></u>

As at 30 June 2023, it is estimated that deferred income tax assets will be reversed over one year (31 December 2022: same).

(b) **Deferred income tax liabilities**

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
The balance comprises temporary differences attributable to:		
Net gains from investment properties	24,925	24,925
Net gains from financial instruments at fair value through profit or loss	903	685
Total deferred income tax liabilities	25,828	25,610
Offsetting of deferred income tax assets pursuant to off-setting provisions	(3,897)	(7,102)
Net deferred income tax liabilities	21,931	18,508

The movement in deferred income tax liabilities for the six months ended 30 June 2023, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Unaudited	Net gains from investment properties	Net gains from financial instruments at fair value through profit or loss	Total
At 1 January 2022	27,605	—	27,605
Charged to the consolidated statement of comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>
At 30 June 2022	<u>27,605</u>	<u>—</u>	<u>27,605</u>
		Net gains from financial instruments at fair value through profit or loss	
Unaudited	Net gains from investment properties	Net gains from financial instruments at fair value through profit or loss	Total
At 1 January 2023	24,925	685	25,610
Charged to the consolidated statement of comprehensive income	<u>—</u>	<u>218</u>	<u>218</u>
At 30 June 2023	<u>24,925</u>	<u>903</u>	<u>25,828</u>

As at 30 June 2023, it is estimated that deferred income tax liabilities will be reversed over one year (31 December 2022: same).

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
Equity securities	88,259	72,129
Structured deposits (<i>note (a)</i>)	<u>20,619</u>	<u>50,502</u>
	<u>108,878</u>	<u>122,631</u>

Note:

(a) The interest rates of structured deposits are correlated to the foreign exchange rates.

As at 30 June 2023, structured deposits with principal amount of RMB20.0 million (31 December 2022: RMB49.5 million) have been pledged with banks to secure borrowings with principal amount of RMB20.0 million (31 December 2022: RMB49.5 million) (*note 28(b)*).

25. CASH AT BANK AND CASH ON HAND

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
Cash on hand	3,625	1,143
Demand deposits with banks	228,081	194,818
Deposits with securities company	1,105	844
Interest receivable from bank deposits	2,318	2,258
Term deposits with banks with original maturities over 3 months, net	52,076	110,076
<i>Term deposits with banks with original maturities over 3 months, gross</i>	52,240	110,240
<i>Less: ECL allowances</i>	(164)	(164)
	<u>287,205</u>	<u>309,139</u>

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

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
RMB	282,037	299,772
US dollar	3,850	6,835
Hong Kong dollar	<u>1,318</u>	<u>2,532</u>
	<u>287,205</u>	<u>309,139</u>

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

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
Cash at bank and cash on hand	287,205	309,139
Less: Interest receivable from bank deposits	(2,318)	(2,258)
Restricted term deposits pledged with banks with original maturities over 3 months	<u>(52,076)</u>	<u>(110,076)</u>
	<u>232,811</u>	<u>196,805</u>

As at 30 June 2023, restricted term deposits of RMB52.1 million (31 December 2022: RMB110.1 million) are pledged with banks to secure bank borrowings with principal amount of RMB50.0 million (31 December 2022: RMB105.0 million) (note 28(b)).

26. SHARE CAPITAL

	Number of shares	Ordinary shares HK\$	Ordinary shares RMB
Issued and fully paid:			
Unaudited			
As at 30 June 2023	<u>1,090,335,000</u>	<u>10,903,350</u>	<u>8,662,017</u>
Audited			
As at 31 December 2022	<u>1,090,335,000</u>	<u>10,903,350</u>	<u>8,662,017</u>

There are no movements in ordinary shares during the period.

27. SHARE PREMIUM AND OTHER RESERVES

	Other reserves					Total
	Share premium	Capital reserve	Statutory reserve	General reserve	Share- based payments reserve	
Unaudited						
At 1 January 2023 and 30 June 2023	<u>604,478</u>	<u>504,457</u>	<u>77,715</u>	<u>4,417</u>	<u>6,533</u>	<u>1,197,600</u>

28. BORROWINGS

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
Non-current		
Bank borrowing (<i>note (a)</i>)	<u>193,000</u>	<u>197,000</u>
Current		
Bank borrowings (<i>note (b)</i>)	328,897	402,128
Borrowings from other companies (<i>note (c)</i>)	52,000	52,000
Borrowings from micro-finance companies (<i>note (d)</i>)	67,500	45,500
Borrowings from the Group's employees (<i>note (e)</i>)	<u>49,750</u>	<u>32,600</u>
	<u>498,147</u>	<u>532,228</u>
	<u>691,147</u>	<u>729,228</u>

The Group's borrowings are all denominated in RMB.

Notes:

- (a) As at 30 June 2023, non-current bank borrowing with principal amount of RMB193.0 million (31 December 2022: RMB197.0 million) is borrowed specifically for paying the construction and operation costs of Zhonghui Financial Building. It is repaid in scheduled instalments within 12 years and bears floating interest rate of the 5-year Loan Prime Rate of the People's Bank of the PRC minus 35 basis points. The borrowing is secured by the Zhonghui Financial Building (31 December 2022: same) (note 21).

As at 30 June 2023, there are no undrawn bank borrowing facilities (31 December 2022: same).

- (b) Current bank borrowings are all with maturity within one year and bear fixed interest rates ranging from 3.1% to 5.2% per annum as at 30 June 2023 (31 December 2022: fixed rate from 3.4% to 5.2% per annum).

As at 30 June 2023, bank borrowings with principal amount of RMB50.0 million (31 December 2022: RMB105.0 million) are secured by restricted term deposits of RMB52.1 million (31 December 2022: RMB110.1 million) (note 25).

As at 30 June 2023, bank borrowings with principal amount of RMB20.0 million (31 December 2022: RMB49.5 million) are secured by structured deposits of RMB20.0 million (31 December 2022: RMB49.5 million).

As at 30 June 2023, bank borrowings with principal amount of RMB90.0 million (31 December 2022: RMB100.0 million) are guaranteed by Jiangsu Wuzhong Jiaye Group Co., Ltd. (江蘇吳中嘉業集團有限公司) (“Wuzhong Jiaye”) and the Ultimate Shareholders.

As at 30 June 2023, bank borrowings with principal amount of RMB10.0 million (31 December 2022: nil) are guaranteed by Wuzhong Jiaye.

As at 30 June 2023, bank borrowings with principal amount of RMB20.0 million (31 December 2022: RMB30.0 million) are guaranteed by Jiangsu Wuzhong Group Co., Ltd. (江蘇吳中集團有限公司) (“Wuzhong Group”).

As at 30 June 2023, bank borrowings with principal amount of RMB30.0 million (31 December 2022: RMB30.0 million) are guaranteed by Suzhou Guofa Financing Guarantee Co., Ltd. and counter-guaranteed by Wuzhou Group and its two subsidiaries.

- (c) As at 30 June 2023, borrowings from other companies bear a fixed interest rate of 9.0% per annum (31 December 2022: 9.0% per annum).
- (d) As at 30 June 2023, borrowings from micro-finance companies with principal amount of RMB52.5 million (31 December 2022: RMB9.5 million) are guaranteed by Wuzhong Jiaye.
- (e) As at 30 June 2023, borrowings from the Group's employees bear a fixed interest rate ranging from 7.8% to 8.0% per annum (31 December 2022: of 8.0% per annum).

29. OTHER CURRENT LIABILITIES

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
Construction payables	19,958	34,844
Advance from transferee of financial assets	22,146	25,471
Advances on sales	7,004	8,609
Accrued employee benefits	4,371	7,871
Turnover tax and other tax payable	1,511	1,992
Redemption deposit	290	—
Other financial liabilities	6,970	12,048
	<u>62,250</u>	<u>90,835</u>

30. CONTINGENCIES

As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: same).

31. COMMITMENTS

(a) Capital commitments

Name of investee company	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
Suzhou Cibe (note (a))	20,495	20,495
Suzhou Qianhui Tongcui Venture Capital Partnership (LP) ("Qianhui Tongcui") (note (b))	10,000	10,000
Suzhou Wuzhong Tiankai Huirui Venture Capital Partnership (LP) ("Tiankai Huirui") (note (c))	—	10,000
Suzhou Kangli Junzhuo Digital Economy Industry Investment Fund Partnership (LP) ("Kangli Junzhuo") (note (d))	5,000	8,000
Suzhou Qianrong Yuanfeng Venture Capital Partnership (LP) ("Qianrong Yuanfeng") (note (e))	—	8,000
Suzhou Zhongxin Hengyuan Venture Capital Partnership (LP) ("Zhongxin Hengyuan") (note (f))	2,000	2,000
	<u>37,495</u>	<u>58,495</u>

Notes:

- (a) The committed capital injection to Suzhou Cibe is RMB45.0 million, of which RMB20.5 million (31 December 2022: RMB20.5 million) has not been paid by the Group as at 30 June 2023.
- (b) The committed investment injection to Qianhui Tongcui is RMB20.0 million, of which RMB10.0 million (31 December 2022: RMB10.0 million) has not been paid by the Group as at 30 June 2023.
- (c) The committed investment injection to Tiankai Huirui is RMB20.0 million, all of which have been paid by the Group as at 30 June 2023 (31 December 2022: of which RMB10.0 million has not been paid by the Group).
- (d) The committed investment injection to Kangli Junzhuo is RMB10.0 million, of which RMB5.0 million (31 December 2022: RMB8.0 million) has not been paid by the Group as at 30 June 2023.
- (e) The committed investment injection to Qianrong Yuanfeng is RMB20.0 million, all of which have been paid by the Group as at 30 June 2023 (31 December 2022: of which RMB8.0 million has not been paid by the Group).
- (f) The committed investment injection to Zhongxin Hengyuan is RMB10.0 million, of which RMB2.0 million (31 December 2022: RMB2.0 million) has not been paid by the Group as at 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

With the goal of achieving nationwide business coverage, the Company has fully leveraged its status as a listed company in Hong Kong and its access to the international capital markets and implemented the dual strategy of “inclusive finance plus ecology finance”, striving to offer comprehensive financial services to small and medium enterprises (“SMEs”) and individual clients alike as well as offer quality and safe financial assets to investors and financial institutions. As our brand has been well recognized by the public with our stable asset quality and our continuously improved profitability, we have gradually developed into a company that offers comprehensive finance services.

During the Reporting Period, the Company continued to fulfill the requirements of the Board to “manage the surplus in hand, provide a platform for a convenient life, solve temporary problems, and cheer up SMEs”, and insisted on the business philosophy of “intensive management and refined management”. The overall operating situation was significantly improved as compared with the corresponding period of last year. In terms of the Inclusive Finance Business, we adjusted our business strategy concerning the real estate backed loans and enriched its product categories. We also explored the innovative business model of “cloud pawnshop” in terms of movable property backed loans. The art investment business maintained a steady growth and the luxury sales business launched a new attempt to open a new store in the shopping mall. In terms of the Ecology Finance Business, new breakthroughs were made in the scale and performance of the commercial factoring business. The supply chain management business focused on making profit under controllable risks and value creation. The equity investment business maintained a stable investment rhythm. The financial leasing business successfully granted the first lease after the completion of the license application and preparation of our relevant operating entity.

1. BUSINESS REVIEW AND DEVELOPMENT

1.1 Inclusive Finance Business Division

The Inclusive Finance Business Division conducts its business through platforms such as Suzhou Wuzhong Pawnshop Co. Ltd.* (蘇州市吳中典當有限責任公司) (“Wuzhong Pawnshop”), Changsha Furong District Huifang Pawnshop Co., Ltd.* (長沙市芙蓉區匯方典當有限責任公司) (“Changsha Pawnshop”), Nanchang Huifang Pawnshop Co., Ltd.* (南昌市匯方典當有限責任公司) (“Nanchang Pawnshop”), Suzhou Wuzhong District Dongshan Agricultural Microfinance Co., Ltd.* (蘇州市吳中區東山農村小額貸款有限公司) (“Dongshan Micro-finance”), Suzhou Huifang Rongtong SME Guided 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”), Nanjing Yiling Culture and Art Co., Ltd.* (南京藝瓏文化藝術有限公司) (“Nanjing Yiling”) and Suzhou Huirong Culture and Art Co., Ltd.* (蘇州匯融文化藝術有限公司) (“Huirong Culture”). The division conducts pawnshop business, micro-finance business, turnover loan fund business, art investment business and luxury sales business by adhering to the concept of small-sums and dispersed inclusive finance. Major products under this division include secured loans (including real estate backed loans and movable property backed loans) and unsecured loans (including equity interest backed loans, guaranteed loans

and other unsecured loans), which focus on solving short-term liquidity needs of SMEs and individuals. The business of Inclusive Finance Business Division currently mainly covers Suzhou, Chengdu, Wuhan, Hefei, Wuxi, Changsha and Nanchang, and is striving to become a leading service provider of inclusive finance in the PRC.

(a) Pawnshop Business

The following table sets out the details of total transaction amount, number and income of loans granted as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total transaction number of new secured loans		
Total transaction number of new real estate backed loans	298	342
Total transaction number of new movable property backed loans	1,697	1,140
Total transaction amount of new secured loans (RMB million)		
Total transaction amount of new real estate backed loans	211	205
Total transaction amount of new movable property backed loans	164	58
Balance of secured loans at the end of the Reporting Period (principal) (RMB million)		
Balance of real estate backed loans at the end of the Reporting Period (principal)	708	687
Balance of movable property backed loans at the end of the Reporting Period (principal)	158	79
Interest income of secured loans (RMB thousand)		
Interest income of real estate backed loans	48,159	50,991
Interest income of movable property backed loans	11,190	6,802
Total transaction number of new unsecured loans	20	25
Total transaction amount of new unsecured loans (RMB million)	362	401
Balance of unsecured loans at the end of the Reporting Period (principal) (RMB million)	397	375
Interest income of unsecured loans (RMB thousand)	<u>12,464</u>	<u>11,997</u>

The pawnshop business mainly relies on Wuzhong Pawnshop, Changsha Pawnshop and Nanchang Pawnshop as entities to carry out its business. Wuzhong Pawnshop, established in 1999 with a registered capital of RMB1,000 million, is an indirect wholly-owned subsidiary of the Company by virtue of the series of contractual arrangements entered into by Suzhou Huifang Tongda Information Technology Co., Ltd.* (蘇州匯方同達信息科技有限公司) (“Huifang Tongda”), Suzhou Huifang Technology Co. Ltd.* (蘇州匯方科技有限公司) (“Huifang Technology”), Wuzhong Pawnshop, Jiangsu Wuzhong Jiaye Group Co., Ltd.* (江蘇吳中嘉業集團有限公司) (“Wuzhong Jiaye”), Suzhou Xinqu Hengyue Management Consulting Co., Ltd.* (蘇州新區恆悅管理諮詢有限公司) and the Ultimate Shareholders (the “Contractual Arrangements”). Wuzhong Pawnshop is the largest pawnshop in Mainland China. Changsha Pawnshop, established in 2021 with a registered capital of RMB50 million, is an indirect wholly-owned subsidiary of the Company. Nanchang Pawnshop, established in 2022 with a registered capital of RMB30 million, is an indirect non-wholly owned subsidiary of the Company. The Company holds 90% of the equity interests of Nanchang Pawnshop.

The pawnshop business primarily engages in secured loan and unsecured loan businesses. Secured loans business mainly includes real estate backed loans and movable property backed loans.

① Real Estate Backed Loans

Real estate backed loans primarily provide personal or corporate financing services to customers who have obtained real estate certificates. Business risks are comprehensively assessed based on customer credit status, real estate value, customer industry analysis and solvency, etc. The loan amount does not exceed 80% of the total evaluation price. The interest rates range from 8% to 24% per annum and the loan term is no longer than 1 year. The operation area is mainly in core urban areas of Suzhou, Chengdu, Wuhan, Hefei, Wuxi, Changsha, Nanchang and other cities in the PRC. The target customers are mainly distributed across manufacturing, beverage, retail, trade and other industries. As of 30 June 2023, the total number of customers was 349, and the five largest customers contributed, in aggregate, 44.54% of the balance of real estate backed loans at the end of the Reporting Period (principal). As one of the core products of the Inclusive Finance Business Division, secured loans have high-quality customer resources and have maintained a sound and steady trend of development.

As of 30 June 2023, the balance at the end of the Reporting Period (principal) and the interest income of real estate backed loans granted by the Company were RMB708 million and RMB48,159 thousand, respectively, representing an increase in balance and a decrease in interest income as compared with the corresponding period of last year. The main reason was the decrease in unwinding interest due to the recovery of certain large loans in stage 3.

The main risks and uncertainties faced by the real estate backed loans include real estate value fluctuation risk, regulatory policy change risk, credit policy change risk, liquidity risk and credit risk, etc.

For the first half of 2023, the Company conducted the application for the establishment of Fuzhou Huifang Pawnshop Co., Ltd.* (福州市匯方典當有限責任公司) and obtained the business licence on 23 August 2023. We adjusted our business strategy in relation to real estate backed loans periodically, and actively explored more dislocation competition and development opportunities. The development direction of the real estate backed loans in the future is to continue to implement its national expansion strategy by establishing one or two pawnshops in provincial capital cities per year and expanding its business to 10 to 12 cities by 2025.

② Movable Property Backed Loans

The movable property backed loans mainly provide fast movable property backed financing services to individuals, and the product categories cover artworks, gold, jewelry, diamonds, watches and luxury goods, etc. The loan amount does not exceed 95% of the total evaluation price. The interest rates and comprehensive rates range from 8% to 54% per annum and the loan term is within 1 year. The operation area is mainly in core urban areas of Suzhou. The businesses in Chengdu, Wuhan, Hefei, Wuxi, Changsha, Nanchang and other cities are also gradually expanding. The target customers are mainly distributed across manufacturing, agriculture, retail and other industries. As of 30 June 2023, the total number of customers was 767, and the five largest customers contributed, in aggregate, 80.20% of the balance of movable property backed loans at the end of the Reporting Period (principal).

As of 30 June 2023, the balance at the end of the Reporting Period (principal) and the interest income of movable property backed loans granted by the Company were RMB158 million and RMB11,190 thousand, respectively, representing a significant increase as compared with the corresponding period of last year. The main reason was that the Company strengthened the marketing of the movable property backed loans and focused on artworks pawnshop business. The Company also created the “cloud pawnshop” platform by cooperating with other outstanding pawnshops in Jiangsu Province, expanding the scope of customer services.

The main risks and uncertainties faced by the movable property backed loans include collateral appraisal risk, collateral valuation risk, regulatory policy change risk and credit risk, etc.

For the first half of 2023, the movable property backed loans explored the innovative business model under the encouragement and guidance of regulatory authorities. The development direction of the movable property backed loans in the future is to strengthen the inter-industry cooperation and the level of digitization of stores, and improve customer satisfaction.

③ Unsecured Loans

The unsecured loans mainly provide equity financing services for SMEs. Business risks are comprehensively assessed based on the enterprise operation, financial conditions, industry development and debt repayment ability, etc. The loan amount does not exceed 50% of the total equity evaluation price. The interest rates range from 8% to 18% per annum and the loan term is 6 months. The operation area is mainly in Suzhou. The target customers are mainly distributed in manufacturing, construction, investment and other industries. As of 30 June 2023, the total number of customers was 20, and the five largest customers contributed, in aggregate, 59.00% of the balance of unsecured loans at the end of the Reporting Period (principal).

As of 30 June 2023, the balance at the end of the Reporting Period (principal) and the interest income of unsecured loans granted by the Company were RMB397 million and RMB12,464 thousand, respectively, representing an increase as compared with the corresponding period of last year. The main reason was that the Company slightly strengthened its loan support for long-term cooperative customers.

The main risks and uncertainties faced by the unsecured loans include regulatory policy change risk, credit policy change risk, credit risk and liquidity risk, etc.

For the first half of 2023, the Company attached great importance to the actual business situation of the customers of unsecured loans and strictly controlled the risks of the unsecured loans after evaluation of the situation. The development direction of the unsecured loans in the future is to form new strategic partnerships, prudently control the existing business balance, and seek a small-sums and dispersed transformation direction.

For the pawnshop business, the Company adopts comprehensive internal control measures. The pre-loan measures are mainly to implement the policy of separating the process of checking and actual lending and the policy of graded examination and approval. These measures require that the responsibilities of each approval function be clarified, and ensures implementation of the operational risk and non-performing loan accountability mechanism. The post-loan measures are mainly to implement post-loan management, post-event supervision, and compliance monitoring and management systems. These measures require real-time monitoring and management of business processes and risks, quarterly post-loan inspections for each product, and

special inspections from time to time. The measures for overdue business are mainly to implement procedures in strict accordance with the post-loan management measures. The management system will give an early warning notice before the expiration of each business, and the operating unit will report to the risk control department in a timely manner and report the disposal plan at the same time to ensure asset quality.

(b) *Micro-finance business*

The following table sets out the details of total new loans secured by real estate, guaranteed loans and credit loans as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total number of new loans granted	67	111
Total amount of new loan granted (RMB million)	194	187
Balance at the end of the Reporting Period (principal) (RMB million)	416	349
Interest income (RMB thousand)	<u>20,579</u>	<u>19,744</u>

The micro-finance business mainly relies on Dongshan Micro-finance as the entity to carry out its business. Dongshan Micro-finance, established in 2012 with a registered capital of RMB300 million, is an indirect non-wholly owned subsidiary of the Company and is jointly established by the Company and Suzhou Wuzhong District Dongshan Town Collective Assets Management Co., Ltd.* (蘇州市吳中區東山鎮集體資產經營公司) and other entities. The Company holds 70% of the equity interests of Dongshan Micro-finance. Dongshan Micro-finance is also one of the few micro-finance companies rated “A” in Jiangsu Province.

Dongshan Micro-finance primarily engages in providing small loans and financial services such as finance guarantees for SMEs and individuals. Loans mainly include secured loans, guaranteed loans and credit loans.

Business risks of secured loans are comprehensively assessed based on the Company’s credit status, collateral value, industry analysis and cash flow, etc. The loan amount does not exceed 75% of the total evaluation price. The interest rates range from 9% to 18% per annum and the loan terms range from 6 months to 12 months. As of 30 June 2023, the balance at the end of the Reporting Period (principal) of the secured loans was RMB206 million. The operation area is mainly in Suzhou. The target customers are mainly distributed in agriculture, beverage, service and other industries. As of 30 June 2023, the

total number of customers was 124, and the five largest customers contributed, in aggregate, 42.06% of the balance of secured loans at the end of the Reporting Period (principal).

Business risks of guaranteed loans are comprehensively assessed based on the company's operating conditions, financial situation and industry development, etc. The interest rates range from 10% to 18% per annum and the loan terms range from 3 months to 12 months. As of 30 June 2023, the balance at the end of the Reporting Period (principal) of the guaranteed loans was RMB80 million. The operation area is mainly in Suzhou. The target customers are mainly distributed in manufacturing, trade, investment and other industries. As of 30 June 2023, the total number of customers was 31, and the five largest customers contributed, in aggregate, 43.23% of the balance of guaranteed loans at the end of the Reporting Period (principal).

Business risks of credit loans are comprehensively assessed based on the individual's or company's credit status, enterprise operation, asset conditions and solvency, etc. The interest rates range from 8% to 16% per annum and the loan terms range from 3 months to 12 months. As of 30 June 2023, the balance at the end of the Reporting Period (principal) of the credit loans was RMB130 million. The operation area is mainly in Suzhou. The target customers are mainly distributed in trade, gardening, investment and other industries. As of 30 June 2023, the total number of customers was 14, and the five largest customers contributed, in aggregate, 67.40% of the balance of credit loans at the end of the Reporting Period (principal).

As of 30 June 2023, the balance at the end of the Reporting Period (principal) and the interest income of micro-finance business were RMB416 million and RMB20,579 thousand, respectively, representing an increase as compared with the corresponding period of last year. The main reason was the decrease in unwinding interest due to the recovery of certain large loans in stage 3.

The main risks and uncertainties faced by the micro-finance business include real estate valuation risk, credit risk, regulatory policy change risk, credit policy change risk and liquidity risk, etc.

For the first half of 2023, in order to actively enhance our brand awareness and influence, our Group continued to strengthen the digitization of the micro-finance business and diversify external cooperation. The development direction of micro-finance business in the future is to intensify the service to technology-based and low-carbon SMEs and fulfill the social responsibility of inclusive finance to promote regional economic development on the basis of bringing stable dividends to shareholders.

For the micro-finance business, the Company adopts comprehensive internal control measures. The pre-loan measures are mainly to implement the policy of separating the process of checking and actual lending and the policy of graded examination and approval. These measures require that the responsibilities of each approval function be clarified, and the operational risk and non-performing loan accountability mechanism be implemented. The post-loan measures are mainly to implement post-loan management, post-event supervision, and compliance monitoring and management systems. These measures require real-time monitoring and management of business processes and risks, quarterly post-loan inspections for each product, and special inspections from time to time. The measures for overdue business are mainly to implement procedures in strict accordance with the post-loan management measures. The management system will give an early warning notice before the expiration of each business, and the operating unit will report to the risk control department in a timely manner and report the disposal plan at the same time to ensure asset quality.

(c) *Turnover Loan Fund Business*

The following table sets out the details of total new loans granted to SMEs and individuals under our turnover loan fund business as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total number of new loans granted	453	312
Total new loan amount granted (RMB million)	2,214	1,937
Balance at the end of the Reporting Period (principal) (RMB million)	45	13
Interest income (RMB thousand)	<u>3,856</u>	<u>6,234</u>

The turnover loan fund business mainly relies on Huifang Rongtong as the entity to carry out its business. Huifang Rongtong, established in 2017 with a registered capital of RMB75 million, is an indirect non-wholly owned subsidiary of the Company and is jointly established by the Company and Suzhou Wuzhong Financial Holdings Group Limited* (蘇州市吳中金融控股有限公司), a company owned by the Wuzhong District Government in Suzhou of Jiangsu Province. The Company holds 80% of the equity interests of Huifang Rongtong. Such government-enterprise cooperation fund is scarce in Suzhou and even Jiangsu Province.

The turnover loan fund business serves as a bridge between banking institutions and SMEs. It focuses on serving SMEs and local government platforms with the needs of turnover loans. Business risks are comprehensively assessed based on the company's credit status, enterprise operation, financial conditions and bank credit conditions, etc. The interest rates range from 15.2% to 18% per annum and the loan terms range from

1 day to 30 days. The operation area is mainly in Suzhou. The target customers are mainly distributed in manufacturing, construction, trade and other industries. As of 30 June 2023, the total number of new loan customers granted was 453, and the five largest customers contributed, in aggregate, 12.24% of the total new loan amount granted.

As of 30 June 2023, the balance of turnover loan fund business at the end of the Reporting Period (principal) was RMB45 million, representing a significant increase as compared with the corresponding period of last year. The main reason was that the turnover loan fund business has the characteristics of short loan terms and high turnover rate, and thus the balance fluctuates greatly. As of 30 June 2023, the interest income of turnover loan fund business was RMB3,856 thousand, representing a significant decrease as compared with the corresponding period of last year. The main reason was that the interest income of existing loans recovered during the Reporting Period decreased compared with the corresponding period of last year.

The main risks and uncertainties faced by the turnover loan fund business include regulatory policy change risk and credit risk, etc.

For the first half of 2023, the turnover loan fund business continued to take advantage of the opportunity of joining the Suzhou municipal-level turnover loan service platform to expand its brand influence and its market share. The development direction of turnover loan fund business in the future is to act as a bridge between banks and SMEs, actively mobilize resources from all parties and achieve full coverage of qualified SMEs with turnover loan needs in Suzhou Wuzhong District and even Suzhou under the guidance of the municipal-level turnover loan service platform.

For the turnover loan fund business, the Company adopts comprehensive internal control measures. The pre-loan measures are mainly to implement the policy of separating the process of checking and actual lending and the policy of graded examination and approval. These measures require that the responsibilities of each approval function be clarified, and the operational risk and non-performing loan accountability mechanism be implemented. The post-loan measures are mainly to implement post-loan management, post-event supervision, and compliance monitoring and management systems. These measures require real-time monitoring and management of business processes and risks, quarterly post-loan inspections for each product, and special inspections from time to time. The measures for overdue business are mainly to implement procedures in strict accordance with the post-loan management measures. The management system will give an early warning notice before the expiration of each business, and the operating unit will report to the risk control department in a timely manner and report the disposal plan at the same time to ensure asset quality.

(d) Art Investment Business

The following table sets out the operating information of the art investment business as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total transaction number of new artworks	6	4
Total transaction amount of new artworks (RMB million)	68	54
Total amount of artworks trading stock at the end of the Reporting Period (RMB million)	148	131
Artworks business income (RMB thousand)	<u>9,502</u>	<u>8,404</u>

The art investment business mainly relies on Nanjing Yiling as the entity to carry out its business. Nanjing Yiling, established in 2021 with a registered capital of RMB55 million, is an indirect non-wholly owned subsidiary of the Company and is jointly established by the Company and Nanjing Yili Culture Development Co., Ltd.* (南京藝力文化發展有限公司). The Company holds 55% of the equity interests of Nanjing Yiling. Nanjing Yiling conducts artwork investment, artwork custody, artwork disposal and other businesses.

The art investment business covers all categories of artworks, including Chinese modern painting and calligraphy, international contemporary painting and calligraphy, ancient antiques and sculptures, etc. Its business covers the whole of Mainland China. The target customers are mainly major auction companies and well-known domestic collectors.

As of 30 June 2023, the total amount of artworks trading stock at the end of the Reporting Period and the artworks business income of art investment business were RMB148 million and RMB9,502 thousand, respectively, representing an increase as compared with the corresponding period of last year. The main reason was that after the completion of business model validation, the Company deepened its cooperation with major auction houses and effectively expanded the scale of art investment.

The main risks and uncertainties faced by art investment business include regulatory policy change risk, artworks valuation risk, artworks transportation and storage risk, credit risk, liquidity risk, art market systemic risk, etc.

For the first half of 2023, the art investment business continued to expand its business scale, and the profit contribution has gradually increased. The development direction of art investment business in the future is to strive to build a comprehensive system that serves the entire art industry, and develop Nanjing Yiling into a well-known comprehensive art service organization in the Mainland China, covering art investment, art appraisal and storage, art auction agency, art exhibition and other services.

(e) *Luxury Sales Business*

The following table sets out the operating information of the luxury sales business as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total transaction number	648	175
Sales income (RMB thousand)	<u>7,502</u>	<u>5,129</u>

The luxury sales business mainly relies on Wuzhong Pawnshop and Huirong Culture as entities to carry out its business. Wuzhong Pawnshop, established in 1999 with a registered capital of RMB1,000 million, is an indirect wholly-owned subsidiary of the Company by virtue of the Contractual Arrangements. Wuzhong Pawnshop is the largest pawnshop in Mainland China and the main sales platform of luxury sales business. Huirong Culture, established in 2022 with a registered capital of RMB1 million, is an indirect wholly-owned subsidiary of the Company.

With the help of the Company's popularity and business experience in the pawnshop industry and on the basis of the original sales of pawn products, the Company built some pawnshops into influential comprehensive luxury service platforms offering luxury pawn, maintenance, recycling and consignment services, integrating financial services and retail. The operation area is mainly in Suzhou. The target customers are mainly luxury retailers and individual consumers.

As of 30 June 2023, the total transaction number and the sales income of luxury goods were 648 and RMB7,502 thousand, respectively, representing an increase as compared with the corresponding period of last year. The main reason was that the Company opened a store in the shopping mall, resulting in the increase in the natural customer flow.

The main risks and uncertainties faced by luxury sales business include regulatory policy change risk, luxury goods appraisal risk, liquidity risk and luxury market systemic risk, etc.

For the first half of 2023, the Company deepened joint operation of luxury sales business and pawnshop business, and opened a store in the shopping mall to attract young consumers. The development direction of luxury sales business in the future is to conduct multi-dimensional integration of luxury goods and pawnshops and cooperate with foreign well-known vintage brands to create a luxury goods online-to-offline sales platform with the construction of regional live broadcast platform and online shopping mall platform.

1.2 Ecology Finance Business Division

The Ecology Finance Business Division conducts its business through platforms such as Suzhou Huida Commercial Factoring Company Limited* (蘇州匯達商業保理有限公司) (“Huida Factoring”), Suzhou Huifang Financial Leasing Co., Ltd.* (蘇州匯方融資租賃有限公司) (“Huifang Financial Leasing”), Suzhou Huifang Supply Chain Management Co., Ltd.* (蘇州市匯方供應鏈管理有限公司) (“Huifang Supply Chain”), Suzhou Huifang Rongcui Management Consulting Co., Ltd.* (蘇州匯方融萃企業管理諮詢有限公司) (“Huifang Rongcui”), Suzhou Huifang Tongcui Business Management Consulting Partnership (Limited Partnership)* (蘇州匯方同萃企業管理諮詢合夥企業(有限合夥)) (“Huifang Tongcui”), Qingdao Wanchen Buliang Property Company Limited* (青島萬宸不良資產處置有限公司) (“Qingdao Wanchen”), Suzhou Cibe Management Consulting Partnership (LP)* (蘇州次貝企業管理諮詢合夥企業(有限合夥)) (“Suzhou Cibe”), Suzhou Huifang Anda Insurance Agency Company Limited* (蘇州匯方安達保險代理有限公司) (“Huifang Anda”, formerly named as Nanjing Shun’an Insurance Agency Company Limited* (南京舜安保險代理有限公司)) and Sichuan Aomeishu Technology Co., Ltd* (四川奧美殊科技有限公司), adhering to the innovation of finance concept. It attaches great importance to the internal and external resources to develop commercial factoring business, financial leasing business, supply chain management business, equity investment business, special assets investment business and insurance brokerage business.

(a) Commercial Factoring Business

The following table sets out the operating information of the commercial factoring business as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total number of new transaction relating to account receivables assignment	16	8
Total amount of new transaction relating to account receivables assignment (RMB million)	108	66
Balance at the end of the Reporting Period (principal) (RMB million)	359	304
Interest income (RMB thousand)	15,525	14,435
Service fee income (RMB thousand)	<u>1,882</u>	<u>1,297</u>

The commercial factoring business mainly relies on Huida Factoring as the entity to carry out its business. Huida Factoring, established in 2016 with a registered capital of RMB170 million, is an indirect non-wholly owned subsidiary of the Company and is jointly established by the Company and three other state-owned and collective capital companies: Suzhou Wuzhong Gaoxin Entrepreneurship Service Co., Ltd.* (蘇州吳中高新

創業服務有限公司), Suzhou Dongfang Venture Investment Co., Ltd.* (蘇州東方創業投資有限公司) and Suzhou Wuzhong City Construction Investment Development Co.,Ltd.* (蘇州市吳中城市建設投資發展有限公司). The Company holds 52.94% of the equity interests in Huida Factoring.

Huida Factoring is principally engaged in accepting assignment of account receivable from SMEs and installment of account receivables. Commercial factoring business evaluates business risks by comprehensively analyzing enterprise operation, financial conditions, receivables and industry development factors based on customers' credit status. The loan amount does not exceed 80% of the total amount of receivables. The interest rates range from 8.5% to 13% per annum and the loan term is within 5 years. The operation area is mainly in Suzhou. The target customers are mainly distributed in construction, manufacturing and other industries. As of 30 June 2023, the total number of customers was 18, and the five largest customers contributed, in aggregate, 55.81% of the balance at the end of the Reporting Period (principal).

As of 30 June 2023, the balance at the end of the Reporting Period (principal) and the interest income of Huida Factoring were RMB359 million and RMB15,525 thousand, respectively, representing an increase as compared with the corresponding period of last year. The main reason was the expansion of the business scale after the continuous advancement of bank financing.

The main risks and uncertainties faced by commercial factoring business include credit risk, receivable risk and regulatory policy change risk, etc.

For the first half of 2023, the commercial factoring business strengthened the marketing and bank financing, achieving new breakthroughs in scale and performance. The development direction of commercial factoring business in the future is to attach importance to promoting financing in more dimensions, continue to expand the business scale, strengthen digital construction and build a rich and diversified product system.

For the commercial factoring business, the Company adopts comprehensive internal control measures. The pre-loan measures are mainly to implement the policy of separating the process of checking and actual lending and the policy of graded examination and approval. These measures require that the responsibilities of each approval function be clarified, and the operational risk and non-performing loan accountability mechanism be implemented. The post-loan measures are mainly to implement post-loan management, post-event supervision, and compliance monitoring and management systems. These measures require real-time monitoring and management of business processes and risks, quarterly post-loan inspections for each product, and special inspections from time to time. The measures for overdue business are mainly to implement procedures in strict accordance with the post-loan management measures. The management system will give

an early warning notice before the expiration of each business, and the operating unit will report to the risk control department in a timely manner and report the disposal plan at the same time to ensure asset quality.

(b) Financial Leasing Business

The following table sets out the operating information of the financial leasing business as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total transaction number of financial leasing	2	—
Total amount of new transaction relating to account receivables assignment (RMB million)	19	—
Balance at the end of the Reporting Period (principal) (RMB million)	19	—
Interest income (RMB thousand)	43	—

The financial leasing business mainly relies on Huifang Financial Leasing as the entity to carry out its business. Huifang Financial Leasing, established in 2023 with a registered capital of RMB170 million, is an indirect non-wholly owned subsidiary of the Company and is jointly established by the Company, Suzhou Shengzhuang Food Co., Ltd.* (蘇州聖莊食品有限公司) (“Shengzhuang Food”) and Suzhou Tianyi Knitwear Co., Ltd.* (蘇州天衣針織品有限公司) (“Tianyi Knitwear”). The Company holds 70% of the equity interests in Huifang Financial Leasing.

Huifang Financial Leasing primarily offers two types of finance leasing services, namely, direct finance leasing and sale-leaseback, to the customers. Financial leasing business evaluates business risks by comprehensively analyzing customer’s industry and reputation, existing debt position, operating cash flows and the projected cash flows to be generated from the lease asset. The interest rate is 12.09% per annum and the lease term is within 3 years. The operation area is mainly in Suzhou. The target customers are mainly distributed in advanced manufacturing and other industries. As of 30 June 2023, the total number of customers was 2, and the five largest customers contributed, in aggregate, 100% of the balance at the end of the Reporting Period (principal).

As of 30 June 2023, the balance at the end of the Reporting Period (principal), the interest income and the service fee income of Huifang Financial Leasing were RMB19 million, RMB43 thousand and RMB401 thousand, respectively.

The main risks and uncertainties faced by financial leasing business include credit risk, regulatory policy change risk and lease asset liquidity risk, etc.

For the first half of 2023, Huifang Financial Leasing was established and the team was formed after the Local Financial Supervision and Administration Bureau of Jiangsu Province* (江蘇省地方金融監督管理局) issued an approval. The development direction of financial leasing business in the future is to support the development and innovation of SMEs and assist in industrial transformation and upgrading in advanced manufacturing, healthcare and public utility industry.

For the financial leasing business, the Company adopts comprehensive internal control measures. The pre-loan measures are mainly to implement the policy of separating the process of checking and actual lending and the policy of graded examination and approval. These measures require that the responsibilities of each approval function be clarified, and the operational risk and non-performing loan accountability mechanism be implemented. The post-loan measures are mainly to implement post-loan management, post-event supervision, and compliance monitoring and management systems. These measures require real-time monitoring and management of business processes and risks, quarterly post-loan inspections for each product, and special inspections from time to time. The measures for overdue business are mainly to implement procedures in strict accordance with the post-loan management measures. The management system will give an early warning notice before the expiration of each business, and the operating unit will report to the risk control department in a timely manner and report the disposal plan at the same time to ensure asset quality.

(c) *Supply Chain Management Business*

The following table sets out the operating information of the supply chain management business as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total transaction number	538	419
Total transaction number of grain and oil	98	109
Total transaction number of fresh produce	314	77
Total transaction number of liquor	109	55
Total transaction number of other goods	17	178
Sales income (RMB thousand)	187,980	178,474
Sales income of grain and oil	116,818	125,571
Sales income of fresh produce	24,284	11,881
Sales income of liquor	905	926
Sales income of other goods	45,973	<u>40,096</u>

The supply chain management business mainly relies on Huifang Supply Chain as the entity to carry out its business. Huifang Supply Chain, established in 2018 with a registered capital of RMB400 million, is an indirect wholly-owned subsidiary of the Company. It was committed to focus on new supply chain scenarios mainly for grain and oil, fresh produce, liquor, mobile terminal and other consumer goods fields. Currently, Huifang Supply Chain has cooperated with ZTE CORPORATION* (中興通訊股份有限公司), Yihai Kerry Arawana Holdings Co., Ltd* (益海嘉里金龍魚糧油食品股份有限公司), Luzhou Lao Jiao Co., Ltd* (瀘州老窖股份有限公司), New Hope Group Co., Ltd* (新希望集團有限公司) and many other well-known enterprises.

As of 30 June 2023, the total transaction number of supply chain management business and the sales income were 538 and RMB187,980 thousand, respectively, representing an increase as compared with the corresponding period of last year. The main reason was that the Company focused on high gross profit business and adjusted the business structure of different products.

The main risks and uncertainties faced by supply chain management business include cargo transportation risk, cargo custody risk and customer default risk, etc.

For the first half of 2023, Huifang Supply Chain actively explored new business scenarios and models in order to make improvements in making profit under controllable risks and value creation. The development direction of supply chain management business in the future is to build its own supply chain Software as a Service (“SaaS”) platform, carry out digital financial innovation and expand more product categories.

(d) Equity Investment Business

The following table sets out the operating information of the equity investment business as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total transaction number of new investment	3	1
Total transaction amount of new investment (RMB million)	21	9
Balance of investment at the end of the Reporting Period (RMB million)	81	24
Investment income (RMB thousand)	<u><u>—</u></u>	<u><u>—</u></u>

The equity investment business mainly relies on Huifang Rongcui and Huifang Tongcui as entities to carry out its business. Huifang Rongcui, established in 2021 with a registered capital of RMB100 million, is an indirect non-wholly owned subsidiary of the Company. The Company holds 90% of the equity interests in Huifang Rongcui. Huifang Tongcui, established in 2022 with a registered capital of RMB20 million, is an indirect non-wholly owned subsidiary of the Company. The Company holds 60% of the equity interests in Huifang Tongcui. Aiming at creating a business pattern of coordinated development of creditor's rights and equity, the equity investment business cooperates with senior equity investment institutions based on national policy guidance. Investment areas mainly cover advanced manufacturing, semiconductor, new energy, biomedicine and other strategic emerging industries.

The main risks and uncertainties faced by equity investment business include the risk of business deterioration of the invested enterprise, the risk of regulatory policy changes, the systematic risk of financial market and contract risk, etc.

As of 30 June 2023, Huifang Rongcui cooperated with six senior equity investment institutions, intended investment being RMB75 million, with actual investment of RMB68 million. These include (i) RMB10 million of planned investment in Suzhou Qianhui Xinli Venture Investment Partnership (LP)* (蘇州乾匯信立創業投資合夥企業(有限合夥)) (fund management being Suzhou Qianhui Zhitou Investment Management Co., Ltd* (蘇州乾匯智投資本管理有限公司) (“Qianhui Investment”)), with actual investment of RMB10 million; (ii) RMB10 million of planned investment in Suzhou Zhongxin Hengyuan Venture Capital Partnership (LP)* (蘇州中鑫恆遠創業投資合夥企業(有限合夥)) (“Zhongxin Hengyuan”) (fund management being Suzhou Zhongxin Innovation Investment Management Co., Ltd.* (蘇州中鑫創新投資管理有限公司)), with actual investment of RMB8 million; (iii) RMB20 million of planned investment in Suzhou Qianrong Yuanfeng Venture Capital Partnership (LP)* (蘇州乾融園豐創業投資合夥企業(有限合夥)) (“Qianrong Yuanfeng”) (fund management being Jiangsu Qianrong

Capital Management Co., Ltd.* (江蘇乾融資本管理有限公司)), with actual investment of RMB20 million; (iv) RMB20 million of planned investment in Suzhou Wuzhong Tiankai Huirui Venture Capital Partnership (LP)* (蘇州吳中天凱匯瑞創業投資合夥企業(有限合夥)) (“Tiankai Huirui”) (fund management being Suzhou Wuzhong Financial Holdings Investment Management Co., Ltd.* (蘇州市吳中金控股權投資管理有限公司)), with actual investment of RMB20 million; (v) RMB10 million of planned investment in Suzhou Kangli Junzhuo Digital Economy Industry Investment Fund Partnership (LP)* (蘇州康力君卓數字經濟產業投資基金合夥企業(有限合夥)) (“Kangli Junzhuo”) (fund management being Suzhou Junzhuo Venture Capital Management Co., Ltd.* (蘇州君卓創業投資管理有限公司)), with actual investment of RMB5 million; (vi) RMB5 million of planned investment in Suzhou Anxin Tongying Venture Capital Partnership (LP)* (蘇州安芯同盈創業投資合夥企業(有限合夥)) (fund management being Suzhou Anjie Private Fund Management Partnership (LP)* (蘇州安潔私募基金管理合夥企業(有限合夥))), with actual investment of RMB5 million.

In 2022, Huifang Tongcui has reached a cooperation intention with Qianhui Investment, and set up Suzhou Qianhui Tongcui Venture Capital Partnership (LP)* (蘇州乾匯同萃創業投資合夥企業(有限合夥)) (“Qianhui Tongcui”) in a double general partners (“Double GP”) cooperation model. Huifang Tongcui and Qianhui Investment act as executive partners to Qianhui Tongcui, and Qianhui Investment acts as a manager to Qianhui Tongcui. The planned assets under management of Qianhui Tongcui is approximately RMB200 million and the subscribed assets under management of Qianhui Tongcui is RMB52 million. The investment period is 7 years. As of 30 June 2023, Huifang Tongcui intended to invest RMB20 million in Qianhui Tongcui and the actual investment was RMB10 million.

The development direction of equity investment business in the future is to further strengthen the cooperation with senior equity investment institutions, accelerate the implementation of the Double GP cooperation mode, participate in equity investment projects directly or indirectly, and build an equity investment platform with good development prospects and high investment return.

(e) *Special Asset Investment Business*

The following table sets out the operating information of the special asset investment business as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total transaction number of new investment	—	2
Total transaction amount of new investment (RMB million)	—	16
Balance of investment at the end of the Reporting Period (RMB million)	7	32
Investment income (RMB thousand)	<u>2,456</u>	<u>—</u>

The special asset investment business mainly relies on Qingdao Wanchen and Suzhou Cibeï as entities to carry out its business. Qingdao Wanchen, established in 2019 with a registered capital of RMB10 million, is an indirect wholly-owned subsidiary of the Company. Suzhou Cibeï, established in 2021 with a registered capital of RMB50 million, is a special asset investment fund established by the Company in cooperation with external asset management institutions. The Company holds 90% of the equity interests as a limited partner.

Special asset investment business makes full use of the Company's industry position and resources of licensed asset management companies and banks to carry out special asset acquisition, disposal and operation. Special asset investment business mainly targets potential special assets such as residential real estate, commercial real estate and industrial real estate, as well as unsecured credit debts.

As of 30 June 2023, the balance of investment at the end of the Reporting Period and the investment income were RMB7 million and RMB2,456 thousand, respectively, representing a decrease in balance and an increase in investment income as compared with the corresponding period of last year. The main reason was that the funds were recovered after the disposal of certain investment projects and the benefits of such investment are gradually emerging.

The main risks and uncertainties faced by special asset investment business include asset valuation risk, liquidity risk, real estate value fluctuation risk and credit risk, etc.

For the first half of 2023, the special asset investment business expanded its business team and focused on seeking investment opportunities in large projects. The development direction of special asset investment business in the future is to actively participate in the Jiangsu special asset transfer market, find potential projects, dispose of debts by means of bankruptcy and pre-restructuring, and build a deep cooperation network between the upstream asset, the middle capital and the downstream disposal.

(f) Insurance Brokerage Business

The following table sets out the operating information of the insurance brokerage business as of 30 June 2023:

	For the six months ended 30 June	
	2023	2022
Total transaction number	182	174
Sales income (RMB thousand)	<u>415</u>	<u>341</u>

The insurance brokerage business mainly relies on Huifang Anda as the entity to carry out its business. Huifang Anda, established in 2004 with a registered capital of RMB2.4 million, is an indirect non-wholly owned subsidiary of the Company and is jointly established by the Company and state-owned capital Suzhou Wuzhong Financial Investment Service Co., Ltd* (蘇州市吳中金融招商服務有限公司) and other institutions. The Company holds 65% of the equity interests of Huifang Anda.

The insurance brokerage business actively integrates the resources of the government and insurance companies, with the aim of providing credit, responsibility, professionalism and compliance with regulations, and align with the business development direction of large private enterprises, governments, state-funded platforms and foreign-funded enterprises. The scope of insurance agency covers property insurance, credit guarantee insurance, liability insurance and life insurance, etc.

As of 30 June 2023, the total transaction number and sales income of insurance brokerage business transactions were 182 and RMB415 thousand, respectively, representing an increase as compared with the corresponding period of last year. The main reason was that the Company attached importance to external customers, strengthened internal integration, and increased its product categories.

The main risks and uncertainties faced by insurance brokerage business include the risk of government policy changes and contract risks, etc.

For the first half of 2023, the insurance brokerage business strengthened internal integration, external cooperation and actively developed innovative insurance products. The development direction of insurance brokerage business in the future is to implement new coinsurance cooperation, introduce agent teams with market competitiveness and further explore the life insurance agency business.

1.3 Headquarters and Others

As the incubator of the Company's innovative business, the headquarters has the function of cultivating innovative business of the Company through different stages. The overseas finance business is an attempt of the Company's global development and is currently under the direct management of the headquarters. The following table sets out the operating information of the overseas finance business as of 30 June 2023:

	For the six months ended	
	30 June	
	2023	2022
Total number of new loan granted	1	—
Total new loan amount granted (HK\$ million)	20	—
Balance at the end of the Reporting Period (principal) (HK\$ million)	26	26
Interest income (HK\$ thousand)	<u>754</u>	<u>754</u>

The overseas finance business mainly relies on Huifang Investment Limited* (匯方投資有限公司) (“Huifang Investment”) as the entity to carry out its business. Huifang Investment, established in 2011, is an indirect wholly-owned subsidiary of the Company and obtained a money lender's license with license No. MLR5279 in Hong Kong in January 2019 to develop diversified financial services.

The overseas finance business mainly involves guaranteed loans. Business risks of guaranteed loans are comprehensively assessed based on enterprise operation, financial conditions and industry development, etc. The interest rates range from 5.5% to 7% per annum and the loan term is 12 months. The operation area is mainly in Hong Kong. The target customers are mainly local companies in Hong Kong. It mainly conducts business in cooperation with local licensed money lenders at present.

As of 30 June 2023, the balance at the end of the Reporting Period (principal) and the interest income of overseas finance business were HK\$26 million and HK\$754 thousand, respectively, representing the same amount as the corresponding period of last year.

The main risks and uncertainties faced by overseas finance business include the risk of changes in the international political and economic situation and the risk of exchange rate fluctuations, etc.

For the first half of 2023, given the multiple interest rate hikes approved by the Federal Reserve, the overseas financing costs increased, which affected the expansion of our overseas finance business, resulting in no significant change in business performance during the Reporting Period. The development direction of overseas finance business in the future is to seek for development opportunities in the fields of pawnshops and digital assets in more overseas countries and regions such as Macau and Singapore.

2. FINANCIAL REVIEW

2.1 Overall Financial Data

	For the six months ended	
	30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Operating Results		
Operating income	317,157	305,419
Net operating income	83,939	73,650
Net assets	2,140,987	2,075,674
General and administrative expenses	39,774	34,514
Income tax expense	10,721	12,399
Profit attributable to owners of the Company	27,619	18,149
Basic earnings per share (RMB)	<u>0.025</u>	<u>0.017</u>

As of 30 June 2023, the operating income amounted to RMB317,157 thousand, representing an increase as compared with the corresponding period of last year. The main reason was the increase in the sales of goods and the interest income. As of 30 June 2023, the profit attributable to owners of the Company amounted to RMB27,619 thousand, representing an increase as compared with the corresponding period of last year. The main reason was the increase in the scale of money lending business and investment business, the progress made in the existing loans recovered, and the increase in the fair value of trading financial assets.

2.2 Financial Analysis on Two Principal Business Divisions

2.2.1 Inclusive Finance Business Division

	For the six months ended	
	30 June	
	2023	2022
	RMB'000	RMB'000
Operating income	106,039	105,616
Operating cost	(8,138)	(7,101)
Other non-operating losses	<u>(55,957)</u>	<u>(45,818)</u>
Profit before tax	<u>41,944</u>	<u>52,697</u>

Guided by supporting the development of inclusive finance, the Inclusive Finance Division insists on upholding inheritance and innovation, pioneering and enterprising, and engages in pawnshop business, micro-finance business, turnover loan fund business, art investment business and luxury sales business.

As of 30 June 2023, the operating income amounted to RMB106,039 thousand, representing an increase as compared with the corresponding period of last year. The main reason was the expansion in the scale of the pawnshop business and the micro-finance business, and the increase in the operating income generated from the art investment business. As of 30 June 2023, the profit before tax amounted to RMB41,944 thousand, representing a decrease as compared with the corresponding period of last year. This was mainly due to the increase in the credit impairment losses.

2.2.2 Ecology Finance Business Division

	For the six months ended	
	30 June	
	2023	2022
	RMB'000	RMB'000
Operating income	206,202	194,352
Operating cost	(193,174)	(182,172)
Other non-operating losses	<u>(616)</u>	<u>(5,351)</u>
Profit before tax	<u>12,412</u>	<u>6,829</u>

The Ecology Finance Business Division focuses on cultivating new business and integrating financial resources, so as to comply with industry trends and seek breakthroughs in performance. It engages in commercial factoring business, financial leasing business, supply chain management business, equity investment business, special assets investment business and insurance brokerage business.

As of 30 June 2023, the operating income amounted to RMB206,202 thousand, representing an increase as compared with the corresponding period of last year. The main reason was the increase in revenue generated from the commercial factoring business, the financial leasing business, the supply chain management business and special assets investment business. As of 30 June 2023, the profit before tax amounted to RMB12,412 thousand, representing a significant increase as compared with the corresponding period of last year. The main reason was the increase in revenue attributed to the factors set out above.

2.2.3 Headquarters and Others

	For the six months ended	
	30 June	
	2023	2022
	RMB'000	RMB'000
Operating income	11,690	11,910
Operating cost	(8,882)	(8,623)
Other non-operating loss	(9,916)	<u>(21,922)</u>
Loss before tax	<u>(7,108)</u>	<u>(18,635)</u>

As the core of the Group's progress and development, the headquarters has undertaken the service functions of investment management, risk prevention and control, scientific and technological support, logistics support, etc. In recent years, it has been committed to lowering costs and increasing efficiency. In the future, it will continue to promote fine management to increase income and reduce expenditure.

As of 30 June 2023, the operating income amounted to RMB11,690 thousand, representing a slight decline as compared with the corresponding period of last year. As of 30 June 2023, the loss before tax was RMB7,108 thousand, representing a decrease as compared with the corresponding period of last year. The main reason was the increase in the lease income generated from Zhonghui Financial Building and the increase in the income from changes in fair value of stocks.

3. CREDIT RISK

3.1 Loan Classification and Impairment Allowances

The following table contains an analysis of the credit risk exposure of financial assets 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 30 June 2023				As at 31 December 2022
	ECL staging				
	Stage 1 12-month ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000	Total RMB'000
Loans to customers					
Secured loans to customers (note (a))	837,131	11,900	803,954	1,652,985	1,617,499
Unsecured loans to customers (note (b))	<u>960,080</u>	<u>35,309</u>	<u>224,011</u>	<u>1,219,400</u>	<u>1,205,415</u>
Gross carrying amount	1,797,211	47,209	1,027,965	2,872,385	2,822,914
ECL allowances	<u>(39,017)</u>	<u>(11,724)</u>	<u>(701,411)</u>	<u>(752,152)</u>	<u>(715,859)</u>
Carrying amount	<u>1,758,194</u>	<u>35,485</u>	<u>326,554</u>	<u>2,120,233</u>	<u>2,107,055</u>
Term deposits with banks					
Credit grade					
AAA	<u>52,240</u>	<u>—</u>	<u>—</u>	<u>52,240</u>	<u>110,240</u>
Gross carrying amount	52,240	—	—	52,240	110,240
ECL allowances	<u>(164)</u>	<u>—</u>	<u>—</u>	<u>(164)</u>	<u>(164)</u>
Carrying amount	<u>52,076</u>	<u>—</u>	<u>—</u>	<u>52,076</u>	<u>110,076</u>

	As at 30 June 2023			As at 31 December 2022	
	ECL staging				
	Stage 1	Stage 2	Stage 3		
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	Total	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other current assets					
(excluding repossessed assets)					
Gross carrying amount	34,752	—	—	34,752	18,342
ECL allowances	<u>(1,141)</u>	<u>—</u>	<u>—</u>	<u>(1,141)</u>	<u>(1,141)</u>
Carrying amount	<u>33,611</u>	<u>—</u>	<u>—</u>	<u>33,611</u>	<u>17,201</u>

Notes:

- (a) Secured loans to customers comprise real estate backed loans and movable property backed loans.
- (b) Unsecured loans to customers comprise equity interest backed loans, guaranteed loans and other unsecured loans.

The Group may suffer credit losses if its customers default on contractual obligations. As at 30 June 2023, the impairment allowance (including the provision of loss allowance and the write-off) for loans to customers granted by the Group was as follows:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Secured loans to customers (note (a))		
Stages 1 & 2	13,179	12,065
Stage 3	488,545	479,678
Subtotal	<u>501,724</u>	<u>491,743</u>
Unsecured loans to customers (note (b))		
Stages 1 & 2	37,562	34,037
Stage 3	212,866	190,079
Subtotal	<u>250,428</u>	<u>224,116</u>
ECL allowances, total	752,152	715,859
Stages 1 & 2	50,741	46,102
Stage 3	<u>701,411</u>	<u>669,757</u>

Notes:

- (a) Secured loans to customers mainly comprise real estate backed loans and movable property backed loans.
- (b) Unsecured loans to customers mainly comprise equity interest backed loans and guaranteed loans and other unsecured loans.

The impairment allowance is measured based on the ECL model. Please refer to the last annual consolidated financial statements for the major parameters, assumptions and judgments used in the model.

As at 30 June 2023, the aggregate impairment allowance for secured loans to customers and unsecured loans to customers amounted to RMB752,152 thousand, representing approximately 26.19% of the total outstanding loans granted to customers (before provision); the overall impairment allowance of the Company increased by RMB36,293 thousand as compared with the end of last year.

For loans to customers in Stages 1 & 2, the impairment allowance was determined by projecting the Probability of Default (“PD”), Loss Given Default (“LGD”) and Exposure at Default (“EAD”) for every six months and for each individual exposure or collective segment, based on historical data. The increase of the impairment allowance in Stages 1 & 2

during the Reporting Period was mainly due to the increase of the gross carrying amount of loans to customers in Stages 1 & 2 during the Reporting Period as compared with the end of last year.

For impaired loans to customers in Stage 3, the impairment allowance is assessed by estimating the discounted future cash flows from the loans, and such assessment is re-performed for at least every six months.

For secured loans, the discounted cash flow is primarily dependant on the type of collaterals, their appraised value and estimated time for disposal. The impairment allowance for secured loans increased during the Reporting Period, mainly due to an extension of estimated time for disposal because of external factors.

For unsecured loans, the discounted cash flow depends on the customer's financial and operating conditions, as well as their own properties preserved by the Group. The impairment allowance for unsecured loans increased during the Reporting Period, mainly due to an update of the impairment allowance based on supporting documents such as the customer's bankruptcy or insolvency plans.

The Group also entered into supplementary repayment agreements with certain secured or unsecured loan customers in order to maximise its interests. The Group adjusted the impairment allowance according to implementation of such agreements.

The Group did not write off its impairment allowance on loans to customers during the Reporting Period. The write-off only occurs when the Group has exhausted all practical recovery efforts and its decision was made based on the following evidence showing it will not be able to recover its obligatory right after liquidating the customers' property and pursuing repayment from the guarantor:

- (i) external evidence such as property settlement certificates issued by courts, arbitration tribunals or relevant government authorities; and
- (ii) internal evidence such as property recovery certificates, settlement reports, and legal opinions issued by the Group's risk control department and internal lawyers.

3.2 New Loans under Legal Proceedings

	For the six months ended 30 June	
	2023	2022
New Secured Loans		
Number of clients	35	33
Outstanding loans (RMB thousand)	31,460	59,130
New Unsecured Loans		
Number of clients	—	—
Outstanding loans (RMB thousand)	—	—

For the six months ended 30 June 2023, the balance of new secured loans under legal proceedings was RMB31,460 thousand and there were no new unsecured loans under legal proceedings. There is a decrease of the balance of new secured loans under legal proceedings from the corresponding period of last year.

3.3 Credit Risk Management and Internal Control

3.3.1 Credit Risk Management

The money lending business of the Group mainly includes four business units, namely (i) pawnshop business, micro-finance business and overseas finance business; (ii) turnover loan funds business; (iii) commercial factoring business; and (iv) financial leasing business.

For each of the Group's money lending business units, the Group has formulated clear guidelines, policies and measures for the entire loan process, from assessment of credit risks and granting of loans, to post-lending monitoring and risk management, details of which are set out below. Different functions, such as credit risk assessment, lending procedures and approval of new loan applications are clearly delineated and segregated.

3.3.1.1 Pawnshop business, micro-finance business and overseas finance business

Below is a summary of the product types available under each category of this business unit:

- **Pawnshop business:** mainly comprises the provision of real estate backed loans, personal property backed loans and unsecured loans. The unsecured loans in this category mainly comprises of equity interest backed loans.

- **Micro-finance business:** mainly comprises the provision of real estate backed loans and unsecured loans. The unsecured loans in this category mainly comprises guaranteed loans and credit loans.
- **Overseas finance business:** comprises of the provision of unsecured loans, which are mainly guaranteed loans.

The product types in this business unit can broadly be categorised into secured loans and unsecured loans.

(a) Secured loans

Granting of loans

Secured loans are granted by taking into account the collateral to be provided and the customer's cash flows and solvency position. Credit risks of customers are comprehensively assessed based on multiple factors, such as value of the collateral given, the customer's credit record, the customer's solvency and an analysis on the customer's industry and prospect.

Renewal of loans

Each loan renewal will be considered as a new loan to be granted and assessed under the same set of procedures adopted for new loan applications. The Group will also consider whether the interest and principal payments of the previous loan(s) has/have been paid on schedule, and whether the appraised value of the collateral is still acceptable to the Group for the loan renewal.

Ongoing credit risk assessment

Assessment of the customer: In addition to the credit risk analysis conducted upon granting of loans, periodic credit risk assessment on the customer will be conducted based on various other factors, including credit record, source of repayments (including a review conducted on a corporate customer's (or its controlling entity's) revenue, assets and liabilities, and the available assets of an individual customer), anti-fraud inquiries and marital status of the customer.

Assessment of the collateral: Assessment on the collateral will be focused upon (i) authenticity and legitimacy; and (ii) value of the collateral. Authenticity and legitimacy will be reviewed by perusing the relevant documents as mentioned in the paragraph headed "Documents reviewed" below. Value is assessed based on any appraised value issued by appraisal institutions, and the ability to realise the value of the asset, taking into account the nature, location, age and size (in case of a property) of the asset.

Assessment of repayment: The repayment of the principal and interest by the mortgagor (borrower) is also continuously monitored. If the repayment of the principal and interest of a loan is overdue or if there is a major event affecting the collateral which is brought to the attention of the Group, the Group will enforce its rights as creditor through legal proceedings if necessary.

Documents reviewed

In the process of credit risk assessment of customers, the Group will obtain and review both the customer's credit report issued by the People's Bank of China, the anti-fraud assessment report issued by third-party assessment agency and collateral assessment report issued by third-party assessment agency, respectively. The Group will also obtain and review the identity card or the business licence to verify the customer's identity and require all documents to be signed by the customer as borrower.

Where fixed assets collaterals are involved, to mitigate operational risks, the document review process also entails verification of the authenticity of the contract and the validity of the mortgage. For example, for loans with real estate collaterals, the Group will obtain and review title documents and relevant contracts to ensure the validity of the mortgage.

(b) Unsecured loans

Granting of loans

Unsecured loans mainly involve equity interest backed loans, guaranteed loans and credit loans.

Unsecured loans are granted by taking into account the customer's cash flows and solvency position. Credit risks of customers are assessed and monitored in the same manner as secured loans.

In addition, a comprehensive pre-loan investigation report on the customer will be prepared by the business department for review by the loan examination department, which includes the following information:

- the basic information of the customer;
- the key financial information of the corporate customer and its operational data, including:
 - analysis on medium and long-term solvency, such as gearing ratio, current ratio and cash ratio;

- analysis on corporate profitability, such as operating profit margin and net profit ratio;
 - non-financial indicators, such as electricity consumption, water consumption and salary payment; and
- the information of the guarantor (if any), including the guarantor's assets and ability to provide such guarantee and factors analogous to an examination of the financial information of the borrower customer.

Ongoing credit risk assessment

Periodic review is conducted on the repayments status and the financial status of the customer and guarantor. In the case of an overdue repayment of principal or interest of an unsecured loan or if there occurs a major event involving the guarantor of an unsecured loan, upon identification of the reasons of the specific customer's or the guarantor's inability to repay, the Group will formulate a customer-specific response plan based on the customer's operating conditions, sources of funds for repayment and repayment willingness. The Group will also negotiate with such customer to increase its guaranteed amount or determine a repayment plan, and implement recovery measures through legal proceedings if necessary.

Documents reviewed

In the process of credit risk assessment, the Group will obtain and review the customer's credit report issued by the People's Bank of China and anti-fraud assessment report issued by third-party assessment agency, respectively.

For avoidance of operational risks, the document review process also entails verification of the identity of the customer. For example, the Group will obtain and review the identity card or the business licence to verify the customer's identity and require all documents to be signed by the customer as borrower.

For equity interest backed loans, the Group will conduct an internal review of the results and value of the equity interests. The Group will also obtain and review the equity interest registration certificate issued by the relevant department to verify the validity of the equity interest.

3.3.1.2 *Turnover loan funds business*

In the PRC, SME borrowers who received loans from banks have to repay the loan amount in full upon expiry and re-apply for a new loan, thereby creating strong demand for services provided by bridging loan providers that will lead to timely approval of the new loan by banks to the SMEs and also flexible repayment terms. The Group provides short-term loan funds to SMEs for them to repay the expiring loans and after the SMEs have drawn down the new loans from the cooperation banks, the SMEs will repay the short-term loan funds (together with interest accrued thereon) to the Group, so as to alleviate the SMEs' capital turnover pressure caused by the "payment first and loan later" ("先還後貸") notion prevalent in the process of grant of loans in the PRC.

The Group mainly relies on Huifang Rongtong as the legal entity to carry out its business in turnover loan fund, which is a turnover loan funds business (轉貸基金) approved, guided and supervised by the Suzhou Wuzhong People's Government. It cooperates with banks that have branches in Wuzhong District of Suzhou and provides short-term loan funds to SMEs that (i) meet bank credit requirements, given their track record of repayment and credit risks have already been assessed by the banks previously; and (ii) experience difficulties in repaying their previous loan amount in full for its renewal. The process of this business will normally be kick-started by the SMEs (some of them are referred by cooperation banks of the Group) by first applying to the Group for turnover loan funds, after which, the Group will conduct due diligence on the SMEs, and will provide funds to them according to the conditions and amount of loans confirmed by the cooperation banks to the Group.

Funds are advanced/granted to SMEs in the turnover loan funds business. The source of the funds of the Group mainly comes from the paid-up registered capital in the amount of RMB75 million of Huifang Rongtong and interest income generated from this business. After the Group enters into loan agreements with the SMEs, the Group will remit the funds to the turnover repayment account of the SMEs that meets the bank's management requirements. Upon the previous loans with the cooperation bank being settled, the cooperation bank lends new loan to the SMEs, and transfers the amount of the turnover loan funds advanced/granted by the Group (together with interest accrued thereon) to a turnover loan special account or a designated entrusted account of the Group that meets the bank's management requirements, which will be regarded as a repayment of the turnover loan funds by the SMEs to the Group.

Granting of loans

In order to qualify for grant of a loan under this business unit, the SME must go through the credit review process and satisfy the borrower qualifications of the lending bank, which involves assessment of credit, financial resources and operational data etc.

Once the SME has passed the credit review assessment, a contract will be issued by the Company in accordance with the internal administrative measures governing turnover loan funds.

The amount of each turnover loan shall not exceed RMB20 million.

The credit risks borne by the Group in this business include the risks of:

- (i) the changes in loan renewal conditions of the banks;
- (ii) the SMEs not meeting the conditions for loan renewal;
- (iii) the SMEs changing the use of loan funds for other purposes instead of repayment of the current loan; and
- (iv) overdue repayment of funds by the SMEs to the Group.

Ongoing credit risk assessment

The Group implements a comprehensive process of tracking and supervision of turnover loan funds, which establishes an early warning mechanism for SMEs' corporate risks and change of circumstances that exposes the Group to further credit risks. The Group performs tracking and supervision in the following six stages of a turnover loan funds cycle: (i) contract signing; (ii) pre-loan implementation; (iii) fund transfer; (iv) loan disbursement; (v) fund return; and (vi) archives. The turnover loan funds business unit is responsible for maintaining close communication and contact with customers, closely monitoring the customer's business performance and providing feedback to the risk control department accordingly. The risk control department of the Group will monitor and flag unusual circumstances, such as customers having yet to repay turnover loan funds over a long period of time, and give timely warnings to the relevant personnel of the Group to closely monitor credit risks arising from such events.

Repayments by SMEs are closely monitored. For customers with overdue repayments or adverse changes, upon identification of the reasons for the overdue repayments by the specific customer, the Group will formulate a customer-specific response plan based on the customer's operating conditions, sources of funds for repayment and repayment willingness. The Group will also negotiate with such customer to increase its effective asset guarantees or determine a repayment plan, and implement recovery measures through legal proceedings if necessary.

Documents reviewed

In the process of credit risk assessment, the Group will obtain and review the basic information of the SMEs, such as the business licence, financial statements etc. Meanwhile, the Group will obtain feedback of the application forms and business contact sheets from banks before the granting of loans.

3.3.1.3 *Commercial factoring business*

Grant of factoring

To manage the commercial factoring business unit, the Group has formulated a set of internal measures detailing the criteria and credit risk assessments for both the customer and the relevant debtor, specific provisions for review and approval, the process for transfer of account receivables and post-financing management. Credit risk control, credit limits and interest rates will be determined based on the results of the assessment.

In terms of the criteria and credit risk assessments for both the customer and the relevant debtor, the Group first divides customers and debtors into (i) manufacturing (or service-oriented) enterprises; and (ii) engineering project-oriented enterprises, and evaluates customers and debtors based on two different sets of criteria set for (i) and (ii) on year of establishment, credit records, social reputation, product quality and market conditions.

In terms of the risk assessment of account receivables, the Group focuses on the assessment of account receivables period, payment responsibilities, contractually agreed prices and assignment restrictions.

Credit risk assessment

The Group has designated personnel to perform review procedures on factoring and registrations of the assignment of account receivables. Analysis will be conducted to closely monitor the customer's business operations or any changes thereto, financial position, and solvency through fieldwork and due diligence. Credit history of the customer with the Group and other financial institutions will also be monitored.

The authenticity and legality of the transfer of account receivables and the recoverability of the account receivables will be assessed. In addition, the Group closely monitors and keeps track of any disputes between the customer and the debtor regarding the account receivables or deterioration of financial position of the debtor, and will take timely measures to counter such risks, such as ceasing to provide further factoring services to the customer, recovery of the amounts due from the customer.

If upon expiry of the financing, the customer fails to redeem the account receivables or if the debtor fails to repay the account receivables, various collection measures will be taken immediately, including registration of an extension of the account receivables, obtaining control over the account receivables and enforcing the Group's claims through legal means.

Documents reviewed

For commercial factoring, the Group collects information and documents in relation to the payment and the ledger management of account receivables. The Group will verify the account receivables and confirm the results of account receivables registration, and obtain and review the corporate information of the customer.

Financial reports of the customer will also be collected on a monthly or quarterly basis to review its balance sheet, operating income and profitability in an objective manner.

3.3.1.4 *Financial leasing business*

Grant of financial leasing

Financial leasing is granted by taking into account customer's industry and reputation, customer's cash flows, solvency position and liquidity of leased assets. Credit risks of customers are comprehensively assessed based on multiple factors, such as the customer's credit record, the customer's solvency, the analysis on the customer's industry and prospect and value of the collaterals (if any).

The Group usually enters into financial leasing agreements with the customers which sets out major terms such as the leased asset concerned, purchase price of the leased asset, term of the lease, the payment schedule of the lease payments, security deposit (if any), management fee (if any), transfer of title clause and insurance for the leased asset.

Depending on the credit status of the customer, the customers will pay the Group a security deposit to safeguard for their performance of the obligations under the finance leasing agreements. Apart from the security deposit, the Group may also require lessees and third parties to provide additional collaterals or guarantees so that the Group will have better protection against credit risk. These additional collaterals or guarantees include (i) joint and several guarantees from the lessee's legal representative, major equity interest holders or their family members (if any); and (ii) pledge of real property or vehicles owned by the lessees.

Ongoing credit risk assessment

Periodic review is conducted on business status, solvency position, credit status, and changes in debt situation of the lessee. If the lessee fails to pay any installment of rent, or fails to perform any of its obligations under the finance leasing agreement, the Group shall have the right to demand prompt payment in full or part of the lease receivables, or immediately and unilaterally dispose of such leased assets.

Documents reviewed

In the process of credit risk assessment, the Group will obtain and review the customer's credit report issued by the People's Bank of China and value assessment report issued by third-party assessment agency, respectively.

For avoidance of operational risks, the document review process also entails verification of the identity of the customer. For example, the Group will obtain and review the business licence to verify the customer's identity and require all documents to be signed by the customer as lessee.

Financial reports of the customer will also be collected on a monthly or quarterly basis to review its balance sheet, operating income and profitability in an objective manner.

3.3.2 Internal Control

In addition to the measures as disclosed above in this announcement, the Group has adopted the following key internal control measures with the aim to establish a comprehensive risk management system covering all employees, products and operational processes:

- segregation of credit assessment and loan disbursement process and establishment of a multi-tiered loan approval policy with a clear delineation of the responsibilities of different positions in the whole business process, which promotes employees' integrity and accountability across front, middle and back offices;
- promulgation of working rules of the credit approval committee, policies for product outline and product management policies which governs the loan approval process, such policies include, for instance, setting a maximum limit for each loan transaction;
- implementation of post-lending monitoring and management procedures to carry out ongoing monitoring and management of credit risks and the entire lending process, carrying out quarterly post-lending inspections and reviews and also specialized inspections when required from time to time during the loan period;

- establishment of a comprehensive management system with an early warning system to store all business information and documents relating to the loan transaction to ensure that every transaction is recorded in an accurate and timely manner and any defaulted loans are identified; and
- promulgation of management policies for defaulted liabilities and bad debts identification and write-offs such that write-offs can only be processed after the relevant liabilities have been identified as bad debts and compliant with write-offs management policy.

4. BORROWINGS

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Non-current		
Bank borrowing (<i>note (a)</i>)	<u>193,000</u>	<u>197,000</u>
Current		
Bank borrowings (<i>note (b)</i>)	328,897	402,128
Borrowings from other companies (<i>note (c)</i>)	52,000	52,000
Borrowings from micro-finance companies (<i>note (d)</i>)	67,500	45,500
Borrowings from the Group's employees (<i>note (e)</i>)	<u>49,750</u>	<u>32,600</u>
	<u>498,147</u>	<u>532,228</u>
	<u>691,147</u>	<u>729,228</u>

The Group's borrowings are all denominated in RMB.

Notes:

- (a) As at 30 June 2023, non-current bank borrowing with principal amount of RMB193.0 million (31 December 2022: RMB197.0 million) is borrowed specifically for paying the construction and operation costs of Zhonghui Financial Building. It is repaid in scheduled instalments within 12 years and bears floating interest rate of the 5-year Loan Prime Rate of the People's Bank of the PRC minus 35 basis points. The borrowing is secured by the Zhonghui Financial Building (31 December 2022: same).

As at 30 June 2023, there are no undrawn bank borrowing facilities (31 December 2022: same).

- (b) Current bank borrowings are all with maturity within one year and bear fixed interest rates ranging from 3.1% to 5.2% per annum as at 30 June 2023 (31 December 2022: fixed rate from 3.4% to 5.2% per annum).

As at 30 June 2023, bank borrowings with principal amount of RMB50.0 million (31 December 2022: RMB105.0 million) are secured by restricted term deposits of RMB52.1 million (31 December 2022: RMB110.1 million).

As at 30 June 2023, bank borrowings with principal amount of RMB20.0 million (31 December 2022: RMB49.5 million) are secured by structured deposits of RMB20.0 million (31 December 2022: RMB49.5 million).

As at 30 June 2023, bank borrowings with principal amount of RMB90.0 million (31 December 2022: RMB100.0 million) are guaranteed by Wuzhong Jiaye and the Ultimate Shareholders.

As at 30 June 2023, bank borrowings with principal amount of RMB10.0 million (31 December 2022: nil) are guaranteed by Wuzhong Jiaye.

As at 30 June 2023, bank borrowings with principal amount of RMB20.0 million (31 December 2022: RMB30.0 million) are guaranteed by Wuzhong Group.

As at 30 June 2023, bank borrowings with principal amount of RMB30.0 million (31 December 2022: RMB30.0 million) are guaranteed by Suzhou Guofa Financing Guarantee Co., Ltd. and counter-guaranteed by Wuzhou Group and its two subsidiaries.

- (c) As at 30 June 2023, borrowings from other companies bear a fixed interest rate of 9.0% per annum (31 December 2022: 9.0% per annum).
- (d) As at 30 June 2023, borrowings from micro-finance companies with principal amount of RMB52.5 million (31 December 2022: RMB9.5 million) are guaranteed by Wuzhong Jiaye.
- (e) As at 30 June 2023, borrowings from the Group's employees bear a fixed interest rate ranging from 7.8% to 8.0% per annum (31 December 2022: of 8.0% per annum).

The primary objectives of the Group's treasury management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value. The Group has continued to adopt a conservative treasury policy. The Board and management has been closely monitoring the Group's liquidity position, performing ongoing credit evaluations and monitoring the financial conditions of its customers in

order to ensure the Group's healthy cash position. 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, repurchase the Company's shares or raise/repay debts.

As at 30 June 2023, the gearing ratio of the Group was 17.63%. 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 borrowings net of cash and cash equivalents. Total capital is calculated as "total equity" as shown in the interim condensed consolidated statement of financial position plus net debt. The Group's strategy is 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.

For the six months ended 30 June 2023, the Group did not use any financial instruments for hedging purposes.

5. CAPITAL EXPENDITURE

Our capital expenditure primarily consists of property, plant and equipment, intangible assets and investment properties. Our capital expenditure was RMB14,190 thousand for the six months ended 30 June 2023, as compared to RMB9,088 thousand for the corresponding period of last year.

6. EXPOSURE TO FOREIGN EXCHANGE RISK

For the six months ended 30 June 2023, the net foreign currency gains of the Group were RMB880 thousand, representing a decrease as compared to the net foreign currency gains of RMB1,755 thousand for the corresponding period of last year. The Group is free from material foreign exchange risk and does not conduct any related hedging as it concludes deals in RMB.

7. PLEDGE OF ASSETS

As at 30 June 2023, land-use rights and investment properties totalling of RMB203.4 million (31 December 2022: RMB203.5 million) of the Group are pledged with banks to secure the Group's borrowings with principal amount of RMB193.0 million (31 December 2022: RMB197.0 million).

As at 30 June 2023, structured deposits with principal amount of RMB20.0 million (31 December 2022: RMB49.5 million) of the Group are pledged with banks to secure the Group's borrowings with principal amount of RMB20.0 million (31 December 2022: RMB49.5 million).

As at 30 June 2023, bank borrowings with principal amount of RMB50.0 million (31 December 2022: RMB105.0 million) are secured by restricted term deposits of RMB52.1 million (31 December 2022: RMB110.1 million).

Save as disclosed above, during the six months ended 30 June 2023, the Group did not have any pledge of assets.

8. SIGNIFICANT INVESTMENTS, ACQUISITION AND DISPOSAL

8.1 Establishment of Huifang Financial Leasing

Huifang Financial Leasing conducting financial leasing business in the PRC was duly established on 16 May 2023, being the date of issue of the business license, after the Local Financial Supervision and Administration Bureau of Jiangsu Province issued an approval on 8 May 2023 and Huifang Financial Leasing commenced its business operation on 24 May 2023. Huifang Financial Leasing was owned by Huifang Technology, a wholly-owned subsidiary of the Company, Suzhou Shengzhuang Food Co., Ltd.* (蘇州聖莊食品有限公司) (“Shengzhuang Food”) and Suzhou Tianyi Knitwear Co., Ltd.* (蘇州天衣針織品有限公司) (“Tianyi Knitwear”) as to 70%, 20% and 10%, respectively.

Pursuant to a shareholder capital contribution agreement dated 21 February 2023 and entered into among Huifang Technology, Shengzhuang Food and Tianyi Knitwear (as supplemented by the supplemental agreement), the total registered capital of the Huifang Financial Leasing shall be RMB170 million, among which, Huifang Technology, Shengzhuang Food and Tianyi Knitwear shall contribute RMB119 million, RMB34 million and RMB17 million in cash, respectively.

For further details of the above-mentioned transactions, please refer to the announcement of the Company dated 24 May 2023 and the supplemental announcement of the Company dated 31 May 2023.

As at 30 June 2023, the paid-in capital of the Huifang Financial Leasing was RMB100 million, among which, Huifang Technology had paid RMB70 million. With the establishment of Huifang Financial Leasing, the Group will provide financial leasing services to its customers, which will be supervised by the Ecology Finance Business Division of the Group. The strategy of the Group is to leverage the corporate customer resources accumulated by the Group over the years to serve the development of the real economy and provide personalized financial leasing services for the industrial upgrading of SMEs.

As at 30 June 2023, the fair value of each of the abovementioned investments represented less than 5% of the total assets of the Group. As at 30 June 2023, the Group did not hold significant investments in the equity interests of any other companies. The Group did not have any other material acquisitions and disposals of subsidiaries, associates and joint ventures during the Reporting Period.

9. CONTINGENCIES, CONTRACTUAL OBLIGATIONS AND CASH USAGE ANALYSIS

9.1 Contingencies

As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: same).

9.2 Commitments

(a) Capital commitments

Name of investee company	As at	As at
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Suzhou Cibe (note (a))	20,495	20,495
Qianhui Tongcui (note (b))	10,000	10,000
Tiankai Huirui (note (c))	—	10,000
Kangli Junzhuo (note (d))	5,000	8,000
Qianrong Yuanfeng (note (e))	—	8,000
Zhongxin Hengyuan (note (f))	2,000	2,000
	<u>37,495</u>	<u>58,495</u>

Notes:

- (a) The committed capital injection to Suzhou Cibe is RMB45.0 million, of which RMB20.5 million (31 December 2022: RMB20.5 million) has not been paid by the Group as at 30 June 2023.
- (b) The committed investment injection to Qianhui Tongcui is RMB20.0 million, of which RMB10.0 million (31 December 2022: RMB10.0 million) has not been paid by the Group as at 30 June 2023.
- (c) The committed investment injection to Tiankai Huirui is RMB20.0 million, all of which have been paid by the Group as at 30 June 2023 (31 December 2022: of which RMB10.0 million has not been paid by the Group).
- (d) The committed investment injection to Kangli Junzhuo is RMB10.0 million, of which RMB5.0 million (31 December 2022: RMB8.0 million) has not been paid by the Group as at 30 June 2023.
- (e) The committed investment injection to Qianrong Yuanfeng is RMB20.0 million, all of which have been paid by the Group as at 30 June 2023 (31 December 2022: of which RMB8.0 million has not been paid by the Group).
- (f) The committed investment injection to Zhongxin Hengyuan is RMB10.0 million, of which RMB2.0 million (31 December 2022: RMB2.0 million) has not been paid by the Group as at 30 June 2023.

9.3 Cash Usage Analysis

As at 30 June 2023, the Group's cash and cash equivalents amounted to RMB232,811 thousand, representing an increase of RMB36,006 thousand as compared to the end of last year. The following table sets forth a summary of our cash flows for the indicated periods:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	44,834	(18,947)
Net cash inflow/(outflow) from investing activities	13,942	(26,907)
Net cash outflow from financing activities	<u>(22,876)</u>	<u>(1,399)</u>
Net increase/(decrease) in cash and cash equivalents	<u>35,900</u>	<u>(47,253)</u>
Effects of foreign exchange rate changes on cash and cash equivalents	<u>106</u>	<u>934</u>

Net Cash Flow from Operating Activities

During the Reporting Period, net cash inflow from operating activities amounted to RMB44,834 thousand, mainly due to the optimization of product structure and the improvement of business performance.

Net Cash Flow from Investing Activities

During the Reporting Period, net cash inflow from investing activities amounted to RMB13,942 thousand, mainly due to the Group's recovery of funds after the disposal of certain projects of the special assets investment business.

Net Cash Flow from Financing Activities

During the Reporting Period, net cash outflow from financing activities amounted to RMB22,876 thousand, mainly due to the cash outflow caused by repayment of borrowings of the Group.

10. HUMAN RESOURCE AND EMPLOYEE BENEFITS

As at 30 June 2023, the Group had a total of 150 full-time employees, increasing from 147 as at 31 December 2022. The Company will continue to carry out human resource optimization and adjust the number of our employees and our remuneration policy based on the development of our business and review of our employees' performance.

For the six months ended 30 June 2023, employee remuneration and benefits decreased by RMB597 thousand to RMB19,300 thousand from the corresponding period last year.

The Group reviews its remuneration policy on an annual basis and discretionary bonus is paid on an annual basis with reference to the Group's performance and individual performance. We adhere to fostering a working environment with opportunities for learning and career development for our employees, and the Group provides employees with a comprehensive range of staff training scheme, including financial knowledge, compliance and leadership management, so as to help them achieve both their personal and professional development goals.

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

11. FUTURE PLANS RELATING TO MATERIAL INVESTMENTS

Save as the capital commitments and events after the Reporting Period disclosed in paragraphs 9.2 and 12 to this announcement, respectively, the Group has no other plans for material investments or acquisition of capital assets. However, the Group will continue to seek new business development opportunities.

12. EVENTS AFTER THE REPORTING PERIOD

The Group participated in the restructuring of Guangda Education Technology Development Limited ("Guangda Education"), a company incorporated in the PRC principally engaged in hotel operations, through its cooperation with Suzhou Qingdong Hotel Management Limited ("Suzhou Qingdong"), a company incorporated in the PRC and the previous restructuring investor enlisted by the administrator of the restructuring of Guangda Education (the "Administrator") as approved by a People's Court in Suzhou of the PRC. On 17 August 2023, Suzhou Huifang Dinghe Business Management Company Limited* (蘇州匯方鼎合商業管理有限公司) ("Huifang Dinghe"), an indirect wholly-owned subsidiary of the Company, entered into a tripartite agreement with Guangda Education and Suzhou Qingdong to agree that Huifang Dinghe shall act as the restructuring investor in place of Suzhou Qingdong to conduct the acquisition of the entire interest in Guangda Education (the "Acquisition") from the Administrator at a restructuring investment amount in the amount of RMB196 million (the "Restructuring Investment Amount") and a nominal acquisition consideration in the amount of RMB1 (the "Acquisition Consideration").

On the same date, Huifang Supply Chain, another indirect wholly-owned subsidiary of the Company, entered into a cooperation agreement with Suzhou Qingdong to agree that (1) Suzhou Qingdong shall pay a cooperation deposit in the amount of RMB50 million to Huifang Supply Chain; and (2) within twelve months of the Acquisition (i.e. from the date of full payment of the

aforsaid restructuring investment amount of RMB196 million), Suzhou Qingdong shall acquire the entire equity interest in Huifang Dinghe from Huifang Supply Chain (the “Resale Arrangement”) at a disposal consideration (which includes the settlement of all debts and liabilities incurred by Huifang Dinghe and Huifang Supply Chain as a result of the Acquisition) of approximately exceeding RMB200 million, being the best estimate made by the Board up to the date of this announcement, in accordance with the cooperation agreement.

The commercial substance of the aforementioned series of transactions is to provide Suzhou Qingdong with the necessary financing for its acquisition of Guangda Education. Following the completion of the Acquisition, the consideration of the Acquisition of RMB196 million is accounted for as financial assets held under the Resale Arrangement, and the difference between the consideration of the Acquisition and the disposal consideration upon the completion of disposal of the entire equity interest in Huifang Dinghe is recognised as interest income during the term of the cooperation agreement using the effective interest method.

In addition, on the same date, Qingdao Wanchen, another indirect wholly-owned subsidiary of the Company, entered into a consultation services agreement with Suzhou Qingdong in relation to the provision of consultation services by Qingdao Wanchen to Suzhou Qingdong in respect of the bankruptcy restructuring of Guangda Education at a consultation fee in the amount of RMB1.5 million.

13. SUPPLEMENTAL DISCLOSURE TO DISCLOSEABLE TRANSACTION

Reference is made to the announcement of the Company dated 17 August 2023. The Company would like to provide the shareholders and potential investors of the Company with the following additional information.

After the settlement of the Restructuring Investment Amount with the Administrator and upon the Acquisition, Guangda Education is expected to record but not consolidate in the Group’s consolidated financial statements, among other matters, the following major entries: (i) the fair value of the assets held by Guangda Education (the “Guangda Education Assets”) in the amount of RMB196,000,000; (ii) a shareholders’ loan due to Huifang Dinghe in the amount of RMB196,000,000; and (iii) goodwill in the amount of RMB1, representing the Acquisition Consideration paid by Huifang Dinghe for the Acquisition. As such, the unaudited net assets of Guangda Education immediately upon completion of the restructuring will be RMB1. On the other hand, Huifang Dinghe will be the holder of the entire equity interest in Guangda Education and the holder of a shareholders’ loan due from Guangda Education in the amount of RMB196,000,000.

Based on the evaluation performed by an independent third-party agency, the appraised value of the Jasmine Hotel, representing substantially all of the value of the Guangda Education Assets, as of 18 May 2023 amounted to RMB242,359,300. The fair value of Jasmine Hotel is expected to be reflected in the accounts of Guangda Education upon re-valuation of the fair value of the Guangda Education Assets during its year-end audit.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, prior to the restructuring, Guangda Education was indirectly owned by Zhu Changning (朱昌寧) as to 79%, Xu Yuhu (徐玉虎) as to 5%, Qian Yachong (錢迺充) as to 5%, Zhu Wei (朱衛) as to 3%, Liu Xingrong (劉興榮) as to 2%, Zong Hongnian (宗洪年) as to 2%, Mr. Sha Jian (沙健) as to 2%, Zhao Luoping (趙羅平) as to 1%, and Chen Xiaomin (陳小民) as to 1%, all of whom are third parties independent of the Company and its connected persons.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Administrator was directly owned by Shao Jian (邵健) as to 27%, Ma Xiaohong (馬曉虹) as to 19%, Gong Jianping (鞏建萍) as to 11%, Qian Yue (錢悅) as to 11%, Wu Jianqing (吳建青) as to 10%, Zhang Hongwei (張鴻衛) as to 10%, Shi Hui (石慧) as to 6%, and Cheng Xing (程星) as to 6%, all of whom are third parties independent of the Company and its connected persons.

PROSPECTS

Inclusive Finance Business Division: The pawnshop business will actively establish pawnshops in provincial capital cities of the PRC and find more dislocation competition and development opportunities. The movable property backed loans will continue to increase the scale and the number of product types, and will expand inter-industry cooperation. The unsecured loans will explore the equity interest backed loans for listed companies. The art investment business will seek progress while maintaining stability, and will explore new service opportunities and business space for the extension of the industrial chain. The luxury sales business will launch a new attempt at commercial retail space by opening stores in the shopping malls.

Ecology Finance Business Division: The commercial factoring business will diversify financing channels, reduce financing costs, and strengthen marketing efforts to expand business scale. The financial leasing business will actively find more high-quality customers and accelerate business launch. The supply chain management business will explore new business scenarios around grain and oil, liquor, and 3C fields, strengthen external cooperation, and diversify financing channels. The equity investment business will continue to maintain the investment rhythm and tap into internal resources. The special asset investment business and the financing advisory business will strengthen the linkage and promote the implementation of key projects. The insurance brokerage business will deepen internal integration, strengthen external cooperation, and actively explore the life insurance agency business.

Headquarters and Others: The Company will deepen the refined management and the integration of business and finance. The Company will strengthen the liquidity management and improve the financing capacity. The Company will effectively strengthen risk control and accelerate the recovery of existing loans. The Company will also focus on value creation and strengthen brand building and promotion.

DIVIDEND

The Board did not recommend an interim dividend for the six months ended 30 June 2023.

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2023.

CORPORATE GOVERNANCE PRACTICES

The Company’s corporate governance practices are based on the principles and code provisions set forth in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

In the opinion of the Board, the Company has complied with the principles and code provisions as set out in the CG Code throughout the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiry has been made to all Directors, and the Directors have confirmed that they had complied with the Model Code during the six months ended 30 June 2023.

CHANGE IN DIRECTORS’ INFORMATION

From 1 January 2023 to the date of this announcement, the changes in the directors’ information of the Company are as follows:

Mr. FENG Ke, an independent non-executive Director of the Company, has ceased to be (i) a non-executive director of Guangdong-Hong Kong Greater Bay Area Holdings Limited (粵港灣控股有限公司) (the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 01396)) since 1 March 2023; (ii) an executive director of Asian Capital Resources (Holdings) Limited (亞洲資產(控股)有限公司) (the shares of which are listed on the GEM of the Stock Exchange (Stock Code: 08025)) since 3 March 2023; and (iii) an independent director of Aotecar New Energy Technology Co., Ltd. (奧特佳新能源科技股份有限公司) (the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 002239)) since 17 April 2023.

REVIEW OF INTERIM RESULTS

The accounting information contained in this announcement has not been audited by the independent auditor of the Company. However, the audit committee of the Company together with the management of the Company have reviewed the accounting policies and practices adopted by the Group and discussed, among other things, internal controls and financial reporting matters including a review of the unaudited interim results for the six months ended 30 June 2023. In addition, the independent auditor of the Company has reviewed the unaudited interim financial information for the six months

ended 30 June 2023 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement of the Company for the six months ended 30 June 2023 is published on the website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.cnhuirong.com) respectively. The 2023 interim report will be dispatched to the shareholders of the Company and published on the respective website of the Stock Exchange of Hong Kong Limited and the Company in due course.

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

Suzhou China, 30 August 2023

As at the date of this announcement, the executive directors of the Company are Mr. Wu Min, Mr. Qiu Wei, Mr. Zhang Changsong and Mr. Yao Wenjun, the non-executive directors of the Company are Mr. Ling Xiaoming and Ms. Zhang Shu and the independent non-executive directors of the Company are Mr. Liang Jianhong, Mr. Feng Ke and Mr. Tse Yat Hong.

* *For identification purposes only*