

TaiHe

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited

揚州市廣陵區泰和農村小額貸款股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

STOCK CODE : 8252

PUBLIC OFFER

Sole Sponsor



Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



Yangzhou Guangling District Taihe Rural Micro-finance Company Limited

揚州市廣陵區泰和農村小額貸款股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PUBLIC OFFER

Number of Offer Shares : 150,000,000 H Shares
Offer Price : Not more than HK\$1.34 per H Share and
expected to be not less than HK\$1.20 per H
Share payable in full on application in Hong
Kong dollars, plus brokerage of 1%, SFC
transaction levy of 0.0027% and Stock Exchange
trading fee of 0.005%
Nominal value : RMB1.0 per H Share
Stock code : 8252

Sole Sponsor



Joint Lead Managers



Co-lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VII to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by the Price Determination Agreement to be entered into between China Galaxy International (for itself and on behalf of the Underwriters) and the Company on the Price Determination Date. If, for any reason, China Galaxy International (for itself and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price by that date, the Public Offer will not become unconditional and will lapse. The Offer Price will not be more than HK\$1.34 per Offer Share and is expected to be not less than HK\$1.20 per Offer Share, unless otherwise announced. China Galaxy International (for itself and on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Offer Price range below that as stated in this prospectus on or prior to the last day for lodging applications under the Public Offer. In such a case, notice of the reduction in the indicative Offer Price range will be available on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.gltaihe.com.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-established companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors", "Regulatory Overview", "Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix V — Summary of the Articles of Association" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including but not limited to the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Offer Shares should note that China Galaxy International (for itself and on behalf of the Underwriters) is entitled to terminate the obligations of the Underwriters under the Underwriting Agreement by means of a notice in writing given to the Company by China Galaxy International (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Grounds for termination" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should China Galaxy International (for itself and on behalf of the Underwriters) terminate the Underwriting Agreement, the Public Offer will not proceed and will lapse.

24 April 2017

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkexnews.hk in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

Date⁽¹⁾

Latest time for completing electronic applications under HK eIPO White Form services through the designated website at www.hkeipo.hk ⁽²⁾⁽⁴⁾	11:30 a.m. on Thursday, 27 April 2017
Application lists of Public Offer open ⁽²⁾	11:45 a.m. on Thursday, 27 April 2017
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC ⁽²⁾⁽³⁾	12:00 noon on Thursday, 27 April 2017
Latest time for completing payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s) ⁽²⁾⁽⁴⁾	12:00 noon on Thursday, 27 April 2017
Application lists of Public Offer close ⁽²⁾	12:00 noon on Thursday, 27 April 2017
Price Determination Date ⁽⁵⁾ on or about	Thursday, 27 April 2017
Announcement of the final Offer Price, the level of applications in the Public Offer and the basis of allocation of the Offer Shares to be published on the website of the Stock Exchange at www.hkexnews.hk and on our Company's website at www.gltaihe.com ⁽⁶⁾ on or before	Friday, 5 May 2017
Results of allocations in the Public Offer (with successful applicants' identification document numbers or business registration numbers, where applicable) to be available through a variety of channels as described in the section headed "How to Apply for the Offer Shares — 11. Publication of Results" in this prospectus	Friday, 5 May 2017
Results of allocations in the Public Offer will be available at www.tricor.com.hk/ipo/result with a "search by ID Number/Business Registration Number" function from	Friday, 5 May 2017

EXPECTED TIMETABLE

Dispatch/collection of H Share certificates or deposit of the H Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before⁽⁷⁾⁽⁸⁾ Friday, 5 May 2017

Dispatch/collection of refund cheques or **HK eIPO White Form e-Auto Refund** payment instructions in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Public Offer on or before⁽⁸⁾ Friday, 5 May 2017

Dealings in our H Shares on GEM expected to commence at 9:00 a.m. on Monday, 8 May 2017

Notes:

- (1) All times refer to Hong Kong local time and date. Details of the structure of the Public Offer, including its conditions, are set out in the section headed “Structure and Conditions of the Public Offer” in this prospectus. If there is any change in the above expected timetable, an announcement will be published on the website of the Stock Exchange at www.hkexnews.hk and our Company’s website at www.gltaihe.com.
- (2) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon on Thursday, 27 April 2017, the application lists will not open or close on that day. Further information is set out in the section headed “How to Apply for the Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (3) Applicants who apply for Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for the Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (4) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) The Price Determination Date is expected to be on or about Thursday, 27 April 2017 or such later date as may be agreed between our Company and China Galaxy International (for itself and on behalf of the Underwriters). If China Galaxy International and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, the Public Offer will not become unconditional and will lapse immediately.
- (6) None of our Company’s website or any of the information contained in our Company’s website forms part of this prospectus.

EXPECTED TIMETABLE

- (7) H Share certificates are expected to be issued on or about Friday, 5 May 2017 but will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Public Offer has become unconditional in all respects; and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Grounds for termination” in this prospectus has not been exercised and has lapsed.
- (8) Refund cheques or e-Auto Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

Applicants who have applied on **WHITE** Application Forms or **HK eIPO White Form** for 1,000,000 or more Offer Shares and have provided all information required by their Application Forms may collect any refund cheques and/or H Share certificates in person from our Company’s H Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 5 May 2017. Applicants being individuals who are eligible for personal collection may not authorize any person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporations stamped with the corporation’s chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our H Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their H Share certificates as such H Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for the Offer Shares — 14. Dispatch/Collection of H Share Certificates and Refund Monies” in this prospectus for details.

Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

H Share certificates and/or refund cheques (if applicable) for applicants who have applied for less than 1,000,000 Offer Shares and any uncollected H Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants’ own risk, to the addresses specified in the relevant Application Forms.

Further information is set out in the sections headed “How to Apply for the Offer Shares — 13. Refund of Application Monies” and “How to Apply for the Offer Shares — 14. Dispatch/Collection of H Share Certificates and Refund Monies” in this prospectus.

EXPECTED TIMETABLE

Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of the H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

For information about the structure of the Public Offer, please refer to the sections headed “Underwriting” and “Structure and Conditions of the Public Offer” in this prospectus.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Public Offer in Hong Kong and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the H Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely on the information contained in this prospectus to make your investment decision. We, the Sole Sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the Public Offer have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the Public Offer.

The contents of our Company's website at www.gltaihe.com do not form part of this prospectus.

	<i>Page</i>
Characteristics of GEM	i
Expected Timetable	ii
Contents	vi
Summary	1
Definitions	16
Glossary of Technical Terms	26
Forward-looking Statements	27
Risk Factors	29
Waiver from Strict Compliance with the GEM Listing Rules	50
Information about this Prospectus and the Public Offer	52
Directors, Supervisors and Parties Involved in the Public Offer	57
Corporate Information	61
Industry Overview	63

CONTENTS

	<i>Page</i>
Regulatory Overview	75
History and Development	90
Business	101
Risk Management	150
Directors, Supervisors and Senior Management	167
Relationship with the Controlling Shareholders	182
Connected Transactions	193
Substantial Shareholders	195
Share Capital	198
Financial Information	201
Future Plans and Use of Proceeds	243
Underwriting	248
Structure and Conditions of the Public Offer	257
How to Apply for the Offer Shares	261
Appendix I Accountants' Report	I-1
Appendix II Unaudited Pro Forma Financial Information	II-1
Appendix III Taxation and Foreign Exchange	III-1
Appendix IV Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions	IV-1
Appendix V Summary of the Articles of Association	V-1
Appendix VI Statutory and General Information	VI-1
Appendix VII Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection	VII-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus including the appendices, which constitute an integral part of this prospectus, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” starting on page 29 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

We were the first rural microfinance company in Yangzhou City authorized by Jiangsu Finance Office to conduct micro and small loan business across Yangzhou City according to Yangzhou Small Loan Industry Association. We were also the second largest licensed microfinance company in Yangzhou City in 2015 in terms of registered capital according to the Ipsos Report. In terms of revenue and outstanding loan balance, we were the largest microfinance company in Yangzhou in 2015 with a market share of approximately 11.12% and 6.23% respectively, according to the Ipsos Report. In this connection, the amount of small loans granted in Yangzhou City in 2015 totaled to approximately RMB9.6 billion, representing approximately 9.0% of the total amount of small loans granted in Jiangsu Province in the same year of approximately RMB106.1 billion according to the Ipsos Report.

We are dedicated to serving SMEs, microenterprises and individual proprietors in Yangzhou City, by offering flexible, accessible and efficient micro and small loan services aiming to best match our customers’ interim business financing needs. We have been accredited an “A” grading since 24 October 2013 and subsequently an “AA” grading since 5 February 2015 by Jiangsu Finance Office pursuant to the Microfinance Companies Regulatory Grading Scheme in recognition of our quality micro and small loan business. The major assessment criteria under the Microfinance Companies Regulatory Grading Scheme, being those with more prominent weighting in terms of scoring points, included regulatory compliance, extent of connected transactions, internal control and risk control, and corporate governance. For further details on the assessment criteria and points awarded to us in respect of our grading, please refer to the section headed “Regulatory Overview — Regulations of the Microfinance Industry — Local Regulatory Policies in Jiangsu Province — Requirements for a rural microfinance company to conduct business” in this prospectus. We have also been awarded “Top Ten Best Microfinance Companies (十佳明星小貸公司)” in Yangzhou City by Yangzhou Finance Office for five consecutive years from 2012 to 2016.

We offered loans principally under two formats, namely (i) term loans and (ii) loans under credit facility to our customers during the Track Record Period. Our loans offered may be unsecured or secured by guarantees and/or collaterals, depending on, among other things, the size of the loans and the risk profile of the borrowers. During the Track Record Period, we granted loans to our customers in principal amounts ranging from RMB12,000 to RMB3,000,000, with an average loan size of approximately RMB1,454,000, RMB1,514,000 and RMB1,467,000 for the years ended 31 December 2014, 2015 and 2016, respectively.

During the Track Record Period, we generated interest income of approximately RMB98.1 million, RMB95.9 million, and RMB74.5 million for the years ended 31 December 2014, 2015 and 2016, respectively. During the Track Record Period, our income comprised principally interest income generated from our business of provision of micro and small loans, where loans receivable from our customers represented a substantial component of our total assets. For the years ended 31 December 2014, 2015 and 2016, our weighted average interest rate per annum was approximately 17.9%, 15.0% and 13.4%, respectively, and our effective interest rate per annum was approximately 17.9%, 16.5% and 12.7%, respectively. We had outstanding loans receivable of RMB528.6 million, RMB619.5 million and RMB599.4 million as at 31 December 2014, 2015 and 2016, respectively.

MARKET POSITION AND COMPETITIVE STRENGTHS

From the commencement of our operations in 2008, we were authorized to engage in rural micro and small loan business in the Hanjiang District of Yangzhou City, where both our headquarters and our branch office were then located. Due to city re-zoning by the city government of Yangzhou in

SUMMARY

November 2011, the location of our headquarters was re-zoned to the Guangling District of Yangzhou City, and we were since authorized to conduct our micro and small loan business in both Hanjiang District and Guangling District. In March 2015, we were further authorized to conduct our micro and small loan business in all regions in Yangzhou City. According to Yangzhou Small Loan Industry Association, we were the first microfinance company in Yangzhou City authorized to conduct micro and small loan business across the city.

We believe the following competitive strengths contribute to our success:

- we are a well-established microfinance company in Yangzhou City authorized to offer micro and small loan services across the city;
- we have a strong capital base and a high regulatory grading;
- we have a standardized and centralized risk management system;
- we have the ability to offer flexible, accessible and efficient financing services to our customers; and
- we have an experienced management team which possesses an in-depth industry knowledge that ensures the successful development of our business.

For further details, please refer to the section headed “Business — Our Competitive Strengths” starting on page 104 of this prospectus.

BUSINESS STRATEGIES

Our goal is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, microenterprises and individual proprietors. We intend to achieve our goal by adopting the following strategies:

- Expand our customer base through further penetration in existing markets in Yangzhou City in the near term, including Jiangdu District, Yizheng (county-level city), Gaoyou (county-level city) and Baoying (county-level city), which we only gradually tapped into after March 2015, and in the longer run further expand our geographical coverage to other major cities in Jiangsu Province (subject to, amongst others, obtaining requisite regulatory approvals); and
- Expand and strengthen our back office operational supports by (i) recruiting appropriate experienced employees to support various operational functions; and (ii) continuing upgrading our OA system, as and when required.

For further details, please refer to the section headed “Business — Our Business Strategies” starting on page 107 of this prospectus.

MARKET COMPETITION

According to the Ipsos Report, there were 629 microfinance companies in Jiangsu Province as at 31 December 2016, among which there were 59 microfinance companies in Yangzhou City. While we directly compete with over 50 local licensed microfinance companies in Yangzhou City, to varying degree we are also competing with Peer-to-Peer (P2P) lending platforms, rural banks, wealthy individuals and other unlicensed microfinance institutions that lend to SMEs, microenterprises and individual proprietors with financing need.

We compete primarily on the basis of (i) our reputation and experienced management team; (ii) the quality and accessibility of our services; (iii) the efficiency of our loan application review and approval process; (iv) our capital scale; and (v) our risk management and risk control capabilities.

Leveraging our competitive strengths and our long and established operating history in Yangzhou City, we have established a strong local brand reputation, with leading market ranking in 2015 in terms of revenue, outstanding loan balance and registered capital in Yangzhou City, according to the Ipsos Report. We consider that we have been effective in competing through our competitive terms, dedicated services, sound risk management and established brand reputation in Yangzhou City. As

SUMMARY

such, despite we are operating in a highly competitive industry, this did not have material adverse impact on our operational and financial performance during the Track Record Period. We believe we have been, and will continue to remain, in a competitive position in the market. We believe the Listing will serve to further strengthen our financial position and reinforce our brand awareness, better position us to take on supportive initiatives of local government towards the microfinance industry, and enable us to enjoy more flexibility in acquiring funding to further our business strategies and get ahead of our competitors. Nonetheless, if we fail to maintain our competitive strengths, we may lose market share and our revenue may decrease. For details, please refer to the sections headed “Risk Factors — Risks relating to our Business and Industry — Intense competition in the industry in which we operate could cause us to lose market share and revenue in the future” and “Business — Competition” in this prospectus.

KEY OPERATIONAL AND FINANCIAL DATA

Summary of Financial Information

The table below sets forth our selected statement of profit or loss and other comprehensive income data for the years indicated:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	98,107	95,947	74,495
Interest expense	(1,433)	(1,442)	(596)
Net interest income	<u>96,674</u>	<u>94,505</u>	<u>73,899</u>
Reversal of provision for impairment losses	1,555	849	2,374
Reversal of provisions for guarantee losses	74	—	—
Administrative expenses	(20,802)	(17,647)	(22,593)
Net other income/(expense)	(249)	361	453
Profit before tax	<u>77,252</u>	<u>78,068</u>	<u>54,133</u>
Income tax expense	(9,759)	(16,666)	(13,653)
Profit after tax and total comprehensive income for the year	<u><u>67,493</u></u>	<u><u>61,402</u></u>	<u><u>40,480</u></u>

Our interest income decreased by approximately 2.2% from approximately RMB98.1 million for the year ended 31 December 2014 to approximately RMB95.9 million for the year ended 31 December 2015, primarily attributable to a decrease in the effective interest rate chargeable on our loans to customers as affected by the decrease in PBOC Benchmark Interest Rate. Our interest income also decreased by approximately 22.4% from approximately RMB95.9 million for the year ended 31 December 2015 to approximately RMB74.5 million for the year ended 31 December 2016, primarily attributable to (i) a decrease in the effective interest rate chargeable on our loans to customers as a result of the decrease in PBOC Benchmark Interest Rate; (ii) our offering of more competitive and favorable pricing to selective customers in response to the Yangzhou government’s recent policy direction towards alleviating the burdensome funding costs faced by SMEs and further promoting accessibility of funding by SMEs, as well as addressing the competitive environment of our industry; and (iii) the imposition of VAT on our interest income in lieu of business tax with effect from 1 May 2016 whereby our interest income for the period starting from 1 May 2016 was recognized net of applicable VAT.

Our net profit decreased by approximately 9.0% from approximately RMB67.5 million for the year ended 31 December 2014 to approximately RMB61.4 million for the year ended 31 December 2015, which was mainly attributable to the increase in income tax expenses in 2015 as we no longer enjoyed the 50% reduction in income tax rate and began to be subjected to the statutory income tax rate of 25% since 1 January 2015. Our net profit also decreased by approximately 34.1% from approximately RMB61.4 million for the year ended 31 December 2015 to approximately RMB40.5 million for the year ended 31 December 2016, which was mainly attributable to a decrease in interest income for the reasons set out in the preceding paragraph.

SUMMARY

For more information, please refer to the section headed “Financial Information — Management’s Discussion and Analysis of Results of Operation” starting on page 217 of this prospectus.

The table below sets forth our selected statement of financial position data as at the dates indicated:

	As at 31 December		
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Assets			
Cash and cash equivalents	22,018	418	3,553
Loans receivable	504,255	597,092	580,544
Property and equipment	3,501	2,869	1,484
Deferred tax assets	3,089	5,602	4,709
Other assets	3,812	4,678	7,661
Total assets	<u>536,675</u>	<u>610,659</u>	<u>597,951</u>
Liabilities			
Interest-bearing borrowings	—	8,000	—
Income tax payable	3,677	7,161	5,670
Other liabilities	9,098	10,196	11,498
Total liabilities	<u>12,775</u>	<u>25,357</u>	<u>17,168</u>
Net assets	<u>523,900</u>	<u>585,302</u>	<u>580,783</u>

For more information, please refer to the section headed “Financial Information — Selected Items of the Statement of Financial Position” starting on page 224 of this prospectus.

The table below sets forth our selected statement of cash flow data for the years indicated:

	Year ended 31 December		
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Cash flows from Operating Activities			
Profit before tax	77,252	78,068	54,133
Adjustments for:			
Depreciation	1,728	1,471	1,415
Reversal of provision for impairment losses	(1,555)	(849)	(2,374)
Reversal of provisions for guarantee losses	(74)	—	—
Accreted interest on impaired loans	(1,429)	(1,037)	(1,199)
Net loss on disposal of property and equipment and other assets	224	—	—
Interest expense	1,433	1,442	596
Operating cash flow before changes in working capital and tax	<u>77,579</u>	<u>79,095</u>	<u>52,571</u>
Net cash flows from/(used in) operating activities	<u>140,433</u>	<u>(26,487)</u>	<u>60,009</u>

Due to relevant accounting treatment where loans effected to customers are accounted for as operating cash outflow, we recorded operating cash outflow of approximately RMB26.5 million in 2015, primarily as a result of a net increase in loans receivable of RMB91.0 million as at 31 December 2015 compared to that as at 31 December 2014.

The nature of micro and small loan business is capital intensive and involves substantial operating cash outflows in the form of effecting loans to customers, which are classified as cash used in operating activities in accordance with applicable accounting principles. Therefore, our Directors are of the view that apart from any substantial increase in outstanding loans receivable (cash outflow

SUMMARY

from operating activities) supported by external financing (either debt or equity) which would be reported as cash inflow from financing activities and which in turn would likely give rise to a negative operating cash flow as at a given year-end, microfinance companies in general would experience fluctuations in its net operating cash flow from year to year depending on the amount of outstanding loans extended to customers vis-à-vis amount of loans repaid by customers as at a given year-end. More particularly, a microfinance company would typically report negative operating cash flows as at a given year-end if the total amount of loans extended to customers is greater than the total amount of loans repaid by customers together with interest income collected.

For more information, please refer to the section headed “Financial Information — Liquidity and Capital Resources” starting on page 220 of this prospectus.

The following table sets forth our key financial ratios as at the dates indicated:

	Year ended or as at 31 December		
	2014	2015	2016
Return on equity ⁽¹⁾	12.4%	11.1%	6.9%
Return on assets ⁽²⁾	11.8%	10.7%	6.7%
Total outstanding loans receivable less allowance for impairment losses to total assets ⁽³⁾	94.0%	97.8%	97.1%
Gearing ratio ⁽⁴⁾	—	1.3%	—

Note:

- (1) Return on equity is calculated by dividing profit and total comprehensive income by the average balance of total equity as at the beginning and end of a year multiplied by 100%.
- (2) Return on assets is calculated by dividing profit and total comprehensive income by the average balance of total assets as at the beginning and end of a year multiplied by 100%.
- (3) The ratio of total outstanding loans receivable less allowance for impairment losses to total assets equals the total outstanding loans receivable less allowance for impairment losses as at the indicated date divided by the total assets as at the same date and multiplied by 100%.
- (4) Gearing ratio equals the net debt as at the indicated date divided by the aggregate of total capital and net debt as at the same date and multiplied by 100%.

The following table sets forth certain of our key operational statistics during the Track Record Period:

	Year ended or as at 31 December		
	2014	2015	2016
Total number of outstanding loans as at the end of the year	427	427	424
Total outstanding loans receivable as at the end of the year (RMB'000)	528,551	619,501	599,381
Total outstanding loans receivable less allowance for impairment losses as at the end of the year (RMB'000)	504,255	597,092	580,544
Total amount of new loans granted during the year (RMB'000)	776,420	905,429	679,025
Number of new loans granted during the year	534	598	463
Total amount of new loans granted to connected persons during the year (RMB'000) ⁽¹⁾	900	—	—
Outstanding amount of loans to connected persons as at the end of the year (RMB'000)	—	—	—
Total amount of new loans guaranteed by connected persons during the year (RMB'000) ⁽¹⁾	10,960	—	—
Outstanding amount of loans guaranteed by connected persons as at the end of the year (RMB'000)	—	—	—
Average term of new loans (days)	279	310	316
Average loan size (RMB'000)	1,454	1,514	1,467
Range of loan size (RMB'000)	20 to 3,000	20 to 3,000	12 to 3,000
Average loan repayment period per loan (days)	258	250	296
Weighted average interest rate per annum ⁽²⁾	17.9%	15.0%	13.4%
Effective interest rate per annum ⁽³⁾	17.9%	16.5%	12.7%
Net interest margin during the year ⁽⁴⁾	18.9%	16.3%	12.6%
Net profit margin during the year	68.8%	64.0%	54.3%
Total amount of loans granted with term extension during the year (RMB'000)	124,780	15,750	3,000
Outstanding amount of loans under extension as at the end of the year (RMB'000)	70,029	35,355	6,736
Extended loan ratio ⁽⁵⁾	13.2%	5.7%	1.1%
Loan rejection ratio during the year ⁽⁶⁾	3.4%	5.1%	6.7%

SUMMARY

	Year ended or as at 31 December		
	2014	2015	2016
Outstanding amount of overdue loans as at the end of the year (RMB'000) ⁽⁷⁾	14,258	46,785	10,069
Overdue loan ratio ⁽⁸⁾	2.7%	7.6%	1.7%
Outstanding amount of impaired loans as at the end of the year (RMB'000) ⁽⁹⁾	17,884	13,298	9,981
Impaired loan ratio ⁽¹⁰⁾	3.4%	2.1%	1.7%
Loan-to-value ratio of collateralized loans ⁽¹¹⁾	9.7%-100.0% ⁽¹²⁾	10.6%-78.9%	10.6%-74.3%

Notes:

- (1) We ceased granting loans to connected persons or loans guaranteed by connected persons since 2015. During the year ended 31 December 2014, new loans granted to connected persons and new loans guaranteed by connected persons represented approximately 0.1% and 1.4%, respectively, of the total amount of our new loans granted during the year. These loans were (i) subject to the same pre-loan due diligence and loan application review and approval process as those granted to or guaranteed by Independent Third Parties; (ii) granted under terms comparable with loans granted to or guaranteed by Independent Third Parties; and (iii) repaid on or before their respective maturity dates. As confirmed by our PRC Legal Advisers, the grant of these loans did not contravene any applicable PRC laws, rules and regulations.
- (2) The weighted average interest rate per annum refers to the weighted average of the interest rates of new loans granted during the year.
- (3) The effective interest rate per annum is calculated by dividing the interest income derived from our loans (not including any default interest) by the average daily balance of our loans receivable for the year indicated.
- (4) Net interest margin is calculated by dividing our net interest income by the average daily balance of our loans receivable for the year indicated.
- (5) The extended loan ratio is calculated by dividing the outstanding amount of loans under extension as at the dates indicated by the total outstanding loans receivable as at the dates indicated.
- (6) Loan rejection ratio is calculated by dividing the number of loan applications rejected during the year by the total number of loan applications during the year.
- (7) Overdue loans refer to loans with whole or part of the principal and/or interest overdue for one day or more.
- (8) The overdue loan ratio is calculated by dividing the outstanding amount of overdue loans as at the dates indicated by the total outstanding loans receivable as at the dates indicated.
- (9) Impaired loans refer to the loans identified as “individually impaired” in Note 28(a) to our financial statements included in the Accountants’ Report in Appendix I to this prospectus. As at 31 December 2014, 2015 and 2016, our impaired loans included “substandard”, “doubtful” and “loss” loans under the “Five-Tier Principle” loan classification approach pursuant to the Guideline for Loan Credit Risk Classification (貸款風險分類指引).
- (10) The impaired loan ratio is calculated by dividing the outstanding amount of impaired loans as at the dates indicated by the total outstanding loans receivable as at the dates indicated.
- (11) The loan-to-value ratio of collateralized loans (with and without guarantee) is calculated by dividing the collateral value supported by the relevant valuation reports by the amount of the collateralized loans and/or maximum amount of credit facility granted. Please refer to the section headed “Business — Our Loan Portfolio — (b) Loan portfolio by security — Collateralized loans” for further details of our policies regarding loan-to-value ratio.
- (12) The high end of our loan-to-value ratio of 100% for the year ended 31 December 2014 was arising from an isolated collateralized loan with guarantee. Excluding such isolated loan, the high end of our loan-to-value ratio for the year ended 31 December 2014 was around 77.8%.

During the Track Record Period, we granted loans with term extension in the aggregate amount of RMB124.8 million, RMB15.8 million and RMB3.0 million, representing approximately 16.1%, 1.7% and 0.4%, respectively, of our new loans granted for the respective year. All of the said loans were extended on or before they fall due. Loans under extension as at each of the year ended 31 December 2014, 2015 and 2016 amounted to RMB70.0 million, RMB35.4 million and RMB6.7 million respectively, representing approximately 13.2%, 5.7% and 1.1% of our total outstanding loans receivable as at the respective year end. Details on our processing of loan extension requests, including our criteria of consideration, are further set out in the section headed “Risk Management — Credit Risk Management — Loan extension” in this prospectus. Prior to 2015 we generally took a more commercially lenient approach in receiving and considering our customers’ loan extension requests. Since 2015 we have taken a more conservative stance in risk management in general, pursuant to which we started dissuading our customers to apply for loan extension and applied a higher level of scrutiny in considering any grant of loan extension with a view of improving the general quality of our loan portfolio and further reducing our credit risk exposure. As a result, we have noted a significant decrease in our extended loan ratio since 2015.

Our overdue loan ratio was approximately 2.7%, 7.6% and 1.7% as at 31 December 2014, 2015 and 2016, respectively. The relatively higher overdue loan ratio as at 31 December 2015 was primarily a result of certain collateralized overdue loans made to three borrowers who are related to each other, and which were under repayment plans, where certain real properties were being arranged for disposal to settle the overdue loans. The principal of the overdue loans, together with interests accrued thereon, owed by these three borrowers were fully repaid as at 31 December 2016.

SUMMARY

SALES AND MARKETING

We solicit our customers principally through door-to-door visit by our account managers, referrals from our customers and our operation points. We also promote our brand and services on our company website. For further details, please refer to the section headed “Business — Customers, Sales and Marketing — Sales and marketing” starting on page 130 of this prospectus.

SUPPLIERS

Due to the nature of our business, we did not have any supplier during the Track Record Period.

CUSTOMERS

We have a relatively broad customer base comprising primarily SMEs, microenterprises and individual proprietors, situated or resided in Yangzhou City. Our customers are engaged in a variety of industries, and a majority of which are also under the PBOC classification of AFR (三農). We consider the diversity of industries and businesses of our customers, coupled with our relatively small individual loan size, serve to alleviate our risk of concentration and position us to better withstand periodic business and economic cycles of different industries.

For the years ended 31 December 2014, 2015 and 2016, we granted loans to 350, 499 and 381 customers, respectively. Our top five customers from whom we generated interest income on loans receivable for the years ended 31 December 2014, 2015 and 2016 accounted for approximately 13.1%, 9.1%, and 7.6% of our total interest income on loans receivable, respectively, while our largest customer accounted for approximately 3.2%, 2.0% and 1.8% of our total interest income on loans receivable, respectively, for the same period.

LOAN PORTFOLIO ANALYSIS

The following table sets forth our outstanding loans by size as at the dates indicated:

	2014		As at 31 December 2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%
Less than or equal to RMB 0.5 million						
- Guaranteed loans	14,866	2.7	12,623	2.0	10,275	1.8
- Collateralized loans	14,946	2.8	13,255	2.2	8,470	1.4
	29,812	5.5	25,878	4.2	18,745	3.2
Over RMB0.5 million but less than or equal to RMB1 million						
- Guaranteed loans	36,971	7.0	23,832	3.9	34,935	5.8
- Collateralized loans	18,634	3.5	13,126	2.1	5,549	0.9
	55,605	10.5	36,958	6.0	40,484	6.7
Over RMB1 million but less than or equal to RMB2 million						
- Guaranteed loans	108,500	20.5	295,243	47.6	368,303	61.4
- Collateralized loans	39,949	7.6	31,439	5.1	17,288	2.9
	148,449	28.1	326,682	52.7	385,591	64.3
Over RMB2 million but less than or equal to RMB3 million						
- Guaranteed loans	200,596	38.1	163,533	26.4	105,337	17.6
- Collateralized loans	94,089	17.8	66,450	10.7	49,224	8.2
	294,685	55.9	229,983	37.1	154,561	25.8
Total	528,551	100	619,501	100	599,381	100

SUMMARY

The following table sets forth the breakdown of the number of our new and repeat customers to whom we granted loans for the years indicated:

	Year ended 31 December		
	2014 Number	2015 Number	2016 Number
New Customers⁽¹⁾			
- Guaranteed loans	199	293	40
- Collateralized loans	11	19	7
<i>included: Guaranteed and collateralized loans</i>	<u>—</u>	<u>—</u>	<u>1</u>
	210	312	47
Repeat customers⁽²⁾			
- Guaranteed loans	69	143	300
- Collateralized loans	71	44	34
<i>included: Guaranteed and collateralized loans</i>	<u>3</u>	<u>3</u>	<u>3</u>
	140	187	334
Total	<u>350</u>	<u>499</u>	<u>381</u>

Notes:

- (1) New customers are customers to whom we granted loans for the first time.
- (2) Repeat customers are customers who have previously obtained loans from us. The loan application review and approval process for a new loan application by a repeat customer is the same as that for a new loan application by a new customer.

The following table sets forth our outstanding loans by customer type as at the dates indicated:

	2014		As at 31 December 2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%
SME and Micro-enterprises	119,489	22.6	99,412	16.0	75,352	12.5
Individual proprietors	409,062	77.4	520,089	84.0	524,029	87.5
Total	<u>528,551</u>	<u>100</u>	<u>619,501</u>	<u>100</u>	<u>599,381</u>	<u>100</u>

The following table sets forth our outstanding loans by industry as at the dates indicated:

	2014		As at 31 December 2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%
Guaranteed Loans						
Manufacturing	114,778	21.7	58,519	9.4	48,188	8.0
Construction	149,088	28.2	329,131	53.1	340,815	56.9
Wholesale and retail	56,560	10.7	52,017	8.4	60,349	10.1
Transportation, warehousing and postal	22,631	4.3	8,030	1.3	20,561	3.4
Others	17,876	3.4	47,534	7.7	48,937	8.2
Subtotal outstanding guaranteed loans	<u>360,933</u>	<u>68.3</u>	<u>495,231</u>	<u>79.9</u>	<u>518,850</u>	<u>86.6</u>
Collateralized loans						
Manufacturing	26,027	4.9	20,346	3.3	23,004	3.8
Construction	28,045	5.3	36,767	5.9	17,750	3.0
Wholesale and retail	56,630	10.7	36,183	5.8	16,754	2.8
Transportation, warehousing and postal	24,841	4.7	11,930	1.9	50	0.0
Others	32,075	6.1	19,044	3.2	22,973	3.8
Subtotal outstanding collateralized loans	<u>167,618</u>	<u>31.7</u>	<u>124,270</u>	<u>20.1</u>	<u>80,531</u>	<u>13.4</u>
Total	<u>528,551</u>	<u>100</u>	<u>619,501</u>	<u>100</u>	<u>599,381</u>	<u>100</u>

SUMMARY

As noted above, a significant portion of our outstanding loans during the Track Record Period were guaranteed loans granted to customers engaged in the construction industry, which accounted for approximately 28.2%, 53.1% and 56.9% of the total amount of outstanding loans as at 31 December 2014, 2015 and 2016, respectively. These customers are generally individual proprietors engaged in building renovation, trading of construction materials, infrastructure projects and construction of private and public housing, and which do not have acceptable collaterals to post as security for their loans.

The following table sets forth our outstanding loans by security as at the dates indicated:

	2014		As at 31 December 2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%
Guaranteed Loans	360,933	68.3	495,231	79.9	518,850	86.6
Collateralized loans	167,618	31.7	124,270	20.1	80,531	13.4
<i>Included: Guaranteed and collateralized loans</i>	<u>128,110</u>	<u>24.2</u>	<u>101,171</u>	<u>16.3</u>	<u>77,466</u>	<u>12.9</u>
Total	<u>528,551</u>	<u>100</u>	<u>619,501</u>	<u>100</u>	<u>599,381</u>	<u>100</u>

LEGAL PROCEEDINGS AND COMPLIANCE MATTERS

At present, we are able to meet the minimum profit requirement for listing on the Main Board of the Stock Exchange with a Track Record Period of three years ended 31 December 2014, 2015 and 2016. Our application for listing on GEM was initially filed in August 2016 with a track record period of the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016. At the relevant time if we were to apply for a listing on the Main Board of the Stock Exchange, we would have been required to include three full financial years of 2013, 2014 and 2015 as our trading record period. However, we did not comply with the guiding interest rate ceiling(s) stipulated under certain guidelines issued by Jiangsu Finance Office during the year ended 31 December 2014, and should all interest income generated from our non-compliant loans for the two years ended 31 December 2014 were excluded, we would not have been able to satisfy the minimum profit requirement under the relevant Main Board Listing Rules at the time of initial filing of our listing application. For demonstration purpose only, should all interest income generated from our historical non-compliant loans were excluded, based on our unaudited management accounts of the respective year end, we would have had (a) a net loss of approximately RMB30.0 million for the year ended 31 December 2014 and net profit of approximately RMB61.4 million and RMB40.5 million for the year ended 31 December 2015 and 2016, respectively; and (b) negative operating cash flow before changes in working capital and tax paid in the sum of approximately RMB34.2 million for the year ended 31 December 2014 and positive operating cash flow before changes in working capital and tax paid in the sum of approximately RMB79.1 million and RMB52.6 million for the year ended 31 December 2015 and 2016, respectively. For further details of the said non-compliance incident, please refer to the section headed “Business — Approval, Compliance and Legal Proceedings — Historical non-compliance with relevant guidelines specific to microfinance companies” starting on page 146 of this prospectus.

During the Track Record Period and up to the Latest Practicable Date, our PRC Legal Advisers confirmed that save for the above non-compliance incident, we have complied, in all material respects, with the applicable PRC laws and regulations.

The following table summarized key normative requirements in the microfinance industry and our compliance status during the Track Record Period:

Key Normative Requirements	Compliance Status
1. The total balance of small loans shall account for no less than 70% of the total balance of loans	We were in compliance with the relevant requirements throughout the Track Record Period.
2. The total balance of AFR-related loans shall account for no less than 70% of the total balance of loans	We were in compliance with the relevant requirements throughout the Track Record Period.

SUMMARY

Key Normative Requirements	Compliance Status
3. The total balance of business loans (經營性貸款) with a term longer than three months shall account for no less than 70% of the total balance of loans	We were in compliance with the relevant requirements throughout the Track Record Period.
4. (i) The balance of the loans to a single borrower shall not exceed 3% of the net capital (unless in exceptional circumstances and with prior approval from Yangzhou Finance Office, may exceed 3% but in any event shall not exceed 5% of the net capital); and (ii) the total balance of the loans and guarantees to a single borrower and its related parties shall not exceed 10% of the net capital	We were in compliance with the relevant requirements throughout the Track Record Period.
5. Restrictions on the average interest rate per annum and the highest interest rate per annum charged by a microfinance company	We were not in compliance with the guidelines issued by Jiangsu Finance Office for the year ended 31 December 2014. For details, please refer to the section headed “Business — Approval, Compliance and Legal Proceedings — Historical non-compliance with relevant guidelines specific to microfinance companies” in this prospectus. Save for the above, we were in compliance with the relevant requirements throughout the Track Record Period.
6. The financing ratio of rural microfinance companies shall not exceed certain statutory limits.	We were in compliance with the relevant requirements throughout the Track Record Period
7. Microfinance companies which have obtained bank financing or commenced guarantee business shall not grant loans to their shareholders, unless with approval from the finance office of the municipal-level in the case of exceptional circumstances	We were in compliance with the relevant requirements throughout the Track Record Period
8. In case a microfinance company grants loans to its related parties other than its shareholders, the balance of loans to such related parties shall not exceed the limit set for small loans by the municipality in which it operates (i.e. RMB3 million). In the event that such balance exceeds RMB1.5 million, the microfinance company shall make filings with the finance office of the municipal level before granting such loan	We were in compliance with the relevant requirements throughout the Track Record Period
9. The registered capital of a microfinance company in Yangzhou City shall not be less than RMB20 million	We were in compliance with the relevant requirements throughout the Track Record Period
10. The largest shareholder and its related parties shall not hold more than 60% shareholding in a microfinance company	During the Track Record Period and up to the Latest Practicable Date, our largest shareholder, the Botai Group, and its related parties hold in aggregate more than 60% shareholding in us. For details, please refer to the section headed “History and Development — Our Corporate Development” in this prospectus. However, our PRC Legal Advisers have confirmed, and based on our consultation with the Jiangsu Finance Office, such requirement is not applicable to us as we were incorporated before the relevant government circulars came into effect.

For details of the key normative requirements in the microfinance industry and our compliance status, please refer to section headed “Business — Approval, Compliance and Legal Proceedings — Compliance” starting on page 141 of this prospectus.

RISK MANAGEMENT

As a microfinance company dedicated to providing micro and small loan services to SMEs, microenterprises and individual proprietors, credit risk is the most significant risk inherent to our business. We have developed a standardized and centralized risk management system through our extensive experience in serving the interim financing needs of SMEs, microenterprises and individual proprietors. We also adhere to the policy of “separation of due diligence and approval (審貸分離)” to safeguard the effectiveness of our risk management and risk control efforts. We strive to achieve an optimal balance between an acceptable and manageable credit risk level and an efficient use of available funds to improve returns for our Shareholders.

SUMMARY

A key feature of our risk management system is the incorporation of certain key compliance monitoring functions into our OA system to facilitate automatic alert and, where appropriate, blockage of a loan approval process to safeguard continuous regulatory compliance. For details of our OA system, please refer to the section headed “Risk Management — Our OA System” starting on page 162 of this prospectus.

We also face risks relating to our operations and compliance. In this regard, we have adopted and implemented streamlined processes and procedures aiming to achieve operational efficiency and effectiveness while ensuring compliance with all applicable laws and regulations. For further details, please refer to the section headed “Risk Management” starting on page 150 of this prospectus.

SOURCE OF FUNDING

During the Track Record Period, we financed our business mainly through the following sources of funding:

- *Registered capital* — Throughout the Track Record Period and up to the Latest Practicable Date, we had a paid-up registered capital of RMB450 million.
- *Internally generated funds* — These are mainly interests from loans granted. For the years ended 31 December 2014, 2015 and 2016, we generated interest income of approximately RMB98.1 million, RMB95.9 million and RMB74.5 million, respectively.
- *Bank borrowings* — All outstanding bank borrowings had been repaid in 2014, and that no new bank borrowings had been obtained during the Track Record Period and up to the Latest Practicable Date.
- *Short-term borrowings from other institutes:*
 - *Jinnong Company operated “fund pool”* — We obtained interim fundings in the aggregate principal amount of approximately RMB45.0 million, RMB40.0 million and RMB20.0 million for the years ended 31 December 2014, 2015 and 2016, respectively; and
 - *Other microfinance companies* — we obtained short-term loans in the aggregate principal amount of approximately RMB10.0 million, RMB20.0 million and RMB13.0 million for the years ended 31 December 2014, 2015 and 2016, respectively.

In addition, in 2014, we obtained shareholder’s loans in the aggregate principal sum of RMB7.5 million from Botai Group, our Controlling Shareholder, which had been fully repaid as at 31 December 2014.

For further details, please refer to the section headed “Business — Source of Funding” starting on page 131 of this prospectus.

RISK FACTORS

We believe that there are certain risks involved in our operations and the Listing, some of which are beyond our control. They can be broadly categorized into risks relating to our business and industry, risks relating to conducting our business in China and risks relating to the Public Offer and our H Shares, among which, the relatively material risks encompass the following:

- Our business is heavily regulated and supervised by national, provincial, municipal and local government authorities. If we fail to respond to the changes in applicable regulatory requirements in a timely manner or at all, or if we fail to renew our business license, our business operations may be adversely affected or even be terminated.
- We mainly rely on the creditworthiness of our customers and/or their guarantors, which may limit our ability to recover payments from defaulting customers.
- As our customers comprise mainly SMEs, microenterprises and individual proprietors, we are subject to greater credit risks and our credit risk management may not be adequate to protect against customer defaults.
- If we fail to effectively manage credit risk of our loans and maintain a low impaired loan ratio, our business, financial conditions and results of operations may be materially and adversely affected.

SUMMARY

- As our business and operations are confined to Yangzhou City, any adverse changes of the economy or regulatory environment of Yangzhou City may materially and adversely affect our business, financial conditions and results of operations.
- Our risk management structure, policies, procedures and internal control may not be adequate to protect us against the risks which our business operations may be subject to.
- Any change in interest rates may have a negative impact on our income and operating results.

For further details, please refer to the section headed “Risk Factors” starting on page 29 of this prospectus.

CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Botai Group and Liantai Guangchang directly held approximately 53.38% and 42.20% of the total issued share capital of our Company, respectively. Immediately after completion of the Public Offer, Botai Group and Liantai Guangchang will directly hold approximately 40.03% and 31.65% of the total issued share capital of our Company, respectively.

As at the Latest Practicable Date, Botai Group and Liantai Guangchang were wholly owned by the Bo Family. More particularly, Liantai Guangchang was owned as to approximately 48.67% by Botai Group, 26.33% by Mr. Bo Wanlin, 15% by Mr. Bo Nianbin and 10% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin). Botai Group was owned as to approximately 33.33% by Mr. Bo Wanlin, 16.67% by Mr. Bo Nianbin, 16.67% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin), 16.67% by Ms. Bai Li and 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin). As such, Botai Group, Liantai Guangchang and the Bo Family are a group of the Controlling Shareholders of our Company within the meaning of the GEM Listing Rules and are expected to remain as the Controlling Shareholders immediately following completion of the Public Offer.

In addition, Mr. Bo Wanlin, Ms. Wang Zhengru, Mr. Bo Nianbin, Ms. Bai Li and Ms. Zhu Wenying, being members of the Bo Family, are parties acting in concert, whereby members of the Bo Family, namely Ms. Wang Zhengru, Mr. Bo Nianbin, Ms. Bai Li and Ms. Zhu Wenying agreed to vote in concert with Mr. Bo Wanlin at shareholders’ meeting of our Company. As such, the Bo Family, Botai Group and Liantai Guangchang will remain as a group of Controlling Shareholders after the Public Offer.

For further details, please refer to the section headed “Relationship with the Controlling Shareholders” starting on page 182 of this prospectus.

RECENT DEVELOPMENTS AND BUSINESS OUTLOOK

During the period from 1 January 2017 up to the Latest Practicable Date, we have granted 90 new loans in an aggregate principal amount of approximately RMB153.8 million, the loan portfolio of which is set forth below:

(a) *Loan portfolio by loan format*

	From 1 January 2017 to the Latest Practicable Date	
	Number of new loans granted	Total amount of new loans granted RMB million
Term loans	67	113.1
Loans under credit facility	23	40.7
Total	90	153.8

SUMMARY

(b) *Loan portfolio by security*

	From 1 January 2017 to the Latest Practicable Date	
	Number of new loans granted	Total amount of new loans granted <i>RMB million</i>
Guaranteed loans	77	136.5
Collateralized loans	13	17.3
<i>included: Guaranteed and collateralized loans</i>	<u>13</u>	<u>17.3</u>
Total	<u>90</u>	<u>153.8</u>

We did not have any interest-bearing borrowings as at 28 February 2017. During the period from 1 March 2017 up to the Latest Practicable Date, we did not obtain any new interest-bearing borrowings.

Our interest income exhibited a declining trend during the Track Record Period, primarily attributable to a decrease in the effective interest rate we charged on our loans, which in turn was largely influenced by the decreases of PBOC Benchmark Interest Rate during the period, and to a lesser extent our offering of more competitive and favorable interest charge to selected customers in response to Yangzhou government's recent policy direction towards alleviating the burdensome funding costs faced by SMEs. Under the applicable rules and regulations currently in force, microfinance companies in Jiangsu Province can charge interest rates of up to four times the PBOC Benchmark Interest Rate. Therefore, changes in the PBOC Benchmark Interest Rate have a direct impact on the maximum interest rate a microfinance company can charge. During the Track Record Period, the PBOC Benchmark Interest Rate has been on a decreasing trend, where the PBOC Benchmark Interest Rate for short-term loans decreased from 6.00% at the beginning of 2014 to 4.35% as at 24 October 2015, and remained unchanged thereafter. Should the PBOC Benchmark Interest Rate continue to decline going forward, we may have to further reduce the interest rates we charge on our loans to reflect any decrease of the PBOC Benchmark Interest Rate, which would in turn negatively impact our results of operations.

Notwithstanding the aforesaid, our Directors consider that another wave of continuous decrease in the PBOC Benchmark Interest Rate would be relatively unlikely in the near term unless there are material changes in the macroeconomic and foreign exchange environment, or a significant and/or sustained reversal of the trend of capital flow in the PRC. Regardless, based on our current level of interest rates chargeable on our loans, there is a reasonable buffer from further reducing our interest rates charged against any further downward adjustment to the PBOC Benchmark Interest Rate in the foreseeable near term. For further details, please refer to the section headed "Financial Information — Factors Affecting our Results of Operations — Interest rate environment" in this prospectus.

Moreover, while our initiative to offer more favorable pricing to selective customers in response to the Yangzhou government's policy direction towards alleviating the funding cost burden faced by SMEs as well as addressing the competitive environment of our industry has partly contributed to our decrease in interest income during the year ended 31 December 2016, we have duly weighted such business decision on the basis of business profit, corporate image, competitiveness, support to local economies and to local government directions. Taking a balanced view, we consider our downward rate adjustments in the year ended 31 December 2016 have satisfactorily demonstrated our support to local government directions and sufficiently addressed the competitive environment of our industry, and do not contemplate further significant interest rate reduction in the near term. We also believe that from a balance of interest perspective, the PRC Government is unlikely to implement undue favorable policies towards SMEs that would significantly undermine the healthy development of the microfinance industry.

SUMMARY

On the other hand, our interest income on loans receivable is also affected by the average daily balance of our loans receivable, which in turn is dependent on the availability and source of funding of our Company. During the Track Record Period, we funded our business mainly through our own registered capital and internally generated funds, supplemented by short-term external borrowings from time to time. As a result of our payment of dividends of RMB45.0 million to our Shareholders in February 2016 and repayment in full of all our borrowings by 31 May 2016, our overall level of free cash has been reduced, which to a certain extent have affected our average daily balance of loans receivable and the interest income generated thereon.

Going forward, we endeavor to implement our business strategies in a prudent manner. We believe that our long and established operating history in Yangzhou City, coupled with our business expansion plans and strengthened financial position after Listing, will enable us to continue competing effectively with our competitors and to better withstand periodic external market shocks. For further details, please refer to the sections headed “Future Plans and Use of Proceeds — Implementation Plan” and “Business — Competition” in this prospectus.

Save as disclosed herein and in the paragraph headed “Listing Expenses” in this section, our Directors have confirmed that there has been no material adverse change in our financial or trading position or prospect since 31 December 2016 and up to the date of this prospectus, and there is no event since 31 December 2016 and up to the date of this prospectus which would materially affect the information shown in the Accountants’ Report set out in Appendix I starting on page I-1 of this prospectus.

OFFER STATISTICS

	Based on the Offer Price of HK\$1.20 per H Share	Based on the Offer Price of HK\$1.34 per H Share
Market capitalization of our Company ⁽¹⁾	HK\$720,000,000	HK\$804,000,000
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	RMB1.16 (HK\$1.31)	RMB1.19 (HK\$1.34)

Notes:

- (1) The calculation of market capitalization is based on 600,000,000 Shares expected to be in issue immediately following completion of the Public Offer.
- (2) For calculation of the unaudited pro forma adjusted net tangible assets per Share attributable to our Shareholders, please refer to the section headed “Appendix II — Unaudited Pro Forma Financial Information” starting on page II-1 of this prospectus.

LISTING EXPENSES

Assuming an Offer Price of HK\$1.27 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), the aggregate listing expenses in connection with the Public Offer, consisting primarily of underwriting commissions and professional fees, are estimated to be approximately HK\$50.2 million, of which approximately HK\$32.0 million has been or is expected to be recognized in our statement of profit or loss and other comprehensive income and approximately HK\$18.2 million is expected to be capitalized upon the Listing. During the Track Record Period, listing expenses of approximately HK\$26.0 million were reflected in our statement of profit or loss and other comprehensive income and an additional amount of approximately HK\$6.0 million is expected to be recognized in our statement of profit or loss and other comprehensive income subsequent to the Track Record Period for the year ending 31 December 2017. Our Directors expect that aside from factors discussed in the paragraph headed “Recent Developments and Business Outlook” in this section, including the PBOC Benchmark Interest Rate, local government policy directions towards SMEs, the competitive environment of the microfinance industry and the availability of our financial resources, which are expected to have varying degree of impacts on our

SUMMARY

financial results, our financial results for the year ending 31 December 2017 will also be negatively affected by the non-recurring listing expenses to be charged to our statement of profit or loss and other comprehensive income. For details, please refer to the section headed “Financial Information — Listing Expenses” on page 240 of this prospectus.

FUTURE PLAN AND USE OF PROCEEDS

We estimate that the net proceeds from the Public Offer, assuming an Offer Price of HK\$1.27 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), will be approximately HK\$140.3 million, after deduction of underwriting commissions and estimated expenses in connection with the Public Offer. We intend to use the net proceeds from the Public Offer for the following purposes:

- approximately 90%, or HK\$126.3 million, will be used to expand our loan portfolio for our micro and small loan business; and
- the remaining amount of approximately 10%, or HK\$14.0 million, will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the indicative Offer Price range.

For more details on our plans of using the proceeds from the Public Offer, please refer to the section headed “Future Plans and Use of Proceeds” starting on page 243 in this prospectus.

DIVIDEND POLICY

We may distribute dividends by way of cash or other means that we consider appropriate. Any proposed distribution of dividends shall be determined by our Board and will be subject to our Shareholders’ approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flow, financial conditions, future prospects and other factors that our Directors may consider important.

For the years ended 31 December 2014, 2015 and 2016, we declared and paid dividends in the amount of approximately RMB105.2 million, nil and RMB45.0 million, respectively. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

We currently intend to adopt a general annual dividend policy of declaring and paying dividends to Shareholders of not less than 30% of our profit available for distribution after Listing, subject to, in each case, our Board’s decision after a comprehensive review of our financial performance, future expectations and other factors deemed relevant by our Board, and our Shareholders’ approval. There is, however, no assurance that dividends of such amount or any amount will be declared or distributed in any year subsequent to the Listing.

For details of our dividend policy, please refer to the section headed “Financial Information — Dividend Policy” starting on page 239 of this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them to be used in connection with the Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on 6 April 2017 and taking effect upon Listing, a summary of which is set forth in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Bo Family”	Mr. Bo Wanlin (柏萬林), Ms. Wang Zhengru (王正茹), Mr. Bo Nianbin (柏年斌), Ms. Bai Li (柏莉) and Ms. Zhu Wenying (朱文英) (mother of Mr. Bo Wanlin)
“Bo Family Relatives”	relatives of the Bo Family, including Ms. Bo Wanqin (柏萬琴), Ms. Bo Wannian (柏萬年) and Ms. Zheng Yao (鄭瑤)
“Board”	the board of Directors
“Board of Supervisors”	the board of Supervisors of our Company
“Botai Group”	Jiangsu Botai Group Co., Ltd. (江蘇柏泰集團有限公司), a company established in the PRC with limited liability on 7 September 1994 and one of our promoters which will hold approximately 40.03% interest in our Company upon the Listing. For details of its shareholding, please refer to the section headed “History and Development” in this prospectus
“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and alternative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, but for the purposes of this prospectus and unless otherwise indicated, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“CIETAC”	China International Economic and Trade Arbitration (中國國際經濟貿易仲裁委員會)
“close associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “we”, “us” or “our”	Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (揚州市廣陵區泰和農村小額貸款股份有限公司), a joint stock limited liability company established in the PRC which was converted from our Predecessor Company on 10 August 2012 and where the context otherwise requires, our Predecessor Company
“Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the GEM Listing Rules and unless the context requires otherwise, collectively refers to Botai Group, Liantai Guangchang and the Bo Family

DEFINITIONS

“core connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 6 April 2017 and executed by the Controlling Shareholders in favor of our Company with particulars set forth in the section headed “Statutory and General Information — E. Other Information — 1. Indemnities” in Appendix VI to this prospectus
“Director(s)”	the director(s) of our Company
“Domestic Share(s)”	ordinary share(s) in our capital, with a nominal value of RMB1.0 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC-incorporated entities and are unlisted shares which are currently not listed or traded on any stock exchange
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Guiding Opinions”	Guiding Opinions on the Pilot Operation of Microfinance Companies (關於小額貸款公司試點的指導意見) jointly issued by the CBRC and the PBOC on 4 May 2008
“HKIAC”	Hong Kong International Arbitration Centre
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“HK\$” or “HK Dollars” and cents	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HK eIPO White Form”	the application of Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk

DEFINITIONS

“ HK eIPO White Form Service Provider ”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“H Share Registrar”	Tricor Investor Services Limited, the Hong Kong share registrar and transfer office of our Company
“H Shares”	overseas listed foreign shares with nominal value of RMB1.0 each in the share capital of our Company, which are to be subscribed for and traded in HK dollars and for which an application has been made for listing and permission to trade on the Stock Exchange
“IASs”	International Accounting Standards
“IFRSs”	International Financial Reporting Standards, which include standards, amendments and interpretations issued by the International Accounting Standards Board
“Independent Third Party(ies)”	an individual or a company who, as far as the Directors are aware after having made all reasonable enquiries, is not a connected person of our Company within the meaning of the GEM Listing Rules
“Ipsos”	Ipsos Limited, an Independent Third Party commissioned by us to produce the Ipsos Report
“Ipsos Report”	commissioned industry research report prepared by Ipsos for use in part in this prospectus
“Jiangsu Finance Office”	Jiangsu Province People’s Government Financial Affairs Office (江蘇省人民政府金融工作辦公室)
“Jinnong Company”	Jiangsu Jinnong Company Limited (江蘇金農股份有限公司), a company directly regulated by Jiangsu Finance Office and an Independent Third Party. It is principally engaged in, among others, business training, financing consultation, easing of temporary funding shortage, and provision of settlement and equity transfer services for all microfinance companies in Jiangsu Province
“Joint Lead Managers”	China Galaxy International and President Securities (Hong Kong) Limited
“Latest Practicable Date”	15 April 2017, being the latest practicable date for ascertaining certain information contained in this prospectus prior to the printing of this prospectus

DEFINITIONS

“Liantai Guangchang”	Jiangsu Liantai Fashion Shopping Mall Real Estate Co., Ltd. (江蘇聯泰時尚購物廣場置業有限公司), a company established in the PRC with limited liability on 18 November 2004 and one of our promoters which will hold approximately 31.65% interest in our Company upon the Listing. For details of its shareholding, please refer to the section headed “History and Development” in this prospectus
“Listing”	the listing of our H Shares on GEM
“Listing Date”	the date on which dealings in our H Shares first commence on the Stock Exchange, which is expected to be on or about 8 May 2017
“Main Board Listing Rules”	The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies established in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic Systems on 27 August 1994
“Microfinance Companies Regulatory Grading Scheme”	the regulatory grading scheme for all microfinance companies in Jiangsu Province as stipulated under “The Jiangsu Province Microfinance Companies Regulatory Grading Regulations (Provisional) (江蘇省小額貸款公司監管評級辦法(暫行))”, with assessment and grading work carried out by Jiangsu Finance Office
“Ministry of Finance” or “MOF”	the Ministry of Finance of the PRC (中華人民共和國財務部)
“Mintai Bank”	Jiangsu Hanjiang Mintai Rural Bank Co., Ltd. (江蘇邗江民泰村鎮銀行股份有限公司), a joint stock limited liability company established in the PRC on 18 November 2009. It is a holder of the Financial Business License (金融許可證) issued by the Yangzhou branch of the CBRC. As at the Latest Practicable Date, it is being owned as to 10% by each of Botai Group and Liantai Guangchang, and the remaining shareholdings are owned as to approximately 51% by Zhejiang Mintai Commercial Bank Co. Ltd. (浙江民泰商業銀行股份有限公司), approximately 10% by Wuxi Xiexin Woolens & Textile Co. Ltd. (無錫協新毛紡織有限公司), approximately 10% by Changzhou Junhao Textile Co. Ltd. (常州市君豪紡織品有限公司) and approximately 9% by Yangzhou Woyuan Textile Clothing Factory (揚州沃源紡織服裝廠), all of which are Independent Third Parties

DEFINITIONS

“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Bo Nianbin”	Mr. Bo Nianbin (柏年斌), a non-executive Director, a shareholder holding approximately 16.67% interest in Botai Group which will in turn hold 40.03% interest in our Company upon the Listing, and a shareholder holding approximately 15.00% interest in Liantai Guangchang which will in turn hold 31.65% interest in our Company upon the Listing. He is Mr. Bo Wanlin and Ms. Wang Zhengru’s son and Ms. Bai Li’s brother
“Mr. Bo Wanlin”	Mr. Bo Wanlin (柏萬林), an executive Director, a shareholder holding approximately 33.33% interest in Botai Group which will in turn hold 40.03% interest in our Company upon the Listing. He is Mr. Bo Nianbin and Ms. Bai Li’s father and Ms. Wang Zhengru’s spouse
“Ms. Bai Li”	Ms. Bai Li (柏莉), an executive Director, a shareholder holding approximately 16.67% interest in Botai Group which will in turn hold 40.03% interest in our Company upon the Listing. She is Mr. Bo Wanlin and Ms. Wang Zhengru’s daughter and Mr. Bo Nianbin’s sister
“Ms. Wang Zhengru”	Ms. Wang Zhengru (王正茹), a shareholder holding approximately 16.67% interest in Botai Group which will in turn hold 40.03% interest in our Company upon the Listing. She is Mr. Bo Nianbin and Ms. Bai Li’s mother and Mr. Bo Wanlin’s spouse
“Non-competition Agreement”	the non-competition agreement (避免同業競爭協議) entered into between our Controlling Shareholders and our Company on 6 April 2017, details of which are set out in the section headed “Relationship with the Controlling Shareholders — Non-competition Agreement” in this prospectus
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Public Offer, to be determined as further described in the section headed “Structure and Conditions of the Public Offer — Determining the Offer Price” in this prospectus
“Offer Share(s)”	the 150,000,000 H Shares offered by our Company for subscription under the Public Offer and each an Offer Share
“PBOC”	the People’s Bank of China (中國人民銀行)
“PBOC Benchmark Interest Rate”	the lending interest rate set by the PBOC from time to time for commercial banks and other financial institutions in China

DEFINITIONS

“PRC EIT Law” or “EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) promulgated on 16 March 2007 by the National People’s Congress that became effective on 1 January 2008, and as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	the generally accepted accounting principles in the PRC
“PRC Government”	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organizations of such government or, as the context requires, all of them
“PRC Legal Advisers”	Commerce & Finance Law Offices, the legal advisers to our Company as to PRC laws
“Predecessor Company” or “our Predecessor Company”	Yangzhou Hanjiang District Taihe Rural Micro-finance Company Limited (揚州市邗江區泰和農村小額貸款有限公司), a company established in the PRC with limited liability on 12 November 2008 and the predecessor of our Company
“Price Determination Agreement”	the agreement expected to be entered into between our Company and China Galaxy International (for itself and on behalf of the Underwriters) to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around 27 April 2017 or such later date as may be agreed between our Company and China Galaxy International (for itself and on behalf of the Underwriters), on which the Offer Price is fixed for the purpose of the Public Offer
“Public Offer”	the conditional offer to the public in Hong Kong for subscription of the Offer Shares at the Offer Price, on and subject to the terms and conditions stated in this prospectus and in the Application Forms, details of which are described in the section headed “Structure and Conditions of the Public Offer” in this prospectus and the related Application Forms
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (國家外匯管理局)

DEFINITIONS

“SAIC”	the State Administration for Industry and Commerce of the PRC (國家工商管理總局)
“SAT”	the State Administration of Taxation of the PRC (國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	Domestic Share(s) and/or H Share(s)
“Shareholder(s)”	holder(s) of the Shares
“Sole Sponsor” or “China Galaxy International”	China Galaxy International Securities (Hong Kong) Co., Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities, being the sole sponsor and one of the joint lead managers of the Public Offer
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Liability Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on 4 August 1994
“State Council”	The State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the GEM Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules, unless the context otherwise requires
“Supervisor(s)”	member(s) of our Board of Supervisors
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising each of the three years ended 31 December 2014, 2015 and 2016
“Underwriters”	the underwriters of the Public Offer whose names are set forth in the section headed “Underwriting — Underwriters” in this prospectus

DEFINITIONS

“Underwriting Agreement”	the conditional underwriting agreement dated 21 April 2017 relating to the Public Offer and entered into between, inter alia, our Company and the Underwriters, particulars of which are summarized in the section headed “Underwriting” in this prospectus
“United States” or “U.S.”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“VAT”	value-added tax
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“Yangzhou Finance Office”	Yangzhou City People’s Government Financial Affairs Office (揚州市人民政府金融工作辦公室)
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Offer Shares to be deposited directly into CCASS
“Zhongcheng Bank”	Yangzhou Guangling Zhongcheng Rural Bank Co., Ltd. (揚州廣陵中成村鎮銀行股份有限公司), a joint stock limited liability company established in the PRC on 2 December 2013. It is a holder of the Financial Business License (金融許可證) issued by the Yangzhou branch of the CBRC. As at the Latest Practicable Date, it is being owned as to 8% by Botai Group, and the remaining shareholdings are owned as to approximately 60% by Chengdu Rural Commercial Bank Co., Ltd. (成都農村商業銀行股份有限公司), approximately 8% by Yangzhou Golden Penguin Woolens & Textile Co. Ltd. (揚州金企鵝毛紡有限公司), approximately 8% by Yangzhou Jiangyang Concrete Product Co. Ltd. (揚州江陽砼製品有限公司), approximately 8% by Jiangsu Zhongxian Group Co. Ltd. (江蘇中顯集團有限公司) and approximately 8% by Jiangsu Diyi Group Co. Ltd. (江蘇帝一集團有限公司), all of which are Independent Third Parties
“24 November 2007 Opinions”	the Pilot Opinions of Rural Microfinance Organizations (省政府辦公廳關於開展農村小額貸款組織試點工作的意見(試行)) issued by the General Office of Jiangsu Province People’s Government (江蘇省人民政府辦公廳) on 24 November 2007
“%”	per cent

DEFINITIONS

The English translations of the names of the PRC laws, rules and regulations printed in this prospectus are not official names for, and do not form any official part of, such laws, rules and regulations. Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities, certificates, titles and the like included in this prospectus and for which no official English translation exist are unofficial translations for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments / are rounded to one or two decimal place(s). Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with our Company and our business. The terminologies and their meanings may not correspond to standard industry meanings or usage of those terms.

“AFR (三農)”	agriculture, farmers and rural areas or, as the case may be, individuals or organizations engaged in agricultural businesses and/or rural development activities, and/or residing in rural areas
“CAGR”	compound annual growth rate
“impaired loan”	a loan which is classified as “substandard”, “doubtful” and “loss”. For loan classification, please refer to the section headed “Business — Provisioning Policies and Asset Quality” in this prospectus
“impaired loan ratio”	the total amount of impaired loans outstanding as at an indicated date divided by the total amount of loans outstanding as at the same date multiplied by 100%
“IT”	information technology
“OA system”	the office automation system developed and designed for managing operational efficiency and reducing risk
“SMEs”	small and medium-sized enterprises, as defined in the Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises (關於印發中小企業劃型標準規定的通知). For example, in respect of the retail business, a small enterprise refers to an entity with ten to 50 employees and annual revenue of RMB1.0 million to RMB5.0 million, and a medium-sized enterprise refers to an entity with 50 to 300 employees and annual revenue of RMB5.0 million to RMB200.0 million

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe”, “expect”, “estimate”, “potential”, “predict”, “project”, “aim”, “intend”, “can”, “ought to”, “will”, “may”, “might”, “plan”, “consider”, “anticipate”, “seek”, “should”, “could”, “would”, “continue”, or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and the laws, rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- our ability to control our credit risks and other risks inherent in our business;
- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- financial market developments;
- our dividend policy;
- changes in global economic conditions and material volatility in the global financial markets;
- general political and economic conditions, including those related to the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;

FORWARD-LOOKING STATEMENTS

- various business opportunities that we may pursue; and
- macroeconomic measures taken by the PRC Government to manage economic growth.

Additional factors that could cause our actual performance or achievements to differ materially include, but are not limited to, those discussed in the section headed “Risk Factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as at the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law and the GEM Listing Rules. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider all of the information contained in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, financial condition, results of operations and prospects could be materially adversely affected by any of these risks. The market price of our H Shares could decrease significantly due to any of these risks, and you may lose all or part of your investment accordingly. You should also pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory system which may differ from those prevailing in other countries.

Our operations and the Listing involve certain risks, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business and industry; (ii) risks relating to conducting our business in China; and (iii) risks relating to the Public Offer and our H Shares.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our business is heavily regulated and supervised by national, provincial, municipal and local government authorities. If we fail to respond to the changes in applicable regulatory requirements in a timely manner or at all, or if we fail to renew our business license, our business operations may be adversely affected or even be terminated.

As a rural microfinance company, we operate in a heavily regulated industry and were granted approvals on promotion (筹建) and commencement of business (the “**Promotion and Commencement Approval**”), as well as a business license for engaging in micro and small loan business. The microfinance industry in China is subject to extensive laws, rules, regulations, policies and measures at the national, provincial, municipal and local levels. These laws, rules, regulations, policies and measures are issued by different national, provincial, municipal and local government authorities. As such, our business operations are subject to the supervision of all the relevant regulatory authorities as well as the discretion of different authorities with respect to the interpretation, implementation and enforcement of relevant laws, rules, regulations, policies and measures. In addition, given the complexity, uncertainties and frequent changes in these laws, rules, regulations, policies and measures, including changes in their interpretation and implementation, our business operations may be adversely affected if we do not respond to such changes in a timely manner, or if we fail to fully comply with the applicable laws, rules, regulations, policies and measures as a result of such changes or any uncertainties as to the interpretation, implementation and enforcement of such laws, rules, regulations, policies and measures, or if we fail to renew our business license which provides for an expiry date of 12 November 2038 for our business operations. Any non-compliance incident may subject us to administrative penalties and restrictions on our business activities or, at worst termination of our business operations, and thus may adversely affect our business, results of operations and prospects. While the applicable laws, rules and regulations do not provide that the Promotion and Commencement Approval will be revoked if a microfinance company violated the relevant provision, we cannot rule out the possibility that the relevant authorities would exercise their power or discretion to revoke the Promotion and Commencement Approval in case of material violation. During the Track Record Period, we did not comply with the guiding interest rate ceiling(s) stipulated under certain guidelines issued by Jiangsu Finance Office. For further details of the said non-compliance incident, please refer to the section headed “Business — Approval, Compliance and Legal Proceedings — Historical non-compliance with relevant guidelines specific to microfinance companies” in this prospectus.

Compliance with new laws and regulations may place restrictions on our business activities or cause us to incur significant costs, and we may face uncertainties with respect to the interpretation and application of new laws, regulations, policies and measures. For example, from the commencement of our operations in 2008, we were authorized to engage in micro and small loan business in the Hanjiang District of Yangzhou City, where both our headquarters and our branch office were located at the relevant time. Due to city re-zoning by the city government of Yangzhou City in November 2011, the location of our headquarters was re-zoned to Guangling District of Yangzhou City, after which we were authorized to conduct our micro and small loan business in both Hanjiang District and Guangling District. If we were not subsequently authorized to conduct our micro and small loan business in both

RISK FACTORS

Hanjiang District and Guangling District, our business would have to be shifted from Hanjiang District to Guangling District, alienating us from our established customers in Hanjiang District. In the future, new laws and regulations may prohibit us from expanding our business presence into other areas in Jiangsu Province or limit our operations in districts which we are currently operating or intending to operate.

Our ability to continue our operations or expand our business into other cities or regions in which we do not currently operate depends on our ability to obtain or maintain the relevant operating licenses and/or approvals from government authorities at the local, municipal, provincial and national levels. Failure to obtain or maintain any of these licenses or approvals in a timely manner or at all as a result of any changes in laws and regulations or in any interpretation, implementation or enforcement of laws and regulations that are unfavorable to us may prevent us from conducting or expanding our business as planned. Extensive government regulations and the related delays in seeking the appropriate licenses and/or approvals or suspension of business for rectification can also significantly delay or interrupt the implementation of our expansion plans, which could materially adversely affect our market competitiveness, profitability and prospects. Even if we do obtain license or approval from the appropriate authorities, such approval may be granted on a limited basis or subject to the modification of our business and services, which could increase our costs.

We mainly rely on the creditworthiness of our customers and/or their guarantors, which may limit our ability to recover payments from defaulting customers.

Our business is exposed to credit risks from our customers. During the Track Record Period, a substantial portion of our loans were guaranteed loans without any collateral. As at 31 December 2014, 2015 and 2016, approximately 68.3%, 79.9% and 86.6% of our outstanding loans were guaranteed loans without collaterals, respectively. We have adopted a risk management system aims to enable us to make decisions based on the creditworthiness of our customers and/or their guarantors. However, our ability to recover payments from defaulting customers of guaranteed loans may be more limited than those secured with collateral. If a customer defaults on a guaranteed loan, we may in turn pursue and demand the guarantor to repay the principal amount and any interest accrued. If we are unable to locate the guarantor, or the guarantor no longer has sufficient or any financial resources to repay the loan, we may not be able to fully recover the principal amount of loans and outstanding interests or at all.

If our customers default and we are unable to receive full repayment from their guarantors, we may have to apply for foreclosure on the assets (if any) of the defaulting customers and their guarantors, such as land use rights and/or building ownership rights, through court orders. We may also apply to the court to enforce our unsecured interest against these assets as attachment through legal proceedings. However, the application to attach assets of another person or liquidating or realizing the value of such assets may be time consuming and may not ultimately be possible. In addition, the enforcement process may be difficult for legal and practicable reasons. Furthermore, the defaulting customers and their guarantors may have concealed, transferred or disposed of their assets beforehand, which make it difficult or impossible for us to apply for attachment. Moreover, if the attached assets are subject to mortgage or other prior third parties' rights, our interests will be ranked behind the secured creditors and these prior third parties and our unsecured rights may not be enforced until after the secured creditors and/or other prior third parties have received full payment, thereby limiting or even preventing us from benefiting from such assets. As a result, in case of defaults we may not be able to recover the full amount of loans and outstanding interests or at all, and in turn our financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

As our customers comprise mainly SMEs, microenterprises and individual proprietors, we are subject to greater credit risks and our credit risk management may not be adequate to protect against customer defaults.

As a microfinance company dedicated to serving the interim business financing needs of SMEs, microenterprises and individual proprietors, credit risk is the most significant risk inherent to our business. Our customers, primarily comprising SMEs, microenterprises and individual proprietors, generally have less established business track record, fewer financial resources or lower borrowing capacity than larger enterprises, and may be more vulnerable to adverse market, economic or regulatory conditions. In particular, the business of SMEs, microenterprises and individual proprietors may be adversely affected by regional financial markets turmoil and changes in the macro credit policies. Conditions such as inflation, economic downturns, policy changes, adjustments of industry structure and other factors beyond our control may result in deterioration of our customers' business operations, financial conditions and repayment ability, thereby increasing our credit risk.

In addition, with the aim of addressing credit risks, we have put in place a standardized and centralized risk management system, and adopted a policy of "separation of due diligence and approval (審貸分離)". While our risk management system is designed to manage our credit risk, there can be no assurance that such system will be effective in avoiding all undue credit risk.

If we fail to effectively manage credit risk of our loans and maintain a low impaired loan ratio, our business, financial conditions and results of operations may be materially and adversely affected.

Effective management of our loans and impaired loan ratio is fundamental to the sustainability of our business. Any deterioration in the quality of our loans and undue increase in loan impairment will materially and adversely affect our results of operations. As at 31 December 2014, 2015 and 2016, our outstanding amount of impaired loans was approximately RMB17.9 million, RMB13.3 million and RMB10.0 million, respectively, and our impaired loan ratio was approximately 3.4%, 2.1% and 1.7%, respectively.

We may not be able to effectively control the level of our impaired loans in the future. Our impaired loan ratio may increase due to factors that are beyond our control, such as slowdown in economic growth of China, Jiangsu Province or Yangzhou City, or other adverse macroeconomic trends. These factors may have a negative impact on the financial, operational and liquidity conditions of our customers, which in turn may affect their ability to repay our loans. If we cannot manage such credit risks and our impaired loan amount and/or impaired loan ratio increases, our business, financial conditions and results of operations may be materially and adversely affected.

As our business and operations are confined to Yangzhou City, any adverse changes of the economy or regulatory environment of Yangzhou City may materially and adversely affect our business, financial conditions and results of operations.

During the Track Record Period, we only operated our business in Yangzhou City. As such, our ability to geographically diversify our economic risks is limited by the local markets and economy.

RISK FACTORS

We currently expect that our business will continue to be concentrated in Yangzhou City in the near term. As a result, our business and financial performance will continue to depend on the stability of the economy in Yangzhou City. Any significant downturn in the local economy or the implementation of local policies unfavorable to SMEs, microenterprises or individual proprietors in general may result in a decrease in demand for our loans, have a negative impact on our customers' ability to repay our loans on a timely basis or at all, and adversely affect the values of our real property collaterals, all of which may materially and adversely affect our financial conditions and results of operations.

A significant majority of our outstanding loans during the Track Record Period were guaranteed loans without collaterals, and a significant portion of which were granted to customers in the construction industry. Negative development or deterioration of the construction industry may materially and adversely affect our financial conditions and results of operations.

Our business is exposed to higher level of credit risks from loans that are guaranteed loans without collaterals. The amount of our outstanding loans that are guaranteed loans without collaterals accounted for approximately 68.3%, 79.9% and 86.6% of the total amount of outstanding loans as at 31 December 2014, 2015 and 2016, respectively.

Amongst these guaranteed loans, outstanding loans of approximately RMB149.1 million, RMB329.1 million and RMB340.8 million as at 31 December 2014, 2015 and 2016 respectively were granted to customers in the construction industry, accounting for approximately 28.2%, 53.1% and 56.9% of the total amount of outstanding loans as at the respective dates. As such, we are exposed to risks relating to the business performance and repayment ability of these customers, which in turn are likely to be negatively affected by any negative development or deterioration of the construction industry whether in Yangzhou City or in China as a whole. Factors that may adversely affect the repayment ability of our customers in the construction industry may include, among other things, their inability to implement their business plans, delays or inability to meet project deadlines or milestones, difficulty in, or untimely collection of payment from their clients, any downturn in the construction market in general, or any decline in the general economic conditions of China. Should any of the above materializes, our customers may experience liquidity problem and may result in delay or default of repayments to us, in which case our business, financial positions and prospects could be materially and adversely affected.

The collaterals securing our loans and any assets that we may have repossessed may not be sufficient to cover the corresponding loan value, which may significantly increase our credit risk. In case of customer defaults, our financial conditions and results of operations may be materially and adversely affected.

During the Track Record Period, we required some of our customers to provide collaterals to secure loans granted. As at 31 December 2014, 2015 and 2016, approximately 31.7%, 20.1% and 13.4% of our outstanding loans were secured by collaterals. We mainly accept land use rights or building ownership rights as security of our loans granted.

The value of our collaterals, which are mainly real properties, may fluctuate and decline due to various factors, including those affecting the PRC economy, real properties, real estate market and financial market in general. The changes in the PRC interest rate policies and credit policies may also adversely affect the real estate market in China or in Yangzhou City and lead to a decline in the value

RISK FACTORS

of the collaterals. Further, force majeure events may lead to damages of the collaterals. Oversupply or reduction in the demand of the real properties may also significantly reduce their value. If there is a significant decline in collateral value due to any of the above reasons, and in the event of customers' default which we have to enforce the security to recover the loans, the value of collaterals may be insufficient to cover our loans in full.

Moreover, our rights over some of our collaterals may be subordinated to other secured creditors with higher priority. As at 31 December 2014, 2015 and 2016, approximately 60.1%, 56.3% and 68.4% of our collateralized loans were registered with lower priority. In the event of customers' default and we have to enforce the security to recover the corresponding loans, our security interest in the subordinated collaterals may not be realized until creditors with higher priority have been repaid in full. As such, there is no assurance that we will be able to realize the value of collaterals in a timely-manner, or at all, which may significantly increase our credit risk, and in turn our financial conditions and results of operations may be materially and adversely affected.

In addition, the enforcement process may be difficult for legal and practical reasons, and that bringing an action in the PRC court for foreclosure on collaterals can be a time consuming process, thereby resulting in additional costs.

Any changes in the trend of banking industry may negatively affect our business model.

On the one hand, commercial banks and rural banks are reluctant to provide financing services to SMEs, microenterprises and individual proprietors as the loan amounts are relatively small; and on the other hand, such SMEs, microenterprises and individual proprietors usually lack sufficient credit support or credit history to obtain loans from commercial and rural banks. We believe that this norm will remain so in the foreseeable future, but it is uncertain if such trend will change or if there will be any change in regulatory requirements which will make these potential customers more attractive to commercial and rural banks. In the event that the commercial and rural banks expand their business to target for SMEs, microenterprises and individual proprietors by providing lending terms which are comparable to or better than ours, we may experience decrease in demand of our business and/or require to substantially adjust our interest charges to attract customers and as a result, our business and results of operation would be adversely affected.

We may extend the loan repayment term for our customers, which may adversely impact our risk profile and liquidity.

Subject to requisite approval from our general manager or our loan review committee (as the case may be), we may agree to extend the term of a loan for customers who apply for extension due to their own needs. As at 31 December 2014, 2015 and 2016, our outstanding loans under extension were approximately RMB70.0 million, RMB35.4 million and RMB6.7 million, representing approximately 13.2%, 5.7% and 1.1% of our total outstanding loans, respectively. Although we consider and process an application for loan extension as if it were a new loan application, we cannot assure you that such loans with extended terms in the future will not increase the credit risk of our loan portfolio, which in turn may adversely impact our liquidity, financial conditions and results of operations. Please refer to the section headed "Business — Business Process — Loan extension" in this prospectus for further information.

RISK FACTORS

We may have difficulty in achieving or sustaining our growth if our access to funding is reduced.

Our business is largely driven by our capital base. Therefore, our ability to sustain our operations and expand our business depends, to a significant extent, on our continued access to funding and ability to expand our capital base. According to the Guiding Opinions, subject to relevant laws and regulations, the funds obtained by a microfinance company from bank financial institutions may not exceed 50% of its net capital; though according to the Working Opinions on Supporting Jiangsu Rural Microfinance Companies with High Grades and Limiting the Jiangsu Rural Microfinance Companies with Low Grades (Provisional) (江蘇省農村小額貸款公司扶優限劣工作意見(暫行)), for certain microfinance companies that have sound and compliant operations and have satisfied the evaluation criteria of the Microfinance Companies Regulatory Grading Scheme as set out in the Jiangsu Province Microfinance Companies Regulatory Grading Regulations (Provisional) (江蘇省小額貸款公司監管評級辦法(暫行)), the ratio of financing to the net capital of such microfinance companies may be raised to 100%. Please refer to the section headed “Regulatory Overview” in this prospectus for further details.

Since our micro and small loan business is highly capital intensive, our business expansion will, to a significant extent, be constrained by the amount of financing we can obtain and in turn limited by the size of our capital base. In order to support our business growth, we may raise additional capital from time to time. However, our ability to obtain additional capital may be limited by many factors, including (i) future financial conditions, results of operations and liquidity position; (ii) any government regulatory approvals; (iii) our credit rating; (iv) general market conditions for capital raising activities, in particular by financial services companies; and (v) economic, political and other conditions in and outside of China. If we are unable to obtain sufficient additional financing in a timely and cost effective manner, we may not be able to grow our business as planned or at all, and our financial conditions, results of operations and business prospects may be materially and adversely affected.

Our allowance for impairment losses may not be sufficient to cover the actual loss or prevent material adverse effect on our business, financial condition and results of operations, and any increase in allowance for impairment losses will result in overall decrease in net profit.

As at 31 December 2014, 2015 and 2016, our allowance for impairment losses was approximately RMB24.3 million, RMB22.4 million and RMB18.8 million, respectively, representing a provision for impairment losses ratio of approximately 4.6%, 3.6% and 3.1%, respectively. The amount of allowance for impairment losses has been made based on our management’s assessment of various factors affecting the quality of our loan portfolio, which may include indications that our customer is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability of entering into bankruptcy proceeding or other financial reorganization, and observable data indicating that there is a measurable decrease in the estimated future cash flows of our customer, such as changes in arrears of economic conditions that correlate with defaults. These factors may occur unpredictably and beyond our control. Our allowance coverage ratio, representing our allowance for impairment losses divided by the balance of the impaired loans receivable as at 31 December 2014, 2015 and 2016, was approximately 135.9%, 168.5% and 188.7%, respectively. If our assessment and expectations differ from the actual events, or if the quality of our loan portfolio deteriorates, our allowance for impairment losses may not be sufficient to cover the actual losses and we may need to set aside additional allowance for impairment losses, which could materially and adversely affect our business, financial conditions and results of operations.

RISK FACTORS

Furthermore, our allowance for impairment losses may increase as a result of future regulatory and accounting policy changes, deviations in loan classification or our own discretion based on information and guidelines available at the time, or other adverse conditions such as deterioration in the economy. Any increase in allowance for impairment losses will result in the decrease in our net profit and may have a material adverse effect on our financial conditions and results of operations.

We reported negative operating cash flows in 2015 and may continue to do so subsequent to the Listing.

Our micro and small loan business is particularly capital intensive and involves substantial operating cash outflows in the form of effecting loans to our customers. During the Track Record Period, our micro and small loan business was primarily funded by our own registered capital, internally generated funds, and from time to time limited interest-bearing borrowings which were recorded as cash inflows from financing activities. As a result, our operating cash flows were primarily affected by the timing of effecting loans to our customers and receipts of loan principal repayments and interest charges. We recorded net cash outflows for the operating activities for the year ended 31 December 2015 of approximately RMB26.5 million primarily as a result of a net increase in loans receivable of approximately RMB91.0 million as at 31 December 2015 compared to that as at 31 December 2014.

We plan to use approximately 90% of the net proceeds from the Public Offer to expand our loan portfolio for our micro and small loan business. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for further details. We expect to deploy additional capital to continue to expand our loan portfolio, which will be classified as operating cash outflow, while the corresponding inflows of capital will be classified as financing activities. As a result, we may continue to report negative operating cash flows in the foreseeable future after the Listing. Negative operating cash flows may reduce our financial flexibility and ability to obtain additional borrowings from banks or other financial institutions, which in turn may materially and adversely affect our business, financial conditions and results of operations.

We may encounter difficulties when expanding into new geographical markets.

Our future growth depends primarily on the successful implementation of our strategies and plans. As part of our plan to expand our micro and small loan business, we plan to expand our geographical coverage to broaden our customer base.

At present, we have offered micro and small loan services to customers in Yangzhou City, including Hanjiang District and Guangling District, which are our major markets, and Jiangdu District, Yizheng (county-level city), Gaoyou (county-level city) and Baoying (county-level city), which we gradually tapped into after March 2015. We plan to leverage our in-depth knowledge of local market and credit environment in Hanjiang District and Guangling District of Yangzhou City to enhance our market penetration in other districts of Yangzhou City, particularly Jiangdu District, Yizheng (county-level city), Gaoyou (county-level city) and Baoying (county-level city). In the long run, depending on market conditions and our ability to obtain the requisite regulatory approvals and to recruit qualified local staff, we also plan to expand our coverage to other major cities in Jiangsu Province, where we consider the demand for micro and small loan services is high, by establishing subsidiaries/branch companies. However, we may not be able to replicate our current business model in the new markets. In expanding our business, we may enter into markets in which we have limited or no experience. We may not be familiar with the local business and regulatory environment and fail

RISK FACTORS

to attract sufficient number of customers due to limited presence in the market. In addition, competitive conditions in new markets may be different from those in our existing market and may make it difficult or impossible for us to operate profitably in these new markets. If we are unable to manage such challenges and other difficulties in our geographical expansion, our business prospects and growth potential may be materially and adversely affected.

Intense competition in the industry in which we operate could cause us to lose market share and revenue in the future.

We operate in a highly competitive industry. According to the Ipsos Report, there were approximately 8,673 registered microfinance companies in China and 59 microfinance companies in Yangzhou City as at 31 December 2016. China's rapid economic development in recent years has resulted in a large and growing number of SMEs and microenterprises, many of which require significant level of funding for their operations but do not meet the criteria to obtain financing from larger commercial banks or traditional financial institutions. This has led to the emergence of many microfinance companies and other operators of similar businesses, such as Peer-to-Peer ("P2P") lending platforms, some of which are unlicensed. We believe that competition in the microfinance industry will remain intense as the industry matures and begins to consolidate.

We directly compete with other local microfinance companies in Yangzhou City. Other competitors include rural banks, wealthy individuals and other unlicensed microfinance institutions that lend to SMEs, microenterprises and individual proprietors in need of short-term financing. Compared with microfinance companies, rural banks generally offer a more favorable interest rate, but usually take a longer time and impose comparatively more stringent requirements for approving and granting loans. As such, we may compete with rural banks for customers that do not have urgent financing needs and can satisfy the loan granting requirements of rural banks. Moreover, as P2P lending companies and microfinance companies share similar target customers, we may also face competitions from P2P lending companies, which are positioned to capture the online financing market. Some of these competitors have less regulatory restrictions, larger capital scale, stronger market positions, more diverse product offerings, easier accessibility, a more established customer base and more resources than we do. As such, these competitors maybe able to extend loans to our potential customers charging lower interest rates. To compete with these competitors, we may be forced to reduce our interest rates chargeable to our customers in order to maintain our market share or position. There is no guarantee that we will compete successfully in the future. If we are not able to maintain our current level of profitability and market share as a result of increased competition, our business, financial conditions and results of operations may be materially and adversely affected.

Our risk management structure, policies, procedures and internal control may not be adequate to protect us against the risks which our business operations may be subject to.

We have implemented risk management policies and procedures to manage our risk exposures such as credit, operation, legal and compliance risks. Please refer to the section headed "Risk Management" in this prospectus for details. There is no assurance that these systems are adequate or effective in managing our exposure to, or protecting us against, unanticipated risks, and any failure to identify any potential risks or internal control deficiencies may have a negative effect on our financial conditions and results of operations and therefore adversely affect our business prospects.

RISK FACTORS

In addition, we cannot assure you that all of our employees will adhere to such policies and procedures, or that human errors or mistakes will not occur. Moreover, our growth and expansion may affect our ability to implement stringent risk management and internal control systems as our business evolves. If we fail to timely adopt, implement and modify, as applicable, our risk management and internal control systems, our business and results of operations could be materially and adversely affected.

Insufficient and inaccurate background information of our customers we obtained during the pre-loan due diligence process may affect the accuracy of the due diligence result and loan review decision, which in turn may materially and adversely affect our credit risk exposure.

We conduct our pre-loan due diligence mainly relying on the documents, financial information and accounting records provided by our customers and there may be insufficient information from independent sources for us to verify the information obtained to enable us to review a loan application. Although we also conduct our due diligence by other means such as conducting on-site inspection of the business operations of the customer and, where relevant, the guarantor(s) as well as the collateral(s) offered, and assessing “soft data” from third party sources, to complete our due diligence and risk assessment report, we cannot assure that our pre-loan due diligence can reveal all material information necessary to make a fully informed decision nor can we assure that our due diligence efforts will be sufficient to cover all aspects relevant to our customers, detect any fraud committed by our customers. If our due diligence fails to identify or reveal material negative information which would otherwise impact our loan application review or discover customer fraud, the result of our loan application review may be affected, which in turn may materially and adversely affect our business, financial conditions and results of operations.

Further, although we conduct post-loan monitoring, we may not be able to detect all our customers’ suspicious or illegal transactions. We may also not be able to sufficiently or accurately monitor the actual use of the funds we provided. In such event, we may suffer damage in our reputation, and our financial conditions and results of operations may be materially and adversely affected.

We may not be able to detect and prevent fraud or other misconduct committed by our employees or other parties.

We may be exposed to fraud or other misconduct committed by our employees, customers or other third parties. For example, an employee may collude with customers to conceal key customer information in order to help such customers obtain loans through fraudulent means. In addition, a customer or third party may provide fraudulent accounting statements or other false information to deceive our employees. Such fraud and misconduct could subject us to financial losses and penalties imposed by the relevant regulatory authorities, as well as seriously damaging our reputation. We can give no assurance that our risk management and internal control systems will be effective in identifying all incidents of suspicious transactions in a timely manner, or at all. Moreover, it may be difficult to deter or prevent fraud or misconduct, such as money laundering activities, and the measures we take to prevent and detect such activities may not be sufficiently effective, which could lead us to suffer financial losses as well as reputational damage. We cannot assure you that fraud and other misconduct committed by our employees or other parties will not occur, or that our business and reputation will not be materially and adversely affected by such incidents.

RISK FACTORS

Any change in interest rates may have a negative impact on our income and operating results.

We generate income principally from interest we charge on loans we grant to our customers and incur interest expenses we pay to obtain funding, including interest on our bank borrowing as well as our borrowings from other institutions. Therefore, our profitability is closely co-related to interest margin, being the difference between interest rate charged to our customers and the interest costs we pay to obtain funding. A narrowing of interest rate spread to us would have an adverse impact on our income and financial position. If our funding costs increase and we are unable to adjust our lending interest rates in a timely manner, or at all, our interest margin will decline.

In addition, we are also subject to some national and regional guiding policies regarding interest rate. For details, please refer to the section headed “Regulatory Overview — Regulations of the Microfinance Industry” in this prospectus. If we are required to reduce our interest rate charged as a result of changes in applicable interest rate ceiling allowable for microfinance companies, or if we have to reduce the interest rates we charge to reflect any decrease of the prevailing PBOC Benchmark Interest Rate from time to time, our interest rate spread may be adversely affected, which may in turn have a negative impact on our profitability and business prospects.

We lack business diversification and our future income is more susceptible to fluctuations than a more diversified financial services company.

Our business focuses on the provision of micro and small loans to SMEs, microenterprises and individual proprietors in Yangzhou City. As a result, substantially all of our income during the Track Record Period was derived from interest that we received for providing loans to our customers in Yangzhou City. If we were unable to maintain and grow our revenue from our loan business or diversify our geographical coverage, future growth of our revenue and earnings may not continue or may be constrained. Such lack of business diversification will make us more susceptible to the changes in the local credit environment and financial conditions of our customers, which in turn may materially and adversely affect our business operations and financial conditions.

IFRS 9 and its amendments may require us to change our provisioning practice for impairment of financial assets.

We currently assess the impairment of our loans and other financial assets under the guidance of IAS 39. The determination of impairment requires our management to exercise significant judgment and discretion. For details, please refer to the section headed “Financial Information — Significant Accounting Policies, Judgments and Estimates” in this prospectus. The International Accounting Standards Board, which is responsible for developing and revising international accounting standards, issued IFRS 9 and its amendments from time to time. IFRS 9 will replace the accounting standards relating to the classification, measurement and derecognition of financial assets and financial liabilities under IAS 39, and give rise to substantial changes in the classification and measurement of financial assets and financial liabilities. These standards will take effect on 1 January 2018. The major differences between IFRS 9 and IAS 39 are the measurement categories and the approach for classifying financial assets. The classification of financial assets under IFRS 9 will require us to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Further, for financial assets that will be classified as “amortized cost” or “fair value through other comprehensive income” under IFRS 9, we will be required to apply a new expected credit loss impairment model under IFRS 9, which, as compared to the incurred credit loss model in IAS 39, uses more forward-looking information and does

RISK FACTORS

not involve a threshold until which credit losses remain unrecognized. The adoption of this requirement is also expected to have an impact on our systems and processes of collecting and analyzing data, as it changes the timing of assessment of the potential credit loss for recognition of impairment and the ultimate amount of impairment recognized on financial assets. For details on the differences between IFRS 9 and IAS 39, please refer to Note 3.1 to our financial statements included in the Accountants' Report in Appendix I to this prospectus.

As the new standard requires changes to systems and processes to collect and analyze necessary data, it would not be practicable for us to quantify the impact that such new standard would have, or to provide a reasonable estimate of its effect, on our operating results or financial position before we are able to make a detailed assessment. We would be required to make changes to our provisioning practice as a result of our adoption of the IFRS 9 expected loss model in the future in accordance with IFRS 9 and its amendments, as well as any other future amendments to IAS 39 or similar standards from time to time, including any authoritative interpretive guidance on the application of such new or revised standards, and such changes may negatively affect our business, financial condition and results of operation.

Failure of our IT systems may adversely affect our business operations.

We have launched an OA system that was customized to our operations in 2014, and since March 2015 have been implementing upgrades to our OA system to incorporate a variety of risk management and compliance related functionalities to enhance our risk management and compliance efficiency. In addition, we mainly use a central processing platform developed by Jinnong Company and designated by the Jiangsu Finance Office to record our financial data and generate financial statements, and record relevant operational data to facilitate the regulator's continuous monitoring of our financial and loan portfolio status. Should we encounter system failure or malfunction which leads to suspension of our business operation and/or loss of our operational data in our database or should we be unable to upgrade our existing IT systems as our business expands, or to facilitate any changes or upgrades of the central processing platform developed by Jinnong Company, our business operations may be disrupted, which may materially and adversely affect our competitiveness and our results of operations. Please refer to the section headed "Business — Information Technology" in this prospectus for details.

We may not be able to adequately protect our intellectual property, which may adversely affect our business and results of operations.

As at the Latest Practicable Date, we have registered two trademarks in Hong Kong and two in China. For details, please refer to the sections headed "Business — Intellectual Property" and "Appendix VI — Statutory and General Information — C. Further Information about the Business — 2. Intellectual property rights" in this prospectus. However, our effort to maintain and protect our intellectual property may not be sufficient, in which third parties may infringe our intellectual property, which could have a material adverse effect on our business, financial condition or results of operations. We may from time to time be involved in litigations to protect and enforce our trademarks and other intellectual property rights, and to protect our trade secrets. Such litigations could result in substantial costs and diversion of our resources, which could negatively affect our business prospects,

RISK FACTORS

operations and profitability. Moreover, even if the outcome of these litigations were favorable, we may not be able to enforce the judgments and remedies awarded, and that such remedies may not be adequate to compensate us for our actual or anticipated tangible and/or intangible losses. In such event, our reputation and financial conditions will be adversely affected.

Furthermore, any negative publicity or customer dispute and complaint regarding any infringing party's unauthorized use of our trademarks, in particular our name, brands or logos, could tarnish our brand, which could materially damage our profitability and prospects even if we were able to successfully enforce our legal rights and take remedial measures. Such infringement to our brand and our name may have a material adverse effect on our business and results of operations in the future.

Our continued success depends on our Directors and senior management and our ability to attract and retain qualified personnel, and our failure to retain their services with our Company may materially and adversely affect our business and prospect.

The success of our business has been, and in future will continue to be, dependent on the continued services of our Directors and senior management, in particular, our founder, Mr. Bo Wanlin, who is also our chairman and executive Director and Ms. Bai Li, an executive Director. For details of the biography of Mr. Bo Wanlin and Ms. Bai Li, please refer to the section headed "Directors, Supervisors and Senior Management" in this prospectus. A majority of the members of our senior management team have been working in the finance field such as banking, internal control, and accounting for over eight years. Some of our senior management also possess working experience in well-reputed national or multinational financial institutions and audit firm, who bring in valuable industry awareness and risk management skills to enhance our management capability. There is no assurance, however, that any or all of our Directors and senior management will continue their employment with us. If any of our Directors and senior management is unable or unwilling to continue his or her service with us, we may not be able to find a suitable replacement in a timely manner, or at all. The loss of the services of any of our Directors and senior management or the failure to find a suitable replacement might cause disruption to our business and could have an adverse impact upon our ability to manage or operate our business effectively.

The lacking of business operation related insurance may have a material adverse effect on our business, financial condition and results of operations.

Consistent with the industry practice in China, we do not maintain any liability insurance, or other insurance covering losses and damages resulting from various incidents, such as fraud or other misconduct committed by our employees or third parties, fire, severe weather conditions, earthquake, war, terrorism, flooding or power outages. In addition, we do not maintain any credit insurance, business interruption insurance, third-party liability insurance or any other insurance, except for property insurance on our motor vehicles and the mandatory social insurance and certain personal health and accident insurance for our employees. Any losses and liabilities arising from various operational risks in connection with our business which we are not insured or which the corresponding insurance coverage is inadequate to cover may have a material adverse effect on our business, financial conditions and results of operations.

We deposit our cash with various banks. Our cash accounts are not insured or otherwise protected. Should any bank holding our cash deposits become insolvent, or if we are otherwise unable to withdraw funds, we could lose the cash on deposit with that particular bank and our business, financial conditions and results of operations may be materially and adversely affected.

RISK FACTORS

Implementation of anti-money laundering laws applicable to us may increase our obligations to supervise and report transactions with our customers, thereby increasing our costs and exposing us to the risk of criminal or administrative sanction.

According to our PRC Legal Advisers, we are currently not subject to anti-money laundering laws and regulations in China except that we are currently required by the Circular of PBOC and CBRC regarding Policies on Rural Banks and Township Banks, Loan Companies, Rural Mutual Aid Institutions and Microcredit Companies (中國人民銀行、中國銀行業監督管理委員會關於村鎮銀行、貸款公司、農村資金互助社、小額貸款公司有關政策的通知) to record and preserve records of cash deposit or withdrawal, cash remittance, negotiable instruments (票據) for settlement or any other forms of cash receipt and payment in a single transaction or aggregate transactions in one day with amount exceeding RMB200,000. Any new requirement under anti-money laundering laws to supervise and report transactions with our customers would increase our costs, and may expose us to potential criminal or administrative sanction in the case we fail to establish and implement adequate procedures in accordance with the relevant laws and regulations.

RISKS RELATING TO CONDUCTING OUR BUSINESS IN CHINA

Changes in the economic, political and social conditions in China and policies adopted by the PRC Government may materially affect our growth, business strategies, results of operations and financial conditions.

Our Predecessor Company was established in China in 2008 and we have been conducting our business solely in China. Any changes in the economic, political and social conditions in China and policies adopted by the PRC Government may materially affect our growth, business strategies, results of operations and financial conditions. For example, we received government grants and preferential tax treatment for the year ended 31 December 2014 but such government policy ended in 2015. China's economy differs from the economies of other developed countries in many aspects, including government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment and allocation of resources. In recent decades, the PRC Government has implemented measures for economic reform which has led to a significant economic growth. Many of the reforms are unprecedented or experimental and may be subject to refinement, change or reversal based upon the outcome of such experiments. There can be no assurance that the PRC Government will continue to pursue a policy of economic reform, in the present form of such policy or otherwise.

We may not in all cases be able to capitalize on the economic reform measures adopted by the PRC Government. Such economic reform measures may also have an impact on our customers, which are mainly SMEs, microenterprises and individual proprietors. Changes in the economic, political and social conditions or the relevant policies of the PRC Government, such as changes in laws, rules, regulations and policies (or the interpretation, implementation and enforcement thereof) or restrictive financial measures could have adverse effects on the overall economic growth of China, which could subsequently hinder our current or future business, growth strategies, results of operations and financial conditions.

RISK FACTORS

Our business relies on the growth of PRC financial services sector, the development of which may slow down or suspend, as a result, our business, financial conditions and results of operations may be materially and adversely affected.

The financial services sector, particularly the microfinance industry, has experienced rapid growth in recent years. We expect that the financial services industry in China will continue to expand as a result of continued growth of the PRC economy. However, such growth may not be sustainable, and could be slowed or halted by a number of factors, including a downturn or unfavorable change in the global and local economy, particularly any change which affects our customers, an unfavorable change in the PRC regulatory environment, and an unfavorable change in the PRC credit market.

If the growth of the PRC financial services industry slows down or suspends, the demand for our micro and small loan services may experience a significant decline, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Payment of dividends is subject to restrictions under PRC law.

For the years ended 31 December 2014, 2015 and 2016, we declared and paid dividends in the amount of approximately RMB105.2 million, nil and RMB45.0 million, respectively. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form, dividends will be paid in the future. Under PRC law, any distributable profit not distributed in a given year is retained and available for distribution in subsequent years. However, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or IFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including in periods in which we are profitable.

It may be difficult to effect service of legal process and enforce judgments obtained from non-PRC courts against us or our Directors, Supervisors or executive officers residing in China.

Substantially all of our Directors, Supervisors and executive officers reside in China. In addition, all of our assets and most of the assets of our Directors, Supervisors and executive officers are located in China. As a result, it may not be possible to effect service of process outside China upon us or most of our Directors, Supervisors or executive officers, including for matters arising under applicable securities law. Furthermore, China has not entered into any treaties providing for the reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom, Japan and many other countries. Hong Kong also does not have any arrangement with the United States for the reciprocal enforcement of judgments. Therefore, recognition and enforcement in China or Hong Kong of a court judgment obtained from various jurisdictions is uncertain.

In addition, on 14 July 2006, China and Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court

RISK FACTORS

Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), which took effect on 1 August 2008. Pursuant to such arrangement, a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement in writing, or such judgment fails to fulfill restrictions in this arrangement. As a result, it may be difficult or impossible for investors to effect service of process against our assets or our Directors, Supervisors or executive officers in China in order to seek recognition and enforcement of foreign judgments in China.

Foreign exchange control imposed by the PRC Government could negatively affect our ability to effectively use some or all of the proceeds from the Public Offer, which in turn will affect our liquidity, expansion plans and dividend payment to holders of our H Shares.

PRC foreign exchange regulations restrict free conversion and remittance of Renminbi into any foreign currencies. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following completion of the Public Offer, do not require prior approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the requisite licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE.

Under existing foreign exchange regulations, following completion of the Public Offer, we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements.

The PRC laws and regulations require detailed interpretations, lacking which will lead to uncertainty for implementation and enforcement and could limit the legal protections available to Shareholders.

Our business operations are regulated primarily by PRC laws and regulations. The PRC legal system is based on the civil law system. Unlike the common law system, the civil law system is established on the written statutes and their judicial interpretation by the Supreme People's Court (最高人民法院), while prior legal decisions and judgments have limited significance for guidance. The PRC Government has been developing a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs and matters, such as corporate organization and governance, foreign investment, commerce, taxation and trade.

RISK FACTORS

However, many of these laws and regulations are relatively new, and their implementation and interpretation involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of any violation of these policies and rules until sometime after such violation has occurred. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management attention.

Our Articles of Association provide that disputes between holders of H Shares and us, our Directors, Supervisors or members of senior management, arising out of our Articles of Association or any rights or obligations conferred or imposed upon us by the Company Law and related rules and regulations concerning our affairs or with respect to the transfers of our H Shares, are to be resolved through arbitration rather than by a court of law. Our Articles of Association further provide that any arbitral award will be final, conclusive and binding on all parties. A claimant may elect to submit a dispute to either CIETAC or HKIAC in accordance with its applicable rules. Hong Kong arbitral awards can generally be enforced in Hong Kong. Hong Kong arbitration awards may be recognized and enforced by PRC courts, subject to the satisfaction of certain conditions. However, we cannot assure you that such an action would succeed. For these reasons, the legal protections available to you as a holder of our H Shares may be limited.

Inflation in China could negatively affect our profitability and growth.

Economic growth in China has been accompanied by periods of high inflation in the past. In order to control inflation in the past, the PRC Government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such measures could inhibit economic activities and lead to a slowing of economic growth in China, both of which could materially and adversely affect our results of operations and prospects. High inflation in the future may cause the PRC Government to once again impose controls on credit and/or prices of commodities, or to take other actions, which may bring a negative impact on our business.

Natural disasters, acts of God, political unrest and the occurrence of epidemics may adversely affect national and regional economies in China, which may in turn materially and adversely affect our business and results of operations.

Our business, financial conditions and results of operations may be materially and adversely affected if natural disasters like floods, earthquakes, sandstorms, fire or droughts occur in regions of China. Past occurrences of epidemics such as the Severe Acute Respiratory Syndrome, H5N1 or H7N9 avian flu or the human swine flu, also known as Influenza A (H1N1) have caused different degrees of damage to the national and local economies in China. A recurrence of any other similar epidemic could cause a slowdown in the levels of general economic activity, which could in turn adversely affect our business and results of operations and the price of our H Shares. Political unrest, acts of God and terrorist attack may cause damage or disruption to our employees, or industries in which our customers operate, any of which could materially and adversely affect our business and our overall operating and financial conditions. The potential for war or terrorists attack may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict.

RISK FACTORS

RISKS RELATING TO THE PUBLIC OFFER AND OUR H SHARES

There has been no prior public market for our H Shares, and an active or liquid trading market may not develop for our H Shares.

Prior to the Listing, there was no public market for our H Shares. The Offer Price range of our H Shares and the final Offer Price will be the result of negotiations between China Galaxy International (for itself and on behalf of the Underwriters) and us. In addition, while we have applied to have our H Shares listed on the Stock Exchange, there can be no guarantee that (i) an active or liquid trading market for our H Shares will develop, or (ii) if it does, that it will sustain following the Listing, or (iii) that the market price of our H Shares will not decline below the Offer Price. Accordingly you may not be able to resell your H Shares at a price that is attractive to you, or at all and as a result, you may lose all or part of the investment in such H Shares.

The price and trading volume of our H Shares may be volatile which could result in substantial losses for investors purchasing our H Shares.

The price and trading volume of our H Shares may be volatile. The market price of our H Shares may fluctuate significantly and rapidly subject to, among other factors (a) variations in our operating results; (b) material defaults by our customers; (c) investors' perceptions of our Company, our future plans and prospects of PRC financial sector and the microfinance industry; (d) departures of key personnel; (e) changes in general economic and market conditions. Any material changes in the above factors could cause the market price of the H Shares to fluctuate substantially which could result in substantial losses for investors purchasing our H Shares.

Our Controlling Shareholders' interests may not be aligned with our interests or the interests of other Shareholders.

Our Controlling Shareholders will be able to exercise 73.35% of the voting rights of our Company immediately after completion of the Public Offer. As such, our Controlling Shareholders have substantial influence over our business, including transactions which required Shareholders' approval such as election of Directors, payment of dividends and other distributions, major or very substantial transactions, share subdivision or consolidation or other significant corporate actions. In the event that the interests of our Controlling Shareholders conflict with those of our other Shareholders, or if our Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of other Shareholders, those other Shareholders may be left in a disadvantageous position.

Since there will be a gap of several days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Stock Exchange until they are delivered, which will be days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the date on which trading of our H Shares begins.

RISK FACTORS

Future offerings or sales of our H Shares or other securities in the public could adversely affect the prevailing market price of our H Shares and result in dilution.

Future sales by our Shareholders of substantial amounts of our H Shares or other securities in the public markets after the Public Offer, or the perception that these sales may occur, could adversely affect market prices of our H Shares prevailing from time to time. A certain number of our Shares (more particularly Domestic Shares) held by existing Shareholders are or will be subject to contractual and/or legal restrictions on resale for a period of time after completion of Public Offer. For details, please refer to the sections headed “Share Capital — Transfer of Shares Issued prior to the Listing Date” and “Underwriting — Underwriting Arrangements and Expenses — Undertakings to the Stock Exchange/Undertakings pursuant to the Underwriting Agreement” in this prospectus. The market price of our H Shares may decline as a result of future sales of substantial amounts of our H Shares or other securities in the public market, the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. This could also materially and adversely affect our ability to raise capital at a time and at a price we deem appropriate.

The conversion of a significant number of Domestic Shares into H Shares could materially and adversely affect the prevailing market price for our H Shares.

Subject to the stipulations by the State Council’s securities regulatory authority and our Articles of Association, our Domestic Shares may be converted into H Shares. Such converted H Shares may be listed or traded on an overseas stock exchange provided that prior to the conversion and trading of such converted H Shares, the requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. Any listing or trading of the converted H Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such stock exchange. No class Shareholder voting is required for the listing and trading of the converted H Shares on an overseas stock exchange. However, the Company Law provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Therefore, upon obtaining the requisite approval, shares currently held on our Domestic Share register may be traded, after the conversion, in the form of H Shares on the Hong Kong Stock Exchange after one year of the Public Offer, which would further increase the supply of our H Shares in the market and could negatively impact the market price our H Shares.

We have significant discretion as to how we will use the proceeds raised from the Public Offer, and you may not necessarily agree with how we use them.

Our management may determine to use the proceeds of the Public Offer in ways you do not agree with or that do not yield a favorable return. We plan to use approximately 90% of the proceeds from the Public Offer to expand our loan portfolio for our micro and small loan business. For details of our intended use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. However, our management will have discretion as to the actual application of the proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the proceeds from the Public Offer.

RISK FACTORS

Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprise that are holders of our H Shares.

Non-PRC resident individual holders of H Shares whose names appear on the register of members of H Shares are subject to PRC individual income tax on dividends received from us. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (關於國稅發[1993]045號文廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han [2011] No. 348) dated 28 June 2011 issued by SAT, the tax rate applicable to dividends paid to non-PRC resident individual holders of H Shares varies from 5.0% to 20.0% (usually 10.0%), depending on whether there is any applicable tax treaty between China and the jurisdiction in which the non-PRC resident individual holder of H Shares resides as well as the tax arrangement between China and Hong Kong. Non-PRC resident individual holders who reside in jurisdictions that have not entered into tax treaties with China are subject to a 20.0% withholding tax on dividends received from us. For additional information, please refer to the section headed “Appendix III — Taxation and Foreign Exchange — Taxation — A. Taxation in the PRC” in this prospectus. In addition, under the Individual Income Tax Law of China and its implementation regulations, non-PRC resident individual holders of H Shares are subject to individual income tax at a rate of 20.0% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by MOF and SAT on 30 March 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. Although it is not certain whether such exemption is applicable to H Shares, to our knowledge, as at the Latest Practicable Date, in practice the PRC tax authorities have not sought to collect individual income tax on non-PRC resident individual holders for such gains. If such tax is collected in the future, the value of such individual holders’ investments in H Shares may be materially and adversely affected.

Under the EIT Law and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10.0% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposition of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between China and the jurisdiction in which the non-PRC resident enterprise resides. Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) promulgated by SAT on 6 November 2008, we intend to withhold tax at 10.0% from dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities’ approval. For details, please refer to the section headed “Appendix III — Taxation and Foreign Exchange — Taxation — A. Taxation in the PRC” in this prospectus. There are uncertainties regarding the interpretation and implementation of the EIT law and its implementation regulations by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon sale or other disposition of H Shares will be collected from non-PRC resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-PRC resident enterprise holders’ investments in H Shares may be materially and adversely affected.

RISK FACTORS

There remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by the PRC's tax authorities. The PRC's tax laws, rules and regulations may also change. If there is any unfavorable change to applicable tax laws and rules or interpretation or application with respect to such laws and rules, the value of your investment in our H Shares may be materially affected.

If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our H Shares, the market price and trading volume of our H Shares may decline.

The trading market for our H Shares will be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publish negative opinions about us, the market price of our H Shares may decline regardless of the accuracy of the information. If one or more analysts cease coverage of us or fail to regularly publish reports on us, we may lose visibility in the financial markets, which may adversely affect the market price or trading volume of our H Shares.

Some facts, forecasts and statistics contained in this prospectus with respect to the PRC, the PRC economy and the microfinance industry are derived from various official or third-party sources and may not be reliable.

We derived certain facts, forecasts and other statistics in this prospectus, particularly those relating to the PRC, the PRC economy and the microfinance industry from various publicly available official governmental sources, other publications and a third party report commissioned by us. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Sole Sponsor, the Joint Lead Managers, the Underwriters or any of our or their respective affiliates or advisors, and, therefore, we cannot assure you as to the accuracy and reliability of such facts, forecasts and statistics, which may not be consistent with other information compiled inside or outside the PRC. Due to possibly flawed or ineffective data collection methods or discrepancies between published information and market practice and other problems, the facts, forecasts and statistics in this prospectus, including those with respect to the PRC, the PRC economy and the microfinance industry, may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts, forecasts or statistics.

RISK FACTORS

Forward-looking information contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “can”, “continue”, “could”, “estimate”, “expect”, “consider”, “intend”, “ought to”, “may”, “might”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would” or similar expressions or the negative thereof, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, and are subject to risks, uncertainties and various assumptions, including the risk factors described in this prospectus, therefore some of which may not materialize or may change. Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions or information prove incorrect, actual results may diverge significantly from the forward-looking statements in this prospectus. Subject to the requirements of the GEM Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Investors should not place undue reliance on such forward-looking statements and information.

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

In preparation for the Public Offer, we have sought the following waiver from strict compliance with the relevant provisions of the GEM Listing Rules:

APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 11.07 of the GEM Listing Rules, we must appoint a company secretary who satisfies Rule 5.14 of the GEM Listing Rules. According to Rule 5.14 of the GEM Listing Rules, we must appoint as our company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Note 1 to Rule 5.14 of the GEM Listing Rules sets out the academic and professional qualifications considered to be acceptable by the Stock Exchange:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

Note 2 to Rule 5.14 of the GEM Listing Rules sets out the factors that the Stock Exchange considers when assessing an individual's "relevant experience":

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the GEM Listing Rules and other relevant laws and regulations including the Securities and Futures Ordinance, the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 5.15 of the GEM Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Xu Lei as our joint company secretary. He joined our Company on 8 April 2014 as our deputy general manager and was appointed as the secretary to our Board and joint company secretary on 31 January 2015, and has approximately nine years of experience in accounting and auditing with sound understanding of the operations of our Company. For details of Mr. Xu Lei, please refer to the section headed "Directors, Supervisors and Senior Management — Senior Management" in this prospectus. Mr. Xu Lei, however, does not possess the specified qualifications required by Rule 5.14 of the GEM Listing Rules. Given the important role of the company secretary

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the GEM Listing Rules and other relevant laws and regulations, we have made the following arrangements:

- Mr. Xu Lei will endeavor to attend relevant training courses to enable him to acquire a good understanding of the relevant Hong Kong laws and regulations, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the GEM Listing Rules organized by the Company's Hong Kong legal advisers on an invitation basis and seminars organized by the Stock Exchange for PRC issuers from time to time, in addition to the minimum requirement under Rule 5.15 of the GEM Listing Rules;
- we have appointed Mr. Wong Yat Tung (黃日東), who meets the requirements under Note 1 to Rule 5.14 of the GEM Listing Rules, as a joint company secretary to work closely with and to provide assistance to Mr. Xu Lei in the discharge of his duties as a company secretary for an initial period of three years commencing from the Listing Date so as to enable Mr. Xu Lei to acquire the relevant experience (as required under Note 2 to Rule 5.14 of the GEM Listing Rules) to discharge the duties and responsibilities as company secretary; and
- upon expiry of the three-year period, the qualifications and experience of Mr. Xu Lei will be re-evaluated. Mr. Xu Lei is expected to demonstrate to the Stock Exchange's satisfaction that he, having had the benefit of Mr. Wong Yat Tung's assistance for three years, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 5.14 of the GEM Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 5.14 and Rule 11.07 of the GEM Listing Rules. Upon expiry of the initial three-year period, the qualifications of Mr. Xu Lei will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 5.14 of the GEM Listing Rules can be satisfied. In the event that Mr. Xu Lei has obtained relevant experience under Note 2 to Rule 5.14 of the GEM Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the GEM Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, (i) the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, (ii) there are no other matters the omission of which would make any statement herein or this prospectus misleading; and (iii) all of the opinions expressed in this prospectus have been arrived at after due and careful consideration and the bases and assumptions are fair and reasonable.

INFORMATION ON THE PUBLIC OFFER

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. This prospectus is published solely in connection with the Public Offer. Details of the terms of the Public Offer are described in the section headed "Structure and Conditions of the Public Offer" in this prospectus and in the related Application Forms. So far as the Public Offer is concerned, no person is authorized to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the Public Offer.

CSRC APPROVAL

The CSRC has given its approval for the Listing and the making of the application to list the H Shares on the Stock Exchange on 21 November 2016. In granting such approval, the CSRC accepts no responsibility for the financial soundness of our Company or the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING

This prospectus sets out the terms and conditions of the Public Offer, and is published solely in connection with the Public Offer which is managed by the Joint Lead Managers. The Offer Shares are fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement and subject to our Company and China Galaxy International (for itself and on behalf of the Underwriters) agreeing on the Offer Price. For further details about the Underwriters and the Underwriting Agreement, please refer to the section headed "Underwriting" in this prospectus.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be determined by agreement between our Company and China Galaxy International (for itself and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or about Thursday, 27 April 2017 or such later date as may be agreed

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

between our Company and China Galaxy International (for itself and on behalf of the Underwriters). Prospective investors should be aware that if China Galaxy International (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by the Price Determination Date, the Public Offer will not proceed and will lapse.

APPLICATION FOR LISTING OF THE H SHARES ON GEM

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Public Offer on GEM. Pursuant to Rule 11.23(7) of the GEM Listing Rules, a “minimum percentage” of the issued share capital of the Company, being 25%, must at all times be held by the public. A total of 150,000,000 H Shares, representing 25% of the issued share capital of the Company, will be in the hands of the public immediately following completion of the Public Offer and upon the Listing.

Subject to the Articles of Association, the H Shares are freely transferable.

Save as disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment in respect of any application will be void if the application for the listing of, and permission to deal in, the H Shares on GEM has been refused before the expiration of three weeks from the date of closing of the Public Offer or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

All H Shares will be registered on the H Share register of the Company to be maintained in Hong Kong. Only the H Shares registered on the H Share register of the Company to be maintained in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

REGISTER OF MEMBERS AND STAMP DUTY

All the H Shares issued pursuant to applications made in the Public Offer will be registered on the H Share register to be maintained in Hong Kong by our H Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered on the H Share register will be subject to Hong Kong stamp duty. Please refer to the section headed “Appendix III — Taxation and Foreign Exchange” in this prospectus.

PROCEDURES FOR APPLICATION FOR THE OFFER SHARES

The procedures for application for the Offer Shares are set out in the section headed “How to Apply for the Offer Shares” in this prospectus and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

STRUCTURE OF THE PUBLIC OFFER

Details of the structure of the Public Offer, including its terms and conditions, are set out under the section headed “Structure and Conditions of the Public Offer” in this prospectus.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing or holding of and dealing in the H Shares. None of our Company, the Sole Sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the Public Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to, the H Shares.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our H Shares on the Stock Exchange and our Company’s compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second trading date after the trade date. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements that will affect their rights, interests and liabilities. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares on the Stock Exchange are expected to commence on Monday, 8 May 2017. The H Shares will be traded in board lots of 2,000 H Shares each.

RESTRICTIONS ON THE OFFER AND SALE OF H SHARES AND THE USE OF THIS PROSPECTUS

Each person acquiring the H Shares will be required to confirm, or by his application for H Shares will be deemed to confirm, that he is aware of the restrictions on offers of the H Shares described in this prospectus and the Application Forms, and that he is not acquiring, and has not been offered, any H Shares in circumstances that contravene any such restrictions.

No action has been taken to permit the offering of the H Shares or the distribution of this prospectus or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

The distribution of this prospectus and the offering and sale of the H Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed our H Share Registrar, and our H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Company Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Special Regulations, and the Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and senior officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and senior officers, agree with each of our Shareholders to refer all disputes and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive. For details, please refer to the section headed “Appendix V — Summary of the Articles of Association” in this prospectus;
- (iii) agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and
- (iv) authorizes us to enter into a contract on his or her behalf with each of our Directors, managers and senior officers whereby such Directors, managers and senior officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Renminbi have been translated, for illustration purposes only, into Hong Kong dollars in this prospectus at the following rate:

RMB1.00 : HK\$1.1289

No representation is made that any amount in RMB or HK\$ can be or could have been at the relevant dates converted at the above rate or any other rates, or at all.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities, certificates, titles, laws, rules, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purpose only. If there is any inconsistency, the Chinese names shall prevail.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments/are rounded to one or two decimal place(s). Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE PUBLIC OFFER

DIRECTORS

Executive Directors

Name	Residential Address	Nationality
Mr. Bo Wanlin (柏萬林)	18 Muyang Road Hanjiang Development District, Yangzhou City Jiangsu Province PRC	Chinese
Ms. Bai Li (柏莉)	Room 504, No. 16 Nanmen Street Guangling District, Yangzhou City Jiangsu Province PRC	Chinese
Ms. Zhou Yinqing (周吟青)	Room 1303, Building 2 Xiangshuwan Garden No.318 Xingchengxi Road Hanjiang District, Yangzhou City Jiangsu Province PRC	Chinese

Non-executive Directors

Name	Residential Address	Nationality
Mr. Bo Nianbin (柏年斌)	Building 71, Qiyueyuan Yangzhou City, Jiangsu Province PRC	Chinese
Mr. Zuo Yuchao (左玉潮)	Room 702, Building 1 Molixiangju No.125 Baixiang Road Hanjiang District, Yangzhou City Jiangsu Province PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE PUBLIC OFFER

Independent Non-executive Directors

Name	Residential Address	Nationality
Mr. Bao Zhenqiang (包振強)	Room 102, Building 56 38, Jiangyang Zhong Road Yangzhou City Jiangsu Province PRC	Chinese
Mr. Wu Xiankun (吳賢坤)	Room 205, Building 18 Area B, Lanyuan 86 Wangyue Road Hanjiang District Yangzhou City Jiangsu Province PRC	Chinese
Mr. Chan So Kuen (陳素權)	Flat 9, 19/F Shui Pak House, Hang Pak Court Lam Tin, Kowloon Hong Kong	Chinese

Supervisors

Name	Residential Address	Nationality
Ms. Wang Chunhong (王春宏)	Room 204, Building 8 B District, Lanyuanxiaogu Yangzhou City Jiangsu Province PRC	Chinese
Mr. Zhang Yi (張翼)	Room 403, Building 22 Aodu Garden, Yangzhou City Jiangsu Province PRC	Chinese
Ms. Li Guoyan (李國彥)	Room 404, Building 3 69, Muxuyuan Street Nanjing City Jiangsu Province PRC	Chinese

For further information, please refer to the section headed “Directors, Supervisors and Senior Management” in this prospectus.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE PUBLIC OFFER

PARTIES INVOLVED IN THE PUBLIC OFFER

Sole Sponsor China Galaxy International Securities (Hong Kong) Co., Limited
Units 3501-7, 3513-14, 35/F
Cosco Tower
183 Queen's Road Central
Hong Kong

Joint Lead Managers China Galaxy International Securities (Hong Kong) Co., Limited
Units 3501-7, 3513-14, 35/F
Cosco Tower
183 Queen's Road Central
Hong Kong

President Securities (Hong Kong) Limited
Units 2603-06, 26/F
Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

Co-lead Managers Head & Shoulders Securities Limited
Room 2511, 25/F
Cosco Tower
183 Queen's Road Central
Hong Kong

Changjiang Securities Brokerage (HK) Limited
Suite 1908, 19/F
Cosco Tower
183 Queen's Road Central
Hong Kong

Halcyon Securities Limited
11/F, 8 Wyndham Street
Central
Hong Kong

Mason Securities Limited
Portion 1, 12/F, The Center
99 Queen's Road Central
Hong Kong

Long Asia Securities Limited
Unit A, 23/F, The Wellington
198 Wellington Street
Sheung Wan
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE PUBLIC OFFER

Legal advisers to the Company	<i>as to Hong Kong law:</i> Li & Partners 22/F, World-Wide House Central Hong Kong <i>as to PRC law:</i> Commerce & Finance Law Offices 6/F, NCI Tower A12 Jianguomenwai Avenue Beijing, China 100022
Legal advisers to the Sole Sponsor and Underwriters	<i>as to Hong Kong law:</i> Sidley Austin 39/F, Two Int'l Finance Centre Central Hong Kong <i>as to PRC law:</i> Jingtian & Gongcheng Suite 1202-1204 K. Wah Centre 1010 Huaihai Road (M) Xuhui District Shanghai 200031 China
Auditors and reporting accountants	Ernst & Young Certified public accountant 22/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Independent Industry consultant	Ipsos Limited 22/F, Leighton Centre 77 Leighton Road Causeway Bay Hong Kong
Receiving bank	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong

CORPORATE INFORMATION

Headquarters and registered office in the PRC	Beizhou Road, Lidian Town, Guangling District, Yangzhou City, Jiangsu Province, the PRC
Principal place of business in Hong Kong	18/F, Tesbury Centre 28 Queen's Road East Wan Chai, Hong Kong
Company website address	<u>www.gltaihe.com</u> <i>(information contained in this website does not form part of this prospectus)</i>
Compliance Officer	Bai Li
Joint company secretaries	Xu Lei No. 1008 Yangzhibei Road, Weiyang District Yangzhou City, Jiangsu Province, the PRC Wong Yat Tung (HKICS, ICSA) 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Authorized representatives	Bo Wanlin 18 Muyang Road Hanjiang Development District Yangzhou City, Jiangsu Province, the PRC Xu Lei No. 1008 Yangzibei Road, Weiyang District Yangzhou City, Jiangsu Province, the PRC
Audit committee	Chan So Kuen (Chairman) Wu Xiankun Bao Zhenqiang
Remuneration committee	Bao Zhenqiang (Chairman) Chan So Kuen Wu Xiankun
Nomination committee	Bo Wanlin (Chairman) Wu Xiankun Bao Zhenqiang
Compliance Advisor	China Galaxy International Securities (Hong Kong) Co., Limited Units 3501-7, 3513-14, 35/F Cosco Tower 183 Queen's Road Central Hong Kong

CORPORATE INFORMATION

H Share Registrar

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

Agricultural Bank of China
(Yangzhou Jiangwang Branch)
Room B6, Wangduwujinjidiancheng
Jiangwang Town
Hanjiang District
Yangzhou City
Jiangsu Province
PRC

Bank of Communications Co., Ltd.
Hong Kong Branch
20 Pedder Street
Central, Hong Kong

INDUSTRY OVERVIEW

The information that appears in this section has been prepared by Ipsos and reflected estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Ipsos should not be considered as the opinion of Ipsos as to the value of any security or the advisability of investing in our Company. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Ipsos and set out in this section has not been independently verified by us, the Sole Sponsor, the Joint Lead Managers, the Underwriters, any of our or their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the Public Offer and none of them give any representations as to its accuracy and completeness and the information should not be relied upon in making, or refraining from making, any investment decision.

SOURCES OF INFORMATION

We have commissioned Ipsos, an independent market research company, to conduct a customized analysis of the microfinance industry in China for the period from 2011 to 2020 at a fee of HK\$618,000 and our Directors consider that such fee reflects market rates.

Founded in Paris, France in 1975, Ipsos is the third largest research company in the world which employs approximately 16,000 personnel worldwide across 87 countries. Ipsos conducts research on market profiles, market size, share and segmentation analyzes, distribution and value analyze, competitor tracking and corporate intelligence.

Ipsos primarily adopted a full circle research methodology which combined (i) primary research involving interviews with key knowledge leaders such as microfinance companies to SMEs and individuals, government officials, industry experts and representatives of industry associations; and (ii) secondary research involving the collection and analyze of information from various publications. The information and data gathered by Ipsos have been analyzed, assessed and validated using Ipsos' in-house analysis models and techniques. The methodology used by Ipsos is based on information sourced from multiple levels, which allows such information to be cross-referenced for accuracy.

Except as otherwise stated, the information and statistics relating to the microfinance industry in China as set out in this section, and other sections including sections headed "Summary", "Risk Factors", "Business" and "Financial Information" have been extracted from the Ipsos Report.

Our Directors confirm that Ipsos, including all of its subsidiaries, divisions and units, is independent of and not connected with us (within the meaning of the GEM Listing Rules) in any way. Ipsos has given its consent for us to quote from the Ipsos Report and use information contained in the Ipsos Report in this prospectus. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Ipsos Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

ASSUMPTIONS AND PARAMETERS USED IN THE IPSOS REPORT

While preparing the Ipsos Report, as a standard and reasonable dealing, Ipsos has relied on the following key assumptions:

- the global economy remains a steady growth during the forecast period; and
- there is no external shock such as financial crisis or natural disasters to affect the demand and supply of microfinance industry during the forecast period.

INDUSTRY OVERVIEW

RELIABILITY OF INFORMATION FROM THE IPSOS REPORT

Our Directors are of the view that the sources of information used in this section are reliable as the information was extracted from the Ipsos Report. Our Directors believe that the Ipsos Report is reliable and not misleading as Ipsos is an independent professional research agency with extensive experience in its profession.

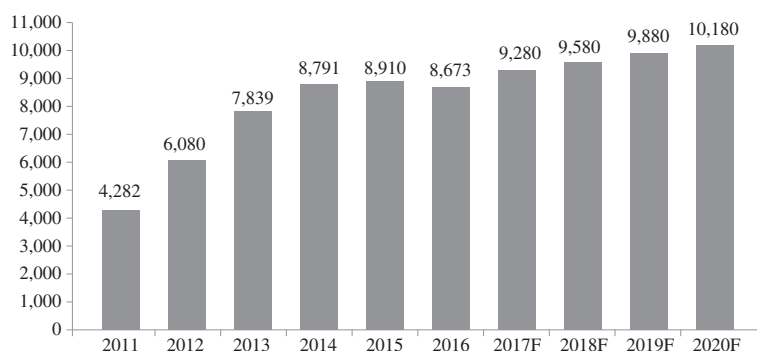
MICROFINANCE INDUSTRY IN CHINA

In May 2008, the CBRC and the PBOC jointly promulgated the Guiding Opinions, which sets out the fundamental requirements for establishing, registering and operating a microfinance companies at the national level. This was a significant step in advancing the industry and led to the rapid increase in government registered microfinance companies in China. In addition, through issuing The Guidance on Financial Support for Adjustment and Transformation and Upgrade on Economic Structure (關於金融支持經濟結構調整和轉型升級的指導意見) in July 2013, the PRC Government increased its support in the microfinance industry and provided guidance on the diversification of customer segments, as well as access to funding at a lower cost.

According to the Ipsos Report, the number of government registered microfinance companies in China grew substantially from 4,282 as at 31 December 2011 to 8,673 as at 31 December 2016, representing a CAGR of about 15.2%.

As at 31 December 2016, there were 8,673 registered microfinance companies in China, according to the Ipsos Report. Ipsos forecasted that this will continue to increase and reach 10,180 government registered microfinance companies in 2020.

The number of government registered microfinance companies in China (2011-2020)



Sources: The PBOC; and Ipsos research and analysis

The total registered capital in the microfinance industry in China amounted to RMB823.4 billion as at 31 December 2016. In addition, the total amount of outstanding loans granted by all the services providers in the microfinance industry increased from RMB391.5 billion in 2011 to RMB927.3 billion in 2016, representing a CAGR of 18.8%. The total amount of outstanding loans granted by microfinance companies represented 0.7% of the total principal amount of outstanding loans granted in China in 2011, and increased to 0.9% in 2016.

The rapid expansion of the microfinance industry in China is due to the increased demand for microfinance services from SMEs, microenterprises and individual proprietors. Due to favorable government policies under the 12th Five-Year Plan and the overall macroeconomic development of China, the number of SMEs and microenterprises increased from 49.9 million in 2011 to 74.9 million in 2015, representing a CAGR of approximately 10.7%, according to the Ipsos Report.

Despite their increase in numbers and significance in China's economy, SMEs, microenterprises and individual proprietors remain underserved by banks. According to the Ipsos Report, banks are reluctant to lend to SMEs, microenterprises and individual proprietors because of their smaller business size, lack of sufficient collaterals and higher risk of default. SMEs, microenterprises and

INDUSTRY OVERVIEW

individual proprietors may also be subject to longer processing time associated with the loan applications. Microfinance companies thus fill the gap to provide micro and small loans to SMEs, microenterprises and individual proprietors.

Difference Between Rural Banks and Microfinance Companies

In general, the requirements of rural banks are higher than those of microfinance companies. Rural banks usually only accept first charge and microfinance companies usually accept first charge or second charge. With respect to the requirement on loan guarantor, rural banks usually require a medium or large enterprise to act as the guarantor and microfinance companies usually accept an individual or a small enterprise to act as the guarantor. Rural banks usually take a longer time than microfinance companies to approve loans, but offer a more favorable interest rate.

Customers will decide whether to obtain a loan from a rural bank or a microfinance company by taking into account their own conditions for securing a loan and the degree of urgency of their fund demand as a whole. If customers fulfill the requirements of a rural bank for granting loans and do not have an urgent fund demand, they will usually choose to borrow from a rural bank and will not consider borrowing from a microfinance company. If customers do not fulfill the requirements of a rural bank for granting loans, or have a relatively urgent fund demand, they will usually choose to secure a loan from a microfinance company and will not consider borrowing from a rural bank.

As such, since rural banks and microfinance companies have different requirements for granting loans and time needed for approving loans, they have different customer base. Therefore, there is no competition between rural banks and microfinance companies.

PBOC BENCHMARK INTEREST RATE

The maximum interest rate that can be charged for loans provided by rural microfinance companies in Jiangsu Province, among other requirements, shall not exceed four times of the PBOC Benchmark Interest Rate. As such, any adjustment to the PBOC Benchmark Interest Rate will directly affect the interest income generated for loans extended by rural microfinance companies in Jiangsu Province. The following table sets forth the changes in PBOC Benchmark Interest Rate since February 2011 to October 2015:

Adjustments to the PBOC Benchmark Interest Rate (2011-2015)					
Adjusted time	Loan tenure (unit: annual interest rate %)				
	Within 6 months (including 6 months)	6 months to 1 year (including 1 year)	1 to 3 years (including 3 years)	3 to 5 years (including 5 years)	More than 5 years (including 5 years)
2011.02.09	5.60	6.06	6.10	6.45	6.60
2011.04.06	5.85	6.31	6.40	6.65	6.80
2011.07.07	6.10	6.56	6.65	6.90	7.05
2012.06.08	5.85	6.31	6.40	6.65	6.80
2012.07.06	5.60	6.00	6.15	6.40	6.55
2014.11.22*	5.60		6.00		6.15
2015.03.01	5.35		5.75		5.90
2015.05.11	5.10		5.50		5.65
2015.06.28	4.85		5.25		5.40
2015.08.26	4.60		5.00		5.15
2015.10.24	4.35		4.75		4.90

INDUSTRY OVERVIEW

* *Note:* Since 22 November 2014, the PBOC has revised the loan tenure to 3 types: within 1 year (including 1 year), 1 to 5 years (including 5 years) and more than 5 years.

Sources: The PBOC; Ipsos research and analysis

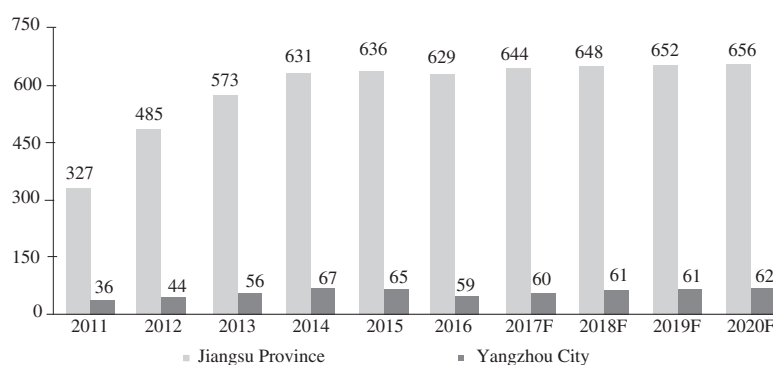
As indicated above, the PBOC Benchmark Interest Rate has been on a decreasing trend since the adjustment made on 7 July 2011 and has not changed since 24 October 2015. According to the Ipsos Report, it has identified four main factors affecting the PBOC Benchmark Interest Rate, namely, (i) China's macro-economic situation and the need to stabilize the general economy; (ii) inflation, as reflected by the consumer price index (CPI); (iii) funding costs of financial institutions; and (iv) interest rates of other countries in the global financial market having regard to preventing irregular influx/exodus of capital.

According to the Ipsos Report, PBOC forecasted that real GDP growth rate in 2016 will reach 6.8%, and that CPI is expected to reach 1.7%. In order to maintain stable economic growth and to curb inflation, PBOC Benchmark Interest Rate may maintain a low level in the near term. On the other hand, the PBOC Benchmark Interest Rate may increase in response to the systematic depreciation of the RMB that has resulted in an outflow of capital since August 2015.

THE MICROFINANCE INDUSTRY IN JIANGSU PROVINCE AND YANGZHOU CITY

According to the Ipsos Report, the first privately funded microfinance company was established in Jiangsu Province in July 2008. The microfinance industry in Jiangsu Province had progressed rapidly since then. According to the Ipsos Report, as at 31 December 2016, the number of microfinance companies in Jiangsu Province was about 629 as at 31 December 2016, with an aggregate registered capital of about RMB83.2 billion, amongst which, 59 microfinance companies were in Yangzhou City with an aggregate registered capital of about RMB8.1 billion. It is further estimated that the number of microfinance companies will reach 656 in Jiangsu Province and 62 in Yangzhou City by 2020, according to the Ipsos Report. The following table sets forth the number of microfinance companies in Jiangsu Province and in Yangzhou City from 2011 to 2020:

Total Number of Microfinance Companies in Jiangsu Province and Yangzhou City (2011-2020)



Source: Microfinance Companies Statistics by Region (小額貸款公司分地區情況統計表), the Central People's Government of the People's Republic of China; Ipsos research and analysis

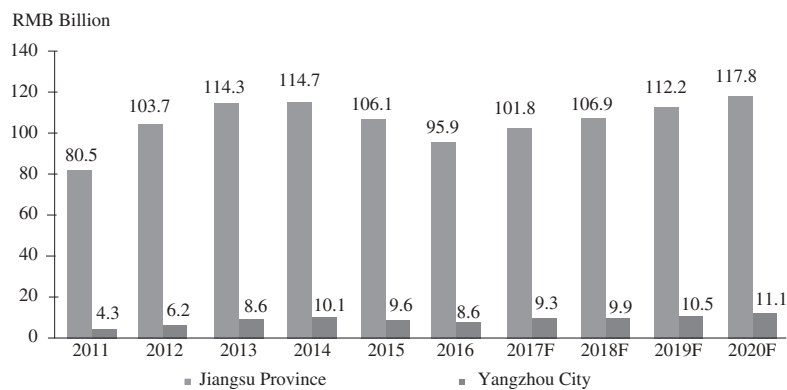
The business model of the microfinance industry in Jiangsu Province has been highly recognized in China. The total value of small loans granted in Jiangsu Province grew significantly from approximately RMB80.5 billion in 2011 to approximately RMB114.7 billion in 2014, representing a CAGR of about 12.5%, while the total value of small loans granted in Yangzhou City experienced a drastic increase representing a CAGR of about 32.9% from approximately RMB4.3 billion in 2011 to approximately RMB10.1 billion in 2014.

INDUSTRY OVERVIEW

Nonetheless, the total value of small loans granted in Jiangsu Province and Yangzhou City decreased from approximately RMB114.7 billion and RMB10.1 billion respectively in 2014 to approximately RMB95.9 billion and RMB8.6 billion respectively in 2016. The decreases were due to the slowdown of macro economy of China in 2015 to 2016, which severely affected the profitability of SMEs (including microenterprises). This in turn resulted in an increase in impaired loans, which negatively impacted the profitability of microfinance companies and the amount of their operating funds available for lending to customers. In addition, the decreases in total value of small loans granted in 2015 and 2016 were also attributable to the tightened control of credit management, pace of lending and size of loans of some microfinance companies, which became cautious and were reluctant to extend loans. According to the Ipsos Report, it is anticipated that the total value of small loans granted in both Jiangsu Province and Yangzhou City will increase and reach approximately RMB117.8 billion and RMB11.1 billion, respectively by 2020.

The following table sets forth the total value of small loans granted in Jiangsu Province and in Yangzhou City from 2011 to 2020:

Total Value of Small Loans granted in Jiangsu Province and Yangzhou City (2011-2020)



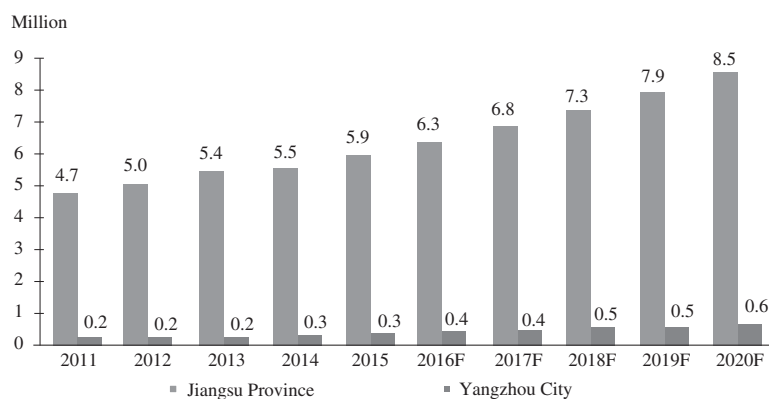
Source: The PBOC; Jiangsu Finance Office; Ipsos research and analysis

The growing trend in the number of microfinance companies in Jiangsu Province and Yangzhou City was supported by the increasing demand for microfinance services from the SMEs and microenterprises in Jiangsu Province, the total number of which reached about 5.9 million in 2015, accounting for about 7.9% of the total number of SMEs and microenterprises in China in 2015. It is anticipated that this trend will continue and the total number of SMEs and microenterprises in Jiangsu Province is estimated to reach about 8.5 million by 2020. Yangzhou City, within Jiangsu Province, has enjoyed an increase in the number of SMEs (including private companies and microenterprises) from about 0.2 million in 2011 to about 0.3 million in 2015 and anticipated that to further increase to about 0.6 million by 2020.

INDUSTRY OVERVIEW

The following table sets forth the number of SMEs and microenterprises in Jiangsu Province and Yangzhou City from 2011 to 2020:

Total Number of SMEs and Microenterprises in Jiangsu Province and Yangzhou City (2011-2020)



Note: Data of Jiangsu Province includes individual proprietors (个体工商戶); while data of Yangzhou City includes individual proprietors and private companies

Source: State Administration for Industry & Commerce of China; Jiangsu Statistics Yearbook; Ipsos research and analysis

The increase in the number of SMEs from 2011 to 2015 is in line with the macroeconomic environment in Jiangsu Province and Yangzhou City. According to the Ipsos Report, nominal GDP in Jiangsu Province grew from approximately RMB4,911 billion in 2011 to approximately RMB7,609 billion in 2016, representing a CAGR of approximately 9.2%. According to the Ipsos Report, the nominal GDP in Jiangsu Province is expected to increase at a growth rate ranging from about 7.5% to about 8.3% from 2016 to 2020, outperforming the estimated national nominal GDP growth rate ranging from about 6.0% to 6.9% for the same period.

According to the Bureau of Statistics of Yangzhou City, Yangzhou City's nominal GDP was about RMB445 billion in 2016, with year-on-year growth rate of 10.7%. Yangzhou City's nominal GDP increased from about RMB263 billion in 2011 to about RMB445 billion in 2016, representing a CAGR of about 11.1%.

During 2011 to 2016, Jiangsu Province had been one of the top provinces in the microfinance industry in China in terms of (i) number of microfinance companies, (ii) number of employees working for microfinance companies, (iii) aggregate paid-in capital; and (iv) total value of small loans granted. In 2016, the total value of small loans granted in Jiangsu Province reached approximately RMB95.9 billion, with Yangzhou City contributing approximately RMB8.6 billion to the value of loans granted by microfinance companies.

As China continued in adjusting its economic structure, the pressure for a downward domestic economic growth increased, and resulted in the lowest economic growth over the past 20 years in 2015. Although the deterioration of the external economic environment leads to increasing financing needs of SMEs, microenterprises as well as individual proprietors, the overall risk of microfinance industry increased and the quality of loans declined. As such, the impaired loan rate of the microfinance industry in Yangzhou City increased from around 0.4% in 2011 to around 19.0% in 2016.

INDUSTRY OVERVIEW

Regulatory Environment

In addition to national regulatory policies, microfinance companies in Yangzhou City are also subject to a series of local regulations, including:

- *Circular and the Interim Measures of Regulation and Administration of Rural Microfinance Companies of Yangzhou City* (揚州市農村小額貸款公司監督管理暫行辦法) issued by Yangzhou Finance Office on 13 May 2010 established the basic measures for incorporation and operations of a microfinance company in Yangzhou City, including the threshold of registered capital, business scope and financial ratios.
- *The Circular Concerning the Insurance of Standard of Micro Loan and Total Financing Amount for Rural Microfinance Companies in Guangling District* (關於下達廣陵區農村小額貸款公司2014年度融資總額和小額貸款標準的通知) issued by Yangzhou Finance Office on 3 March 2014 and relevant regulations stated that a small loan shall be any loan in the amount of RMB3,000,000 or below.
- *The Circular Concerning Further Support of the Sustainable and Sound Development of Microfinance Companies* (關於進一步支持小額貸款公司持續健康發展的通知) issued by the Jiangsu Finance Office on 16 February 2015, stated that from 1 January 2015, the district for operation of rural loan companies could be expanded to provincial cities. In addition, it sets forth a maximum annual interest rate for small loans.

For more information regarding the regulatory environment of the microfinance industry in Jiangsu Province and Yangzhou City, please refer to the section headed “Regulatory Overview” in this prospectus.

Major Challenges

According to the Ipsos Report, the major challenges for the development of microfinance industry in Jiangsu Province and Yangzhou City are as follows:

- *The upper limit for interest rates on microfinance* - according to the Guiding Opinions, microfinance companies can charge interest rates up to four times the benchmark interest rate set forth from time to time by PBOC. This interest rate cap may drive some microfinance companies out of the market as they cannot raise interest rates further to balance the risks and costs associated in granting loans.
- *Unclear legal status and higher taxes* - under the Guiding Opinions, it is stipulated that microfinance companies are not financial institutions, and can only offer financing services according to relevant rules and regulations. As microfinance companies are not financial institutions, they are no different from other business entities and are subject to corporate income tax, business tax and stamp duty. Higher taxes due to the unclear legal status is another factor that may hinder the development of microfinance industry in China.
- *Economic downturn and increasing impairment rate* - deteriorating macroeconomic environment may result in the increase in impairment rate of microfinance companies. SMEs and microenterprises which are the key customers of the microfinance service industry, are inherently vulnerable to deteriorating economic conditions.
- *Fierce competition* - microfinance companies are in competition with each other. In 2016, there were approximately 8,673 registered microfinance companies in China.

INDUSTRY OVERVIEW

Growth Drivers and Market Trends

According to the Ipsos Report, the microfinance industry in Jiangsu Province, including Yangzhou City, is expected to maintain steady growth in the future based on the following factors:

- Since 2009, Jiangsu provincial government issued a series of policies to support the development of rural microfinance service. In recent years, the Jiangsu Finance Office vigorously supported the development of microfinance companies in the province and issued the Notice of Further Support for Sustainable Development of Small Loans Companies (關於進一步支持小額貸款公司持續發展的通知) and Notice of the Regulation Strengthening of Small Loans Companies Listed on the New Three Board (關於加強掛牌新三板小額貸款公司監管發展工作的通知) as well as other relevant documents. These have provided support to the development of microfinance companies in the province.
- The demand of rural microfinance companies mainly come from individuals as well as the small and microenterprises related to the AFR (三農). SMEs (including microenterprises) and individual proprietors have a common characteristic of having inadequate collaterals and thus are harder to get loans from commercial banks. Therefore, China has higher funding gap in respect of AFR (三農). The total number of SMEs and microenterprises in Jiangsu Province increased at a CAGR of about 5.9%, from around 4.7 million to about 5.9 million from 2011 to 2015. By the end of 2015, there were around 26.7 million rural population (農村人口) in Jiangsu Province.
- Microfinance companies in Yangzhou City focus on serving AFR sector and SMEs to address their financing needs; whereas, traditional financial institutions and commercial banks are inclined to serve state-own enterprises or large-size corporations. Therefore, microfinance companies is a major source of financing for SMEs and other AFR companies.
- In addition to supporting policies of Jiangsu Province, the Yangzhou City government issued The Municipal Government to Speed up the Development of Modern Financial Industry Opinions (市政府關於加快發展現代金融業的意見) in 2013, identifying a series of policies aiming at promoting the development of the microfinance industry. The government support helps expedite the development of microfinance industry in Yangzhou City and nurtures the confidence in a comparatively new industry.
- Apart from the microfinance business, microfinance companies in Yangzhou City also developed intermediary businesses. For example, in 2015 the private debt and Kai Xin Credit (開鑫貸) of the small and microenterprises expanded, and the latter accumulated an annual total financing amount of approximately RMB197 million. Besides, microfinance companies also developed Yee Loan (貸易寶), special construction bonds (建設債) and other innovative financing services. Corporate bonds and asset securitization were also actively promoted. By the end of 2015, there were 22 microfinance companies that carried out innovative business, increased by six companies comparing with the beginning of the year.

COMPETITIVE LANDSCAPE OF THE MICROFINANCE INDUSTRY IN JIANGSU PROVINCE AND YANGZHOU CITY

From a macro perspective, microfinance companies are in competition with other financial institutions providing micro and small loan services. Microfinance companies are prohibited from taking deposits from the general public as a source of funding. Therefore, they typically have to resort to either shareholders' equity or borrowings from banks or other financial institutions.

Competition among microfinance companies in Jiangsu Province and Yangzhou City has become intense. According to the Ipsos Report, there were 629 microfinance companies in Jiangsu Province

INDUSTRY OVERVIEW

as at 31 December 2016, of which 59 were in Yangzhou City. Our Directors believe that microfinance companies in Yangzhou City compete in (i) capital base; (ii) ability to raise additional liquidity; (iii) flexibility and accessibility to match customers' needs; and (iv) effectiveness of internal control and risk management. Capital base and the ability to raise additional liquidity determine the aggregate amount of funds available for granting loans. The more flexible and accessible to customers in granting loans, the better a microfinance company can attract customers which could yield higher interest income. An effective internal control and risk management system can ensure the quality of customers and loans, thereby reducing impairment and other costs.

P2P lending industry

Peer-to-peer (P2P) lending is a platform facilitating individuals to lend and borrow money directly from each other. According to the Ipsos Report, P2P lending industry enjoyed substantial growth from 2013 to 2014, as a result of the rapid development of internet and increased financial and investment awareness. However, deficient internal management and loose regulation of internet finance resulted in malpractices and even closing down of some of the P2P lending companies. In order to regulate the P2P lending industry, in August 2016, CBRC issued the Interim Measures on Administration of the Business Activities of Peer-to-Peer Lending Information Intermediaries (網絡借貸信息中介機構業務活動管理暫行辦法), pursuant to which P2P lending companies are (i) required to obtain a telecommunication business license and be filed with local financial supervision department, and (ii) obligated to verify the identity of lenders and borrowers and legality of their financing activities. According to the Ipsos Report, the intense competition within the P2P lending industry, coupled with the tightening policies and regulations towards the P2P lending industry, is expected to result in a reshuffling and consolidation of market players in the P2P lending industry.

As P2P lending companies and microfinance companies share similar target customers, microfinance companies may face competitions from the P2P lending companies. While P2P lending companies are positioned to capture the online financing market, which is more accessible to target customers, many microfinance companies also begin to develop online financing services after the issue of the Guiding Opinions on Promoting the Healthy Development of Internet Finance (關於促進互聯網金融健康發展的指導意見) on 18 July 2015 by, among others, the PBOC, which put forward a series of policy measures encouraging innovation and supporting the steady development of internet finance. It is expected that microfinance companies will remain in a position to compete effectively with P2P lending companies in view of (i) their capability to offer financing services through both traditional offline lending channel as well as through online platform, (ii) their more advantageous position in serving rural areas where internet access is less established or comprehensive and are better serviced by offline financing channels, and (iii) the relatively established regulatory environment for microfinance companies as compared with that for P2P lending companies which only recently began to go through a phase of tightening regulatory environment. In view of the above, our Directors are of the view, which the Sole Sponsor concurs, that despite there is competition between P2P lending companies and microfinance companies, this would not have material impact on our results of operations and business prospects.

Barriers of Entry

According to the Ipsos Report, the main entry barriers into the microfinance industry are as follows:

- *Minimum registered capital for microfinance providers in China* - New entrants are required to have a minimum registered capital, which should not be less than RMB5 million and RMB10 million for limited liability companies and companies limited by shares, respectively.
- *Registration requirement* - Registration for microfinance companies is strictly regulated and supervised by local government in terms of minimum registered capital, requirement for founders, limitation on county-level expansion, etc.

INDUSTRY OVERVIEW

- *Familiarity with local business* - microfinance companies mainly provide services to local SMEs, microenterprises and individual proprietors, which are characterized by having short credit history, inadequate collateral and low risk affordability. Meanwhile these potential borrowers usually demand expedite loan application review and approval procedures in order to address their immediate funding needs. Thus, new entrants to the microfinance industry have to be familiar with the local market, the domestic economy, development of major industry, background information and credit grading of their potential borrowers as well as guarantors.

Microfinance companies are generally monitored and regulated by the relevant local governmental authorities. For a microfinance company to expand its business to other regions, it must register a company in its target regional market, which is a more complicated and more time-consuming process than setting up a branch office. Therefore, most microfinance companies in China are still operating within one city, and business is highly regional. Yet it is this local level characteristic that makes it easier for microfinance companies to serve local SMEs, microenterprises and individual proprietors as compared to commercial banks. Moreover, microfinance companies typically offer micro and small loans in a more convenient, efficient and personal manner, and are subject to relatively simplified evaluation, approval and procedural formalities as opposed to commercial banks.

On a national level, according to the Guiding Opinions, the maximum leverage ratio of a microfinance company is 50%, which means that a microfinance company is generally allowed to finance up to 50% of its net capital from banks and other financial institutions. This leverage ratio may vary according to regional and local regulations. For example, rural microfinance companies in Yangzhou City with an “AAA” grading are allowed to finance up to 100% of their net capital from banks and other financial institutions according to the Working Opinions on Supporting Jiangsu Rural Microfinance Companies with High Grades and Limiting the Jiangsu Rural Microfinance Companies with Low Grades (Provisional) (江蘇省農村小額貸款公司扶優限劣工作意見(暫行)) issued by the Jiangsu Finance Office on 25 December 2013. As such, the registered capital of a microfinance company directly determines its lending ability and, therefore, constitutes a key factor in assessing a microfinance company’s overall strength.

Key Market Players

(a) Analysis in terms of revenue in 2015

In terms of revenue, we were the fourth largest microfinance company in Jiangsu Province and the largest in Yangzhou City in 2015. The relevant rankings and market shares in terms of revenue in 2016 were not available as at the Latest Practicable Date.

The following table sets forth the rankings and market shares of the top five microfinance companies in Jiangsu Province in terms of revenue for 2015:

Ranking	Company	Location	Annual Revenue ^(Note) RMB million	Market Share %
1.	Company A	Changzhou	127.6	1.72
2.	Company B	Jingjiang	110.3	1.49
3.	Company C	Suzhou	107.6	1.45
4.	The Company	Yangzhou	95.9	1.29
5.	Company D	Suzhou	82.8	1.12

Note: The revenue estimations are based on, including but limited to, companies’ financial reports, credit ratings, registered capitals, number of branches and opening hours.

Sources: Ipsos interviews and analysis

INDUSTRY OVERVIEW

The following table sets forth the rankings and market shares of the top five microfinance companies in Yangzhou City in terms of revenue for 2015:

Ranking	Company	Annual Revenue ^(Note) RMB million	Market Share %
1.	The Company	95.9	11.12
2.	Company E	75.0	8.69
3.	Company F	58.0	6.73
4.	Company G	56.3	6.53
5.	Company H	38.5	4.47

Note: The revenue estimations are based on, including but limited to, companies' financial reports, credit ratings, registered capitals, number of branches and opening hours.

Sources: Ipsos interviews and analysis

(b) *Analysis in terms of registered capital in 2015*

We were the tenth largest microfinance company in Jiangsu Province and the second largest in Yangzhou City in 2015 in terms of registered capital. The relevant rankings and market shares in terms of registered capital in 2016 were not available as at the Latest Practicable Date.

The following table sets forth the rankings of the top ten microfinance companies in Jiangsu Province in terms of registered capital in 2015:

Ranking	Company	Location	Registered Capital RMB million	Share in terms of registered capital %
1.	Company B	Jingjiang	1,000.0	1.12
2.	Company A	Changzhou	633.0	0.71
3.	Company I	Suzhou	600.0	0.67
4.	Company J	Jiangyin	500.0	0.56
4.	Company K	Jiangyin	500.0	0.56
4.	Company L	Changzhou	500.0	0.56
4.	Company M	Changzhou	500.0	0.56
4.	Company E	Yangzhou	500.0	0.56
9.	Company N	Wujiang	465.0	0.52
10.	The Company	Yangzhou	450.0	0.50

Sources: Ipsos interviews and analysis

The following table sets forth the rankings of the top five microfinance companies in Yangzhou City in terms of registered capital in 2015:

Ranking	Company	Registered Capital RMB million	Share in terms of registered capital %
1.	Company E	500.0	5.73
2.	The Company	450.0	5.16

INDUSTRY OVERVIEW

Ranking	Company	Registered Capital <i>RMB million</i>	Share in terms of registered capital %
3.	Company O	279.5	3.20
4.	Company F	250.0	2.87
5.	Company P	250.0	2.87

Sources: Ipsos interviews and analysis

(c) *Analysis in terms of outstanding loans balance in 2015*

We were the third largest microfinance company in Jiangsu Province and the largest in Yangzhou City in 2015 in terms of value of outstanding loans. The relevant rankings and market shares in terms of value of outstanding loans in 2016 were not available as at the Latest Practicable Date.

The following table sets forth the rankings and market shares of the top ten microfinance companies in Jiangsu Province in terms of outstanding loan balance in 2015:

Ranking	Company	Location	Value of Outstanding Loan <i>RMB million</i>	Market Share %
1.	Company A	Changzhou	949.6	0.90
2.	Company N	Wujiang	822.9	0.78
3.	The Company	Yangzhou	597.1	0.56
4.	Company B	Jingjiang	585.6	0.55
5.	Company K	Jiangyin	529.3	0.50
6.	Company E	Yangzhou	515.0	0.49
7.	Company F	Yangzhou	445.9	0.42
8.	Company M	Changzhou	434.4	0.41
9.	Company I	Suzhou	418.4	0.39
10.	Company G	Yangzhou	329.0	0.31

Sources: Ipsos interviews and analysis

The following table sets forth the rankings and market shares of the top five microfinance companies in Yangzhou City in terms of outstanding loan balance in 2015:

Ranking	Company	Value of Outstanding Loan <i>RMB million</i>	Market Share %
1.	The Company	597.1	6.23
2.	Company E	515.0	5.37
3.	Company F	445.9	4.65
4.	Company G	329.0	3.43
5.	Company O	289.5	3.02

Sources: Ipsos interviews and analysis

REGULATORY OVERVIEW

REGULATIONS ON FOREIGN INVESTMENT

The Foreign Investment Provisions

On 11 February 2002, the State Council promulgated the Provisions on Guiding Foreign Investment (指導外商投資方向規定) (the “Foreign Investment Provisions”). On 10 March 2015, the Ministry of Commerce and the National Development and Reform Commission promulgated the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (the “Foreign Investment Catalogue”) which became effective on 10 April 2015. The finance industry is a restricted industry as provided in the Foreign Investment Catalogue, however, the specific kinds of companies under the heading of finance industry include:

- Banks (the investment by a single foreign financial institution and related parties controlled by it or under common control of it (as the promoter or strategic investor) shall not exceed 20% of the equity interest of a PRC domestic commercial bank; and the total investment by various foreign financial institutions shall not exceed 25%; foreign financial institution which invests in small and middle rural financial institutions shall be banking financial institution);
- Insurance companies (in the case of life insurance companies, the proportion of foreign investment shall not exceed 50%);
- Securities companies (limited to underwriting and sponsorship of RMB-denominated ordinary shares, overseas listed foreign shares, government bonds and corporate bonds; brokerage of overseas listed foreign shares; brokerage and proprietary trading of government bonds and corporate bonds with the proportion of foreign investment not exceeding 49%; companies which have been established for two years and met relevant requirements can apply for expansion of business scope); and securities investment fund management companies (with the proportion of foreign investment not exceeding 49%);
- Futures companies (with Chinese parties as controlling shareholders).

Pursuant to the National Economy Industry Classification Catalogue (國民經濟行業分類 GB4754-2011), the microfinance companies fall within the finance industry but do not belong to the above kinds of companies, therefore, microfinance industry is a permitted industry for foreign investment.

REGULATIONS OF THE MICROFINANCE INDUSTRY

National Regulatory Authorities

As at the date of this prospectus, there’s no regulatory authority for the microfinance industry on the national level. Pursuant to the Guiding Opinions, the provincial governments may launch the pilot operation of microfinance companies within county territory in their respective province (autonomous region, municipality) only after they could determine a competent department (financial affairs office or similar department) to be responsible for the supervision and administration on microfinance companies and are willing to assume the responsibility of risk disposal by microfinance companies.

REGULATORY OVERVIEW

Local Regulatory Authorities

Competent regulatory authorities administering the microfinance industry must be appointed by all provinces, autonomous regions and municipalities directly under the central government of the PRC (the “Central Government”). Nowadays, the microfinance industry in China is generally governed by the office of finance of the people’s governments of the relevant provinces, autonomous regions and municipalities directly under the Central Government.

National Guiding Policies

The Guiding Opinions, which was promulgated by the CBRC and the PBOC and took effect on 4 May 2008, contains the fundamental opinions and policies to guide the microfinance industry. It regulates the fields of microfinance companies, including but not limited to the incorporation, capital source, utilization of capital, supervision and administration and termination of microfinance companies. Pursuant to the Guiding Opinions:

- Any applicant must apply to the supervising authority of the provincial government and, upon approval, comply with registration formalities to obtain all necessary business licenses, approvals and certificates for the establishment of a microfinance company;
- If a microfinance company is a limited liability company, its registered capital must be at least RMB5 million, and if it is a company limited by shares, its registered capital must be at least RMB10 million;
- No single natural person, enterprises or other social organization, together with their respective affiliates, may hold in excess of 10% of the total registered capital of the microfinance company;
- The funds of a microfinance company mainly consist of the capital contributed and funds donated by shareholders as well as funds raised from, at most, two banking financial institutions. A microfinance company must accept public supervision and shall not engage in any form of illegal fund-raising. Subject to relevant laws and regulations, the funds obtained by a microfinance company from banking financial institutions may not exceed 50% of its net capital;
- A microfinance company must conduct its operations according to market-oriented principles. The loan interest rate charged by a microfinance company cannot exceed the maximum loan interest rate set by judicial departments, which was four times of the prevailing PBOC Benchmark Interest Rate before 1 September 2015, pursuant to the Interim Measures and with reference to Certain Opinions on the Court’s Trial for Lending Cases (關於人民法院審理借貸案件的若干意見) issued by the Supreme People’s Court on 13 August 1991. Such requirement of maximum loan interest rate was modified by the Provisions of the Supreme People’s Court on several Issues concerning the Application of

REGULATORY OVERVIEW

Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) issued by the Supreme People's Court of PRC on 6 August 2015 and came into effect on 1 September 2015, which provides that (i) the interest on the loans with interest rates up to 24% per annum is valid and enforceable; (ii) as to the loans with interest rates per annum ranging from 24% and 36%, if the interest on the loans has already been paid to the lender, the courts will turn down the borrower's request to demand the return of the interest payment; and (iii) if the annual interest rate of a private loan is higher than 36%, the agreed interest on the exercise part shall be null and void. The specific floating rate shall be determined by the microfinance company based on market-oriented principles;

- The outstanding amount of loan made to the same borrower by a microfinance company cannot exceed 5% of its net capital;
- No founder being natural persons, enterprises and other social organizations of the microfinance companies and no natural person as a director, supervisor, or senior management of microfinance companies has any criminal or bad credit record;
- The microfinance company shall, according to relevant provisions, set up prudent and normative asset classification and provision systems, accurately classify the assets, make full provision for allowances for doubtful accounts, and guarantee that its adequacy ratio of provision for asset losses always remain above 100% in order to fully cover all risks;
- The microfinance company shall establish a sound corporate governance structure and loan management system, and strengthen internal control; and
- The PBOC will trace and monitor the interest rates and capital flows of microfinance companies, and will include them in the credit system. The microfinance company shall regularly provide the credit system with information about the borrower, loan amount, guarantee and repayment, and other business information.

Pursuant to the Legislative Law of the People's Republic of China (中華人民共和國立法法) (the "Legislative Law") which was promulgated by the National People's Congress on 15 March 2000, took effect on 1 July 2000 and amended on 15 March 2015, all the ministries and commissions of the State Council, the PBOC, the General Administration for Auditing, and organizations with administrative functions directly under the State Council may, in accordance with laws, administrative regulations, decisions and orders of the State Council, enact administrative rules within the scope of its authority, and an administrative rule shall be promulgated through an order signed by the head of the relevant department. Furthermore, according to the Legislative Law, the people's government of provinces, autonomous regions, municipalities directly under the Central Government, cities with districts or autonomous prefectures may enact local rules according to laws and administrative regulations as well as local regulations of their respective provinces, autonomous regions or municipalities directly under the Central Government, and a local rule shall be promulgated by way of an order signed by the provincial governor, the chairman of the autonomous region, the mayor of the city or the governor of the autonomous prefecture. As advised by our PRC Legal Advisers, (1) the Guiding Opinions shall not be regarded as administrative rules (部門規章) in accordance with the Legislative Law, the documents issued by regulatory departments of Jiangsu provincial government shall not be regarded as local rules (地方政府規章) in accordance with the Legislative Law, and in the event of selective application of rules in conflict, the Guiding Opinions are not superior to other normative documents issued by regulatory departments of Jiangsu provincial government in terms of legal hierarchy; and (2)

REGULATORY OVERVIEW

regulatory departments of Jiangsu provincial government are entitled to decide whether to apply to Guiding Opinions and approve establishment of microfinance company within Jiangsu Province in accordance with the documents issued by regulatory departments of Jiangsu provincial government.

Local Regulatory Policies in Jiangsu Province

At present, pilot operations of microfinance companies are supervised and managed by authorized authorities at provincial level. Provincial governments with a designated supervising authority for microfinance companies have promulgated various administration measures to establish that the provincial government authorities (such as provincial-level finance bureaus) are responsible for the supervision and management of microfinance companies. These provincial governments and competent authorities also issued various regulatory policies and measures for the purpose of supervising and managing microfinance companies in their respective supervising region.

Given that our business is confined within the region of Jiangsu Province, the review of laws and regulations at local level is to be focused on regulations issued by applicable Jiangsu authorities. A rural microfinance company shall be subject to regulations and policies stated as below:

Establishment

- Pursuant to the Circular on Further Regulating the Approval and Administration of Rural Microfinance Companies (關於進一步規範農村小額貸款公司審批管理工作的通知) (the “26 January 2011 Circular”) issued on 26 January 2011 by the Jiangsu Finance Office (江蘇省金融辦), the number of shareholders, being natural persons and/or enterprises, of a rural microfinance company shall be below 50 as in the case of a limited liability company, or between 2 to 200 as in the case of a joint stock limited liability company, more than half of whom shall have domiciles within the territory of the PRC. Pursuant to the Circular on Further Enhancing the Regulation of Rural Microfinance Company (關於進一步加強農村小額貸款公司監管工作的通知) (the “23 September 2011 Circular”) issued on 23 September 2011 by the Jiangsu Finance Office, shareholders of a rural microfinance company shall include at least three non-affiliated legal persons and/or natural persons;
- Pursuant to the Pilot Opinions of Rural Microfinance Organizations (省政府辦公廳關於開展農村小額貸款組織試點工作的意見(試行) (the “24 November 2007 Opinions”) issued by the General Office of Jiangsu Province People’s Government (江蘇省人民政府辦公廳) on 24 November 2007, the registered capital of a rural microfinance company must be at least RMB50 million in southern region of Jiangsu Province, RMB30 million in central region of Jiangsu Province, RMB20 million in northern region of Jiangsu Province, respectively, and shall only be contributed in the form of cash;
- Pursuant to the 24 November 2007 Opinions, the location where a rural microfinance company conducts its business shall be fixed and at below the town level (town is inclusive);
- Pursuant to the 24 November 2007 Opinions and the 26 January 2011 Circular, the number of core employees of a rural microfinance company shall be at least five with no records of poor credit or violation of laws or regulations; the principal person in charge, who shall be under the age of 65, shall obtain degrees from technical secondary schools or above and have more than four years financial working experiences or more than eight years economic working experiences (more than two years financial working experiences is needed); the person in charge of credit

REGULATORY OVERVIEW

shall have more than three years financial working experiences or more than five years rural economic working experiences; the financial personnel shall obtain accounting certificates and have more than three years financial and accounting working experiences; the other persons shall have more than three years relevant economic working experiences; the main business personnel shall attend pre-service trainings organized by the Jiangsu Finance Office. In this respect, as consulted with the deputy director of the department approving, supervising and administering rural microfinance company of Jiangsu Finance Office, which as advised by our PRC Legal Advisers, is the competent authority to advise on the above-mentioned requirements (given that it administers the microfinance company in Jiangsu Province and promulgated such requirements), the principal person in charge of a microfinance company shall include (i) the general manager and (ii) the person in charge of a company's departments such as risk management, credit and finance department; and the chairman of the board of directors is not considered a principal person. Given the above and the fact that our chairman of the Board, Mr. Bo Wanlin is not involved in the daily management of our Company, our PRC Legal Advisers advised that the Company does not violate the requirement specified in the 24 November 2007 Opinions and the 26 January 2011 Circular that a company's principal person in charge shall be under the age of 65;

- A rural microfinance company shall enact its articles of association in accordance with the Company Law and the 24 November 2007 Opinions and engage in the business according to its articles of association.
- The establishment of a rural microfinance company in Jiangsu Province shall follow the procedure below:
 - ✓ Formulation of pilot operation plan. The relevant local government at city level shall first formulate and submit its pilot operation plan to the Jiangsu Province Rural Microfinance Pilot Work Organization Leading Group (江蘇省農村小額貸款組織試點工作領導小組) and, upon approval, shall then sign the risk control commitment letter with the People's Government of Jiangsu Province;
 - ✓ Public tendering. The local leading group (當地領導小組) may conduct public tendering on shareholder of a rural microfinance company while considering the financial condition, capital contribution, location of operation and qualification of employees of such shareholders;
 - ✓ Promotion (籌建) application. The shareholders determined shall organize a promotion unit and propose the application of promotion to the local leading group which, after preliminary review, will then propose such application to the Jiangsu Provincial Leading Group for approval;
 - ✓ Preliminary preparation. Upon approval by Jiangsu Provincial Leading Group, the promotion unit shall start the preliminary preparation which shall last six months;
 - ✓ Establishment application. Upon completion of the preliminary preparation, the promotion unit shall apply for the establishment of a rural microfinance company with the local leading group which, after preliminary review, will then submit such application to the Jiangsu Provincial Leading Group for approval, upon such approval, the promotion unit shall apply for business license with the local administration of industry and commerce;

REGULATORY OVERVIEW

- Pursuant to the 24 November 2007 Opinions, approvals on the promotion (籌建) and commencement of business shall be obtained from Jiangsu Province Rural Microfinance Pilot Work Organization Leading Group (江蘇省農村小額貸款組織試點工作領導小組) for establishment of a rural microfinance company in Jiangsu Province. We obtained the approval on promotion and approval on commencement of business issued by Jiangsu Provincial Leading Group in October 2008 and November 2008, respectively. There is no expiry date for the approval for promotion nor the approval on commencement of business. As advised by our PRC Legal Advisers, there is no regulation stipulating the effective period or the renewal requirements of such approvals; and
- Notwithstanding the above, pursuant to the Implementation Rules Regarding Regulatory Punishments on Rural Microfinance Companies in Jiangsu Province (Provisional) (江蘇省農村小額貸款公司監管處罰細則(暫行)) (the “**28 August 2012 Implementation Rules**”) issued by the Jiangsu Finance Office on 28 August 2012, if a microfinance company violated the relevant provisions, such as receiving deposits from the public without approval and refusing to implement the regulatory punishment, it may be ordered to terminate its business operations. The 28 August 2012 Implementation Rules however does not provide that the approval on the promotion and commencement of business will be revoked if a microfinance company violated the relevant provisions.

Requirements for a rural microfinance company to conduct business

- The interest policy. Pursuant to the Circular Concerning Further Support of the Sustainable and Sound Development of Microfinance Companies (《關於進一步支持小額貸款公司持續健康發展的通知》(the “16 February 2015 Circular”)) issued on 16 February 2015 by the Jiangsu Finance Office (江蘇省金融辦), from 1 January 2015, for loans in the amount of RMB500,000 or below, the annual interest rate charged for a single loan shall not exceed four times of the benchmark interest rate; for loans in the amount exceeding RMB500,000, the annual average interest rate (calculated in weighted average method) charged for all such loans shall not exceed 18% while the highest annual interest rate charged for a single loan shall not exceed four times of the benchmark interest rate;
- The three “70%” policy. Pursuant to the Circular Concerning Promoting the sound and fast development of Rural Microfinance Companies (省政府辦公廳關於推進農村小額貸款公司又好又快發展的意見) issued on 28 November 2009 by the General Office of Jiangsu Province People’s Government (江蘇省人民政府辦公廳) and the Circular Concerning Adjusting and Clarifying Regulatory Policies on Rural Microfinance Companies (關於調整明確小額貸款公司部分監管政策的通知) (the “22 September 2013 Circular”) issued on 22 September 2013 by the Jiangsu Finance Office and the Interim Measures of Regulation and Administration of Rural Microfinance Companies of Yangzhou City (揚州市農村小額貸款公司監督管理暫行辦法) issued by Yangzhou Finance Office on 13 May 2010 and relevant regulations, the proportion of the sum of the balance of micro loans in the sum of the total balance of loans shall not be below 70%; the proportion of the sum of the “three rural” loans (based on the statistics standard of the PBOC) in the sum of the total balance of loans shall not be below 70%; the proportion of the sum of the balance of business loans that last more than three months in the sum of the total balance of loans shall not be below 70%. Loans granted to the same borrower within 7 days shall be considered as a single loan;
- The standard of micro loan. Pursuant to the 22 September 2013 Circular and the Circular Concerning the Insurance of Standard of Micro Loan and Total Financing Amount for Rural Microfinance Companies in Guangling District (關於下達廣陵區農村小額貸款公司2014年度融資總額和小額貸款標準的通知) issued by Yangzhou Finance Office on 3 March 2014 and relevant regulations, the small loan shall be any loan in the amount of RMB3,000,000 or below;

REGULATORY OVERVIEW

- The standard of the balance of loans granted to the same borrower. Pursuant to the 22 September 2013 Circular, the balance of loans granted by a rural microfinance company to a single borrower shall not exceed 3% of its net capital, or upon approval in advance from financial affairs office of the people's government at the municipal level, may exceed 3% but in any event shall not exceed 5% of its net capital. Pursuant to the Circular Concerning Adjusting and Improving Regulatory Policies on Rural Microfinance Companies (關於調整完善農村小額貸款公司部分監管政策的通知) (the "25 December 2013 Circular") issued by the Jiangsu Finance Office on 25 December 2013, the sum of balance of loans and guarantees granted by a rural microfinance company to a single borrower and its connected parties shall not exceed 10% of its net capital;
- The connected transaction. Pursuant to the Circular on the Enhancing the Market Access and Daily Regulation of Microfinance Companies (關於加強小額貸款公司市場準入和日常監管工作的通知) issued on 4 September 2012 by the Jiangsu Finance Office, where a microfinance company grant loans to its shareholders or connected persons, it shall comply with relevant regulations stated in the 23 September 2011 Circular. Where a microfinance company grants loans exceeding 50% of the limit set for small loans by the municipality in which it operates. to its connected persons, it must file record with the local finance office at city level. Pursuant to the 25 December 2013 Circular, no guarantees of any kinds shall be provided by a rural microfinance company to its shareholders and connected persons;
- The client restriction. Pursuant to the 23 September 2011 Circular and the 28 August 2012 Implementation Rules, guarantee companies, pawnshops, investment and wealth management companies and other entities involved in monetary trading business shall not be the clients of a rural microfinance company; where a rural microfinance company conducts external financing, it shall comply with the provisions relating to investment orientation of the bank financing agreements, and the proportion of the sum of balance of the loans granted to clients in industries or fields limited by the state, over which it shall exercise strict control, in the sum of its net capital shall not exceed 30%;
- District for operation. Pursuant to the 16 February 2015 Circular, from 1 January 2015, the district for operation of rural loan companies could be expanded to provincial cities;
- The capital contribution restriction. Pursuant to the 23 September 2011 Circular and the 25 December 2013 Circular, the capital contributed by a legal person shareholder to a rural microfinance company shall not exceed 35% of its owners' equity for the preceding fiscal year while the capital contributed by a nature person shareholder shall not exceed RMB30 million. Pursuant to the 16 February 2015 Circular, for new rural loan companies whose major promoters are companies with significant capital contribution capacity, such as listed companies and state owner companies, the shareholding percentage of a single shareholder shall not exceed 60%; for rural loan companies with a regulatory rating above grade A which will undergo adjustments in ownership structure, the same is applicable; and for companies which have meet the above criteria, the maximum shareholding percentage of a single shareholder is 80%;
- The equity transfer restriction. Pursuant to the 23 September 2011 Circular, the shareholders of a rural microfinance company are not allowed to transfer any of their equity interest held in the rural microfinance company within one year dating from its establishment. Where a microfinance company has been established more than one year, the equity interest held by shareholders can be transferred in accordance with law and regulations and articles of association of such company, while subject to the prior approval of the local financial affairs office and the record

REGULATORY OVERVIEW

filed with the Jiangsu Finance Office. The increase of capital or share transfer by the largest shareholder or actual controller of a microfinance company and transfer of 50% or above equity interest of a microfinance company are subject to the prior approval of the Jiangsu Finance Office;

- The Microfinance Companies Regulatory Grading Scheme. Pursuant to the Jiangsu Province Microfinance Companies Regulatory Grading Regulations (Provisional) (江蘇省小額貸款公司監管評級辦法(暫行)) issued by the Jiangsu Finance Office on 7 August 2012, the Microfinance Companies Regulatory Grading Scheme shall be established by the Jiangsu Finance Office in Jiangsu Province for the assessment and grading of all the microfinance companies that have been established for more than one year. There are nine grades, i.e. AAA, AA, A, BBB, BB, B, CCC, CC and C with AAA being the highest grade and C being the lowest grade.

Pursuant to the Notice on Issuing Jiangsu Rural Microfinance Companies Regulatory Grading Index Scheme (Provisional) (關於印發《江蘇省農村小額貸款公司監管評級指標體系(暫行)》的通知) and its attachment Jiangsu Rural Microfinance Companies Regulatory Grading Index Scheme (Provisional) (江蘇省農村小額貸款公司監管評級指標體系(暫行)) issued by the Jiangsu Finance Office on 7 August 2012, the grading index for rural microfinance companies principally covers three aspects: (i) basic items, (ii) deduction items and (iii) veto items. A consolidated grading method is used. A rural microfinance company will receive merit points if achieving relevant index requirements for basic items, subject to deduction of points for several deduction items. If there occurs any of the veto items, this will result in a “C” grading being accredited to the relevant rural microfinance company. The grading index and the highest score/highest deduction corresponding to the index are as follows:

(I) Basic items and related points:

1. Connected transactions (the highest score of the index is 40 points), which specifically include connected loans and shareholder loans, etc., the lesser the number of connected transactions, the higher the score;
2. Regulatory compliance (the highest score of the index is 57 points), which includes aspects such as proportion of AFR-related loans, small loans and medium- and long-term loans, investment directions of the loans, number of effective customers and cross-regional operations. The better the microfinance company behaves in the aspects of compliance, the higher the score;
3. Level of interest rate (the highest score of the index is 19 points), which includes the highest interest rate and the average interest rate, the lesser the interest rate charged to customers compared with the PBOC standard interest rate, the higher the score;
4. Capital management (the highest score of the index is 15 points), which includes establishment and implementation of cash management system, the more complete the system and the better the implementation, the higher the score;
5. Liabilities (the highest score of the index is 23 points), which includes the overall financing status of the microfinance company, whether there are special borrowing from shareholder(s) and the amount of the paid-up registered capital, the more compliant the financial status of the company, the higher the score; full points will be

REGULATORY OVERVIEW

granted in the corresponding standard item if no special borrowing from shareholder or such borrowing is approved by the finance office of the municipal level; and full points will be granted in the corresponding standard item if further financing can be obtained after all the registered capitals are paid up;

6. Shareholding structure (the highest score of the index is six points), under which the lesser the shareholding proportion of the largest shareholder and related party in a microfinance company, the higher the score;
7. Use of Jinnong small loan central processing platform (the highest score of the index is 20 points), the more timely and accurate the data uploaded to and stored in the system, the higher the score;
8. Unauthorized matters (the highest score of the index is 20 points), the lesser unauthorized matters, the higher the score;

The maximum points for the basic items are 200 points in total.

(II) Deduction items and related points deductions:

1. Corporate governance (the highest deduction is 25 points), which includes governance structure, quality of practitioner and financial management; the less sound the governance structure, the lower the quality of practitioner and the less complete the financial management, the higher the deduction;
2. Internal control and risk control (the highest deduction is 35 points), which includes internal control condition and business risk control, the worse the internal control condition and the business risk control status, the higher the deduction;
3. Operating ability (the highest deduction is 20 points), which includes rate of return on equity and non-performing asset ratio, the lower the rate of return on equity and the higher the non-performing asset ratio, the higher the deduction;

The maximum point deduction under the above deduction items are 80 points in total.

(III) Veto items include the following: non-compliance deposit taking, usury, extension of loans with identity fraud, false entries in accounts, off-ledger operations, loan recovery by violent act, financial grant fetching, not using the unified business system for microfinance company in Jiangsu province and other illegal and non-compliance matters identified by competent authorities as material violation of laws, rules and regulations. A rural microfinance company would be directly accredited a “C” grading, which is the lowest grading, if any one of the above was found in its operating activity.

Pursuant to the notification of accreditation from the Jiangsu Finance Office, we were granted a total score of 181 points resulting to a “AA” grading accredited to us in February 2015. Save for the accreditation of a “A” grading to us, the notification of accreditation from the Jiangsu Finance Office in October 2013 did not provide for the actual points awarded to us in such assessment. In addition, the above notifications of accreditation did not set out the points awarded/deducted for the individual items under the assessment.

REGULATORY OVERVIEW

Pursuant to the Working Opinions on Supporting Jiangsu Rural Microfinance Companies with High Grades and Limiting the Jiangsu Rural Microfinance Companies with Low Grades (Provisional) (江蘇省農村小額貸款公司扶優限劣工作意見(暫行)) issued by the Jiangsu Finance Office on 25 December 2013, rural microfinance companies with different grades are subject to various and classified requirements when engaging in micro and small loan business:

- Financing Business

- ✓ The upper limit for the total outstanding amount of financing is (i) 100% of its net capital for a rural microfinance company with AAA and AA grade; (ii) 80% of its net capital for a rural microfinance company with A grade; (iii) 50% of its net capital for a rural microfinance company with BBB, BB and B grade; rural microfinance companies with CCC grade or below shall not be engaged in external financing business;
- ✓ The upper limit for the outstanding amount of bank financing is (i) 100% of its net capital for a rural microfinance company with AAA grade; (ii) 50% of its net capital for a rural microfinance company with AA grade; (iii) 40% of its net capital for a rural microfinance company with A grade; and (iv) 20% of its net capital for a rural microfinance company with BBB grade; rural microfinance companies with BB grade or below shall not be engaged in bank financing business;
- ✓ The upper limit for the outstanding amount of shareholder loan (shareholder special loan is inclusive) is: (i) 100% of its paid-in capital for rural microfinance companies with AAA grade, and loans granted by a single shareholder shall not exceed 100% of such shareholder's actual capital contribution, in principle; (ii) 80% of its paid-in capital for rural microfinance companies with AA and A grade, and loans granted by a single shareholder shall not exceed 80% of such shareholder's actual capital contribution, in principle; (iii) 50% of its paid-in capital for rural microfinance companies with BBB and BB grade, and loans granted by a single shareholder shall not exceed 50% of such shareholder's actual capital contribution, in principle; rural microfinance companies with B grade or below shall not be engaged in shareholder loan (shareholder special loan is inclusive);
- ✓ The upper limit for the outstanding amount of financing from other institutions is (i) 50% of its net capital of a rural microfinance company with AAA grade; (ii) 40% of its net capital of a rural microfinance company with AA grade; and (iii) 30% of its net capital of a rural microfinance company with A grade; rural microfinance companies with BBB grade or below shall not be engaged in financing from other institutions.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATED TO ANTI-MONEY LAUNDERING

As at the Latest Practicable Date, microfinance companies are currently not subject to the laws and regulations of anti-money laundering except that they are currently required by the Circular of PBOC and CBRC regarding Policies on Village and Township Banks, Loan Companies, Rural Mutual Aid Institutions and Microcredit Companies (《中國人民銀行、中國銀行業監管理委員會關於村鎮銀行、貸款公司、農村資金互助社、小額貸款公司有關政策的通知》) (the “**Circular 137**”) to record and preserve documentations of cash deposit or withdrawal, cash remittance, cash negotiable instruments settlement or cash receipt and payment in any other form in a single transaction or aggregate transactions in one day with amount exceeding RMB200,000.

The Anti-money Laundering Law of the PRC (中華人民共和國反洗錢法) (the “AML” Law) promulgated on 31 October 2006 and effective since 1 January 2007, stipulates that financial institutions established within the territory of the PRC and special non-financial institutions which are required by relevant regulations to perform obligations of anti-money laundering shall comply with the anti-money laundering obligations. Under the AML Law, the Provisions on Anti-money Laundering of Financial Institutions (金融機構反洗錢規定) promulgated by the PBOC on 14 November 2006 and effective since 1 January 2007, and the Measures on Administration of Identification of Client and Preservation of Client Identities Information and Trading Records of Financial Institutions (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) jointly promulgated by PBOC, CBRC and CIRC on 21 June 2007 and effective since 1 August 2007, the scope of institutions which shall comply with anti-money laundering obligations includes financial institutions which are duly established in the PRC (which include commercial banks, policy banks, urban credit cooperatives, rural credit cooperatives, postal saving institutions, securities companies, futures brokerages companies, fund management companies, insurance companies, insurance asset management companies, trust companies, trust and investment companies, automotive financial companies, currency brokerage companies and other financial institutions that are determined and published by PBOC), as well as institutions engage in agiotage, payment and settlement, and fund sales shall follow the anti-money laundering laws and regulations, which scope does not, include microfinance companies.

In accordance with the AML Law, special non-financial institutions, the scope of which is determined by the competent administrative authority of anti-money laundering under the State Council jointly with the relevant departments of the State Council, shall follow the anti-money laundering rules and obligations. As at the Latest Practicable Date, the definition of special non-financial institutions that are required to comply with anti-money laundering obligations had not been finalized and microfinance companies had not been recognized as special non-financial institutions.

The scope of the special non-financial institutions which shall follow the anti-money laundering rules, the anti-money laundering rules, the anti-money laundering obligations which shall be complied with, and the implementation measures for supervision and administration shall be formulated by PBOC in conjunction with other competent authorities under the State Council. As at the Latest Practicable Date, PBOC has not yet formulated the scope of special non-financial institutions which are required to comply with anti-money laundering obligations.

REGULATORY OVERVIEW

PRC LAWS AND REGULATIONS RELATING TO STOCK FLOATATION AND LISTING ABROAD

Pursuant to Guidelines for Supervising the Application Documents and Examination Procedures for Overseas Stock Issuance and Listing by Joint Stock Limited Liability Companies (關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引) (the “**Supervising Guidelines of CSRC**”) promulgated on 20 December 2012 and with effect from 1 January 2013 by the CSRC, a company applying for overseas stock issuance and listing shall submit the application and required documents to CSRC. The company may upon receipt of the acceptance notice submit to overseas securities regulatory authority or stock exchange a preliminary application for stock issuance and listing and may upon receipt of the approval document for administrative licensing from CSRC submit to overseas securities regulatory authority or stock exchange a formal application for stock issuance and listing. The company shall, within 15 working days from the day of completion of overseas stock issuance and listing, submit a written report to CSRC stating relevant information concerning overseas stock issuance and listing. The approval documents of CSRC concerning overseas stock issuance and listing by the company shall be effective for a period of 12 months.

Pursuant to the Special Provisions of the State Council on Stock Floatation and Listing Abroad by Joint Stock Limited Liability Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) promulgated by the State Council of the PRC on 4 August 1994, in order to issue their stocks to given or non-given investors and list them abroad, joint stock limited companies should obtain the approval of the Securities Committee of the State Council (revoked by the State Council in 1998 with its responsibilities taken over by the CSRC).

LAWS AND REGULATIONS RELATED TO TAXATION

PRC EIT

The PRC EIT Law was enacted on 16 March 2007. Under the PRC EIT Law, which has taken effect on 1 January 2008, the PRC adopts a uniform income tax rate of 25% for all enterprises in the PRC (including foreign-invested enterprises) and revoke many of the tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises since 1 January 2008.

Under the PRC EIT Law, enterprises are classified as either resident enterprises or non-resident enterprises. A resident enterprise refers to an enterprise that is incorporated under the PRC law, or that is incorporated under the law of a jurisdiction outside the PRC with its de facto management organization located within the PRC. Pursuant to the Regulation on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法實施條例) (the “Implementation Rules”) with effect from 1 January 2008, “de facto management organization” is defined as the organization of an enterprise through which substantial and comprehensive management and control over the manufacturing and business operations, personnel, accounting and properties of the enterprise are exercised. Non-resident enterprise refers to an enterprise that is incorporated under the law of a jurisdiction outside the PRC with its de facto management organization located outside of the PRC, but which has either set up institutions or establishments in the PRC or it has income originating from the PRC without setting up an institution or establishment in the PRC.

REGULATORY OVERVIEW

Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例), which became effective from 1 January 1994 and was amended on 10 November 2008 (effective from 1 January 2009) and its implementation rules, all entities and individuals that provide taxable services, transfer intangible assets or sell real estate within the PRC are required to pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

VAT Tax

According to the Temporary Regulations on Value-added Tax (增值稅暫行條例), which was promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and was amended on November 10, 2008, the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則), which came into effect on December 25, 1993, and was last amended on October 28, 2011, and Notice on All-out Launch of Pilot Program of Levying Value-add in lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知), which was promulgated by Ministry of Finance and State Administration of Taxation on March 23, 2016 and implemented on May 1, 2016, a microfinance company shall pay value-added tax with the tax rate of 6%.

LAWS AND REGULATIONS RELATED TO LABOR PROTECTION REGULATIONS

Pursuant to the Labor Law of the PRC (中華人民共和國勞動法) and the Labor Contract Law of the PRC (中華人民共和國勞動合同法) which was with effect from 1 January 1995 (amended in 2009) and 1 January 2008 (amended in 2012), respectively, labor contracts shall be concluded if labor relationships are to be established between the employer and the employees. As required under the Regulation of Insurance for Labor Injury (工傷保險條例) which was promulgated on 27 April 2003, with effect from 1 January 2004 and amended in 2010, the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法) which was promulgated on December 14, 1994 and with effect from 1 January 1995, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) which was promulgated and with effect from 22 January 1999 and the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法) which was promulgated and with effect from March 19, 1999, enterprises are obliged to undertake registration at the competent authorities of social insurance and provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

Pursuant to the Social Insurance Law of PRC (中華人民共和國社會保險法) which was promulgated on 28 October 2010 and with effect from 1 July 2011, employees shall participate in basic pension insurance, basic medical insurance schemes and unemployment insurance. Basic pension, medical and unemployment insurance contributions shall be paid by both employers and employees. Employees shall also participate in work-related injury insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees.

REGULATORY OVERVIEW

An employer shall make registration with the local social insurance agency in accordance with the provisions of the Social Insurance Law of PRC. Moreover, an employer shall declare and make social insurance contributions in full and on time. Except for mandatory exceptions such as force majeure, social insurance may not be paid late, reduced or be exempted. If an employer fails to report the social insurance premium payable in accordance with the relevant regulations, the social insurance agency shall provisionally set the amount payable at 110% of the premium paid in the previous month. Once the employer has retroactively undertaken the reporting procedures, the social insurance agency shall settle the amount in accordance with the relevant regulations. If an employer does not go through the formalities for social insurance registration, the social insurance administration department shall order it to make rectification within the stipulated period. If rectification is not made within the stipulated period, the employer shall be imposed a fine from one to three times the amount of the social insurance premium that should be paid. The personnel directly in charge and other personnel subject to direct liability shall be imposed a fine of more than RMB500 and less than RMB3,000. Where an employer fails to make social insurance contributions in full and on time, the social insurance agency may order it to make the payment or make up the difference within the stipulated period and impose a daily late fee equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment.

Pursuant to the Regulations on Management of Housing Fund (住房公積金管理條例) which was effective from 3 April 1999 and amended in 2002, employers shall undertake registration at the competent administrative center of housing fund and then, upon the examination by such administrative center of housing fund, undergo the procedures of opening the account of housing provident fund for their employees at the relevant bank. Enterprises are also obliged to timely pay and deposit housing fund for their employees in full amount. Where an employer fails to undertake payment and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its staff and workers, the housing provident fund management center shall order it to go through the formalities within a prescribed time limit, and failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 and not more than RMB50,000 shall be imposed. Where an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the payment and deposit within a prescribed time limit, and if the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

LAWS AND REGULATIONS RELATED TO INTELLECTUAL PROPERTY RIGHTS

Trademarks

Pursuant to the Trademark Law of the People's Republic of China (中華人民共和國商標法) (the "Trademark Law"), which was revised on 30 August 2013 and with effect from 1 May 2014, natural person, legal entity and other social organization who need to obtain the right to exclusive use of a registered trademark for their production and management shall apply to Trademark Office. And the period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. Nevertheless, according to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. Furthermore, when a dispute arises after a party commits any of the acts infringing upon another party's exclusive right to use a registered trademark as enumerated in the Trademark Law, the parties involved shall settle the dispute through consultation. Where the

REGULATORY OVERVIEW

parties refuse to pursue consultation or where consultation has failed, the trademark registrant or any interested party may institute legal proceedings with the People's Court or ask the administrative authorities for industry and commerce to handle the matter upon determining that trademark infringement has taken place.

Pursuant to the Regulation for the Implementation of the Trademark Law of the People's Republic of China (中華人民共和國商標法實施條例) revised on 29 April 2014 and with effect from 1 May 2014, the Trademark Office shall examine the applications for trademark registration that it has accepted according to the relevant provisions of the Trademark Law and the present regulation, and grant preliminary approval by public announcement to those applications that meet the requirements and those applications that meet the requirements for registration of trademarks to be used on some of the designated commodities. If the application does not meet the requirements or the application for registration of a trademark to be used on some of the designated commodities does not meet the requirements, it shall be rejected, and the applicant shall be informed with an explanation of the reasons.

GENERAL

All laws (法律), administrative regulations (行政法規), administrative rules (部門規章), local regulations (地方性法規), and local administrative rules (地方政府規章) (the “**Administrative Regulations**”) under the Legislative Law are legally mandatory. All provisions referred to in this “Regulatory Overview” section are Administrative Regulations, save for the normative requirements (i) to (viii) as described in the paragraph below.

On the other hand, (i) the National Economy Industry Classification Catalogue, (ii) the Guiding Opinions, (iii) the Circular 137, (iv) the Supervising Guidelines of CSRC, (v) the Interim Measures and with reference to Certain Opinions on the Court's Trial for Lending Cases, (vi) the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases, (vii) the Notice on All-out Launch of Pilot Program of Levying Value-add in lieu of Business Tax referred to above, and (viii) those documents referred to under the sub-section headed “Regulatory Overview — Local Regulatory Policies in Jiangsu Province” are not Administrative Regulations under the Legislative Law and are not legally mandatory. They are normally issued by the relevant authorities to guide the relevant activities, subject to compliance with the Administrative Regulations.

Jiangsu Finance Office also confirms that the normative requirements under the sub-section headed “Regulatory Overview — Local Regulatory Policies in Jiangsu Province” are for guidance purpose and non-adherence to which (except for the provisions which are also stipulated in the Administrative Regulations) would result in adverse measures taken by the Jiangsu Finance Office or Yangzhou Finance Office against the microfinance company (such as discussion with their general manager, awarding a lower grading under the Microfinance Companies Regulatory Grading Scheme and, in extreme cases, termination of microfinance business operations).

According to the relevant guidelines issued by the Jiangsu Finance Office, certain extreme cases may result in termination of the business operations, for example: (i) providing microfinance services to security companies, pawn shops, investment financing companies and other entities involved in currency management, (ii) failing to adopt the Jinnong small loan central processing platform, and (iii) failing to comply with the supervision of the Finance Offices at all levels and the relevant administrative penalties imposed.

HISTORY AND DEVELOPMENT

MILESTONES OF OUR BUSINESS HISTORY

Our business history can be traced back to 2008 when our Predecessor Company was established to engage in the micro and small loan business in Hanjiang District, Yangzhou City, Jiangsu Province in China. To better facilitate customer service and coverage, we established a branch office in Hanjiang District in 2010 and since then we have been operating through both our headquarters and our branch office.

From the commencement of our operations in 2008, we were authorized to engage in micro and small loan business in the Hanjiang District of Yangzhou City, where both our headquarters and our branch office were located at the relevant time. Due to city re-zoning by the city government of Yangzhou City in November 2011, the location of our headquarters was re-zoned to Guangling District of Yangzhou City, and we were since authorized to conduct our micro and small loan business in both Hanjiang District and Guangling District. In March 2015, we were further authorized to conduct our micro and small loan business in all regions in Yangzhou City. According to Yangzhou Small Loan Industry Association, we were the first microfinance company in Yangzhou City that is authorized to conduct micro and small loan business across the city.

We have built a strong business presence in Yangzhou City through around eight years of operations. The following are significant milestones of our business development:

Year	Events
2008	Our Predecessor Company was established with an initial registered capital of RMB60 million and we commenced our business of providing micro and small loans to customers including AFR
2010	We established our branch office and increased our registered capital from RMB60 million to RMB163.6 million
2011	We increased our registered capital from RMB163.6 million to RMB260 million We were authorized to conduct our micro and small loan business in both Hanjiang District and Guangling District through our headquarters and our branch office
2012	Our Predecessor Company was converted into a joint stock limited liability company in the PRC and became our Company, and we changed our name to Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (揚州市廣陵區泰和農村小額貸款股份有限公司) since then We increased our registered capital from RMB260 million to RMB450 million Yangzhou Small Loan Industry Association was established in Yangzhou City and our founder, Mr. Bo Wanlin, was nominated as its founding chairman, and has been its chairman since then We were awarded a three stars standard (叁星級) of “File Management Model of Jiangsu Provincial Organizations and Business Units (江蘇省機關團體企事業單位檔案工作規範)”
2013	We were accredited an “A” grading pursuant to the Microfinance Companies Regulatory Grading Scheme in Jiangsu Province

HISTORY AND DEVELOPMENT

- 2015 We were accredited an “AA” grading pursuant to the Microfinance Companies Regulatory Grading Scheme in Jiangsu Province
- We were authorized by Yangzhou Finance Office to engage in rural micro and small loan business in all regions in Yangzhou City
- We were awarded First Honor (一等獎) for financial data reporting by the Yangzhou branch office of PBOC
- 2016 We were awarded “Top Ten Best Microfinance Companies (十佳明星小貸公司)” in Yangzhou City for five consecutive years (2012-2016)
- We were awarded “Advanced Enterprise in Services Industry (服務業先進企業)” by Yangzhou City Guangling District Committee of the Communist Party of China, Yangzhou City Guangling District People’s Government
- We were again awarded First Honor (一等獎) for financial data reporting by the Yangzhou branch office of PBOC

OUR CORPORATE DEVELOPMENT

The following describes the corporate history of our Company.

Our history can be traced back to the establishment of our Predecessor Company in the PRC on 12 November 2008 which was authorized to engage in rural micro and small loan business in the then Hanjiang District, Yangzhou City, Jiangsu Province in China. Among others, the founders of our Predecessor Company were Botai Group and Mr. Bo Nianbin (柏年斌). Other shareholders were Ms. Guo Lanxiu (郭蘭秀), Mr. Xue Xianyue (薛憲躍), Mr. Bu Chao (步超), Mr. Yu Detian (俞德田) and Mr. Gao Guoping (高國平). Ms. Guo Lanxiu, Mr. Bu Chao and Mr. Gao Guoping are former directors of the Company. Mr. Xue Xianyue and Mr. Yu Detian are former supervisors of the Company. Throughout the period from November 2008 to the Latest Practicable Date, Botai Group has been controlled by the Bo family. For details about Botai Group and Mr. Bo Nianbin, please refer to the section headed “Substantial Shareholders” and “Directors, Supervisors and Senior Management” in this prospectus, respectively. Our Predecessor Company had a registered capital of RMB60 million at the time of its establishment, which was fully paid-up by way of cash by the then shareholders with their respective own personal financial resources.

The following table sets forth the shareholding structure of our Predecessor Company upon its establishment:

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Botai Group	30,600	51.00	Controlled by the Bo Family	Controlled by the Bo Family

HISTORY AND DEVELOPMENT

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Mr. Bo Nianbin	23,000	38.32	Non-executive Director	Member of the Bo Family
Ms. Guo Lanxiu	6,000	10.00	Former director	None
Mr. Xue Xianyue	100	0.17	Former supervisor	None
Mr. Bu Chao	100	0.17	Former director	None
Mr. Yu Detian	100	0.17	Former supervisor	None
Mr. Gao Guoping	<u>100</u>	<u>0.17</u>	Former director	None
Total	<u><u>60,000</u></u>	<u><u>100</u></u>		

On 15 September 2010, the registered capital of our Company was increased from RMB60 million to RMB103.6 million. On 1 December 2010, the registered capital of our Company was further increased to RMB163.6 million and then to RMB260 million on 24 November 2011. The above capital increases had been fully paid up and were approved by Yangzhou Finance Office.

In addition, various equity transfers were conducted from 2008 to July 2012. The consideration of these equity transfers was determined with reference to the registered capital of our Company at the time of the relevant transfers. The consideration for these equity transfers was settled by way of cash. As advised by the PRC Legal Advisers, the above equity transfers were approved by the relevant PRC governmental authorities. The following table sets forth the shareholding structure of our Predecessor Company upon completion of the capital increase and equity transfers during the said period:

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Botai Group	155,150	59.67	Controlled by the Bo Family	Controlled by the Bo Family
Liantai Guangchang	60,000	23.07	Controlled by Botai Group and the Bo Family	Controlled by Botai Group and the Bo Family

HISTORY AND DEVELOPMENT

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Ms. Guo Lanxiu	7,700	2.96	Former director	None
Ms. Cao Songmei	4,000	1.54	Former director and former general manager	None
Ms. Cheng Jinlan	700	0.27	Former supervisor	None
Mr. Zuo Yuchao	2,000	0.77	Non-executive Director	None
Ms. Li Yunzhen	2,000	0.77	Former supervisor and former director	None
Ms. Zhou Yinqing	700	0.27	Executive Director	None
Ms. Bai Li	500	0.19	Executive Director and general manager	Member of the Bo Family
Ms. Chen Zhanqiu	500	0.19	Former director	None
Mr. Gao Guoping	100	0.04	Former director	None
Ms. Wang Zhengru	1,200	0.46	None	Member of the Bo Family
Ms. Bo Wanqin	400	0.15	None	Member of Bo Family Relatives
Ms. Bo Wannian	200	0.08	None	Member of Bo Family Relatives
Mr. XueXianyue	100	0.04	Former supervisor	None
Mr. Yu Detian	100	0.04	Former supervisor	None

HISTORY AND DEVELOPMENT

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
33 Independent Third Parties	24,650	9.48	None	None
Total	<u>260,000</u>	<u>100</u>		

On 30 July 2012, Yangzhou Finance Office approved the conversion of our Predecessor Company from a limited liability company into a joint stock limited liability company and the change of name from Yangzhou City Guangling District Taihe Rural Micro-finance Company Limited (揚州市廣陵區泰和農村小額貸款有限公司) to Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (揚州市廣陵區泰和農村小額貸款股份有限公司). On 8 August 2012, the aforementioned change of name was approved by our Shareholders. The share conversion was completed on 10 August 2012 and our Predecessor Company was duly converted into our Company.

On 3 September 2012, the registered capital of our Company was increased from RMB260 million to RMB450 million. The above capital increase had been approved by the Yangzhou Finance Office and fully paid up.

The following table sets forth the shareholding structure of our Company upon completion of the share conversion and capital increase:

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Botai Group	236,600	52.58	Controlled by the Bo Family	Controlled by the Bo Family
Liantai Guangchang	90,000	20.00	Controlled by Botai Group and the Bo Family	Controlled by Botai Group and the Bo Family
Ms. Guo Lanxiu	13,000	2.89	Former director	None
Ms. Cao Songmei	6,000	1.33	Former director and former general manager	None
Mr. Zuo Yuchao	2,600	0.58	Non-executive Director	None

HISTORY AND DEVELOPMENT

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Ms. Li Yunzhen	2,000	0.44	Former supervisor and former director	None
Mr. Gao Guoping	100	0.02	Former director	None
Ms. Wang Zhengru	1,200	0.27	None	Member of the Bo Family
Ms. Bo Wanqin	850	0.19	None	Member of the Bo Family Relatives
Ms. Bo Wannian	400	0.09	None	Member of the Bo Family Relatives
Ms. Bai Li	5,500	1.22	Executive Director and general manager	Member of the Bo Family
Ms. Chen Zhanqiu	2,000	0.44	Former director	None
Ms. Zhou Yinqing	700	0.16	Executive Director	None
Ms. Zheng Yao	700	0.16	None	Member of the Bo Family Relatives
Ms. Wang Ting	2,000	0.44	None	None
Ms. Wang Li	150	0.03	Former employee	None
Ms. Cheng Jinlan	700	0.16	Former supervisor	None
Ms. Xu Qiulan	40	0.01	Employee	None
Ms. Zhang Xuejuan	400	0.09	Employee	None
Ms. Ye Bei	100	0.02	Former employee	None
Mr. Zhao Congxiang	350	0.08	Employee	None
Mr. Jiyang	200	0.04	Former employee	None

HISTORY AND DEVELOPMENT

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Mr. Xue Xianyue	100	0.02	Former supervisor	None
Mr. Yu Detian	100	0.02	Former supervisor	None
85 Independent Third Parties	84,210	18.72	None	None
Total	<u>450,000</u>	<u>100</u>		

Various equity transfers were conducted after the above share conversion and capital increase between June 2013 and November 2013. The consideration of these equity transfers was determined with reference to the registered capital of our Company at the time of the relevant transfers. The consideration for these equity transfers was settled by way of cash. As advised by the PRC Legal Advisers, the above equity transfers were approved by the relevant PRC governmental authorities.

The following table sets forth the shareholding structure of our Company on 1 January 2014 being the commencement date of the Track Record Period:

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Botai Group	240,200	53.38	Controlled by the Bo family	Controlled by the Bo family
Liantai Guangchang	90,000	20.00	Controlled by Botai Group and the Bo Family	Controlled by Botai Group and the Bo family
Ms. Guo Lanxiu	13,000	2.89	Former director	None
Ms. Cao Songmei	4,000	0.89	Former director and former general manager	None
Mr. Zuo Yuchao	2,600	0.58	Non-executive Director	None
Ms. Li Yunzhen	2,100	0.46	Former supervisor and former director	None

HISTORY AND DEVELOPMENT

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Mr. Gao Guoping	100	0.02	Former director	None
Ms. Wang Zhengru	1,200	0.27	None	Member of the Bo Family
Ms. Bo Wanqin	850	0.19	None	Member of the Bo Family Relatives
Ms. Bo Wannian	400	0.09	None	Member of the Bo Family Relatives
Ms. Bai Li	5,500	1.22	Executive Director and general manager	Member of the Bo Family
Mr. Bu Chao	2,000	0.44	Former director	None
Ms. Zhou Yinqing	700	0.16	Executive Director	None
Ms. Zheng Yao	700	0.16	None	Member of the Bo Family Relatives
Ms. Wang Ting	2,000	0.44	None	None
Ms. Wang Li	150	0.03	Former employee	None
Ms. Cheng Jinlan	700	0.16	Former supervisor	None
Ms. Xu Qiulan	40	0.01	Employee	None
Ms. Zhang Xuejuan	400	0.09	Employee	None
Ms. Ye Bei	100	0.02	Former employee	None
Mr. Zhao Congxiang	350	0.08	Employee	None
Mr. Ji Yang	200	0.04	Former employee	None
Mr. Xue Xianyue	100	0.02	Former supervisor	None
Mr. Yu Detian	100	0.02	Former supervisor	None
80 Independent Third Parties	82,510	18.34	None	None
Total	<u>450,000</u>	<u>100</u>		

HISTORY AND DEVELOPMENT

Pursuant to a series of equity transfer agreements dated 20 November 2014, the shareholders of the Company was reduced to seven persons. The consideration of such equity transfers was determined with reference to the registered capital of our Company at the time of relevant transfers. The consideration for the equity transfers was settled by way of cash. As advised by the PRC Legal Advisers, the above equity transfers were approved by the relevant PRC governmental authorities.

The following table sets forth the shareholding structure of our Company upon completion of the above equity transfers and up to the Latest Practicable Date:

Name of shareholders	Capital contribution (RMB)('000)	Approximate shareholding percentage (%)	Relationship with our Company (other than being a shareholder)	Relationship with other connected persons
Botai Group	240,200	53.38	Controlled by Bo family	Controlled by the Bo family
Liantai Guangchang	189,900	42.20	Controlled by Botai Group and the Bo family	Controlled by Botai Group and the Bo family
Ms. Bai Li	10,000	2.22	Executive Director and general manager	Member of the Bo Family
Ms. Lv Shuyi	4,500	1.00	None	None
Ms. Zuo Yuchao	2,600	0.58	Non-executive Director	None
Ms. Li Yunzhen	2,100	0.47	Former supervisor and former director	None
Ms. Zhou Yinqing	<u>700</u>	<u>0.15</u>	Executive Director	None
Total	<u>450,000</u>	<u>100</u>		

As advised by the PRC Legal Advisers, the establishment and each change in the shareholding structure of our Company was legally and properly completed and complied with all applicable laws and regulations of the PRC, in all material aspects, and as at the Latest Practicable Date, we have obtained all the necessary approvals, permits, licenses, authorizations and consents from the relevant PRC governmental authorities with respect to such changes in all material aspects.

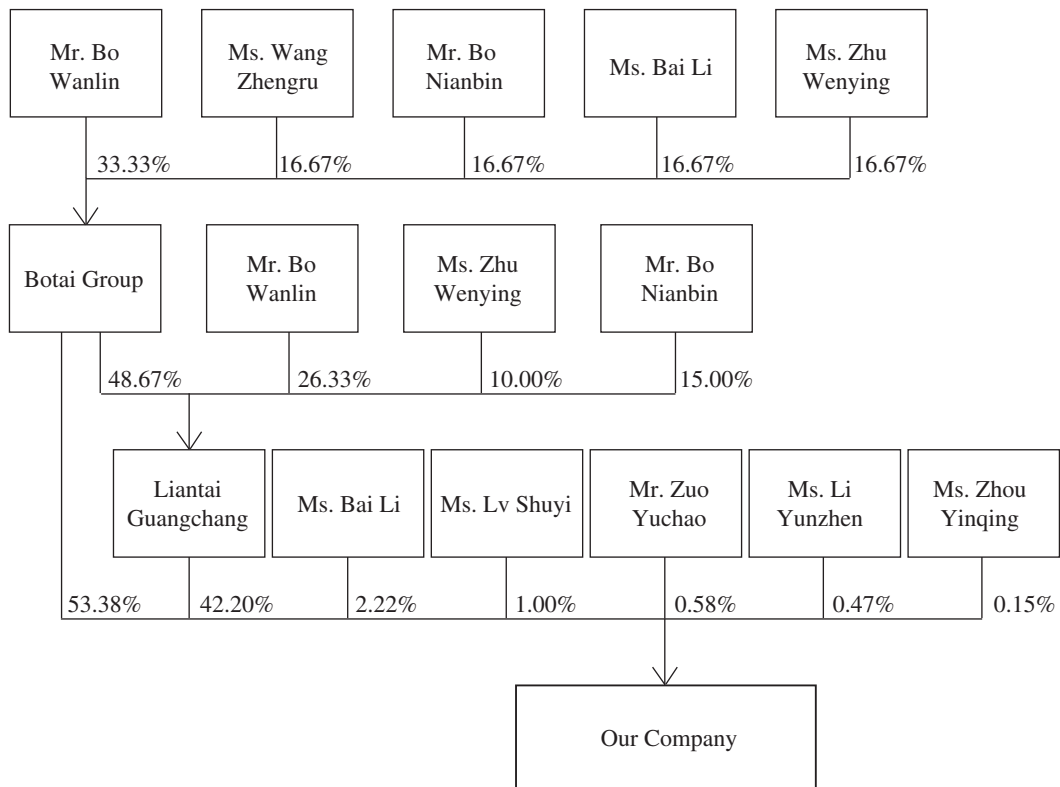
HISTORY AND DEVELOPMENT

OUR CORPORATE STRUCTURE

Prior to the Public Offer

As at the Latest Practicable Date, our Company had issued 450,000,000 Domestic Shares and had a registered capital of RMB450 million.

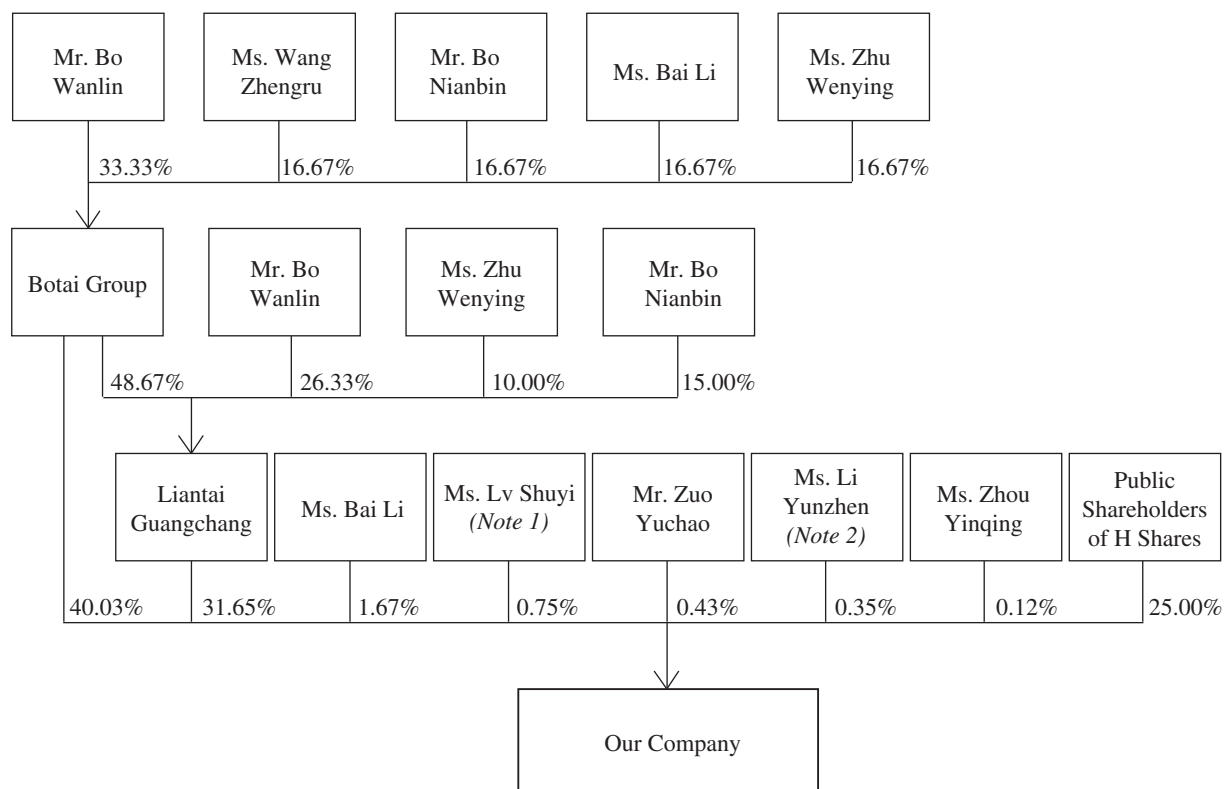
Our Company did not undergo any reorganization for the purpose of Listing prior to completion of the Public Offer. The following diagram sets forth the shareholding and corporate structure of our Company as at the Latest Practicable Date, immediately prior to completion of the Public Offer:



HISTORY AND DEVELOPMENT

Immediately following completion of the Public Offer

The following diagram sets forth the shareholding and corporate structure of our Company immediately following completion of the Public Offer, assuming no change in shareholding by each of our Shareholders listed below subsequent to the Latest Practicable Date:



Notes:

1. Ms. Lv Shuyi has no relationship with our Company (other than being a Shareholder). Thus, her shareholdings will be counted as public float under the GEM Listing Rules.
2. Ms. Li Yunzhen was a former supervisor of the Company until 15 January 2015 and a former director of the Company until 6 May 2013. Besides that Ms. Li has no relationship with our Company (other than being a Shareholder). Thus, her shareholdings will be counted as public float under the GEM Listing Rules.

BUSINESS

OVERVIEW

We were the first rural microfinance company in Yangzhou City authorized by Jiangsu Finance Office to conduct micro and small loan business across Yangzhou City according to Yangzhou Small Loan Industry Association. We were also the second largest licensed microfinance company in Yangzhou City in 2015 in terms of registered capital according to the Ipsos Report. In terms of revenue and outstanding loan balance, we were the largest microfinance company in Yangzhou in 2015 with a market share of approximately 11.12% and 6.23% respectively, according to the Ipsos Report. In this connection, the amount of small loans granted in Yangzhou City in 2015 totaled to approximately RMB9.6 billion, representing approximately 9.0% of the total amount of small loans granted in Jiangsu Province in the same year of approximately RMB106.1 billion according to the Ipsos Report.

We are dedicated to serving SMEs, microenterprises and individual proprietors in Yangzhou City, by offering flexible, accessible and efficient micro and small loan services aiming to best match our customers' interim business financing needs. Our established local presence, transparent business practice and local reputation have earned us various recognitions. We have been accredited an "A" grading since 24 October 2013 and subsequently an "AA" grading since 5 February 2015 by Jiangsu Finance Office pursuant to the Microfinance Companies Regulatory Grading Scheme in recognition of our quality micro and small loan business. The major assessment criteria under the Microfinance Companies Regulatory Grading Scheme, being those with more prominent weighting in terms of scoring points, included regulatory compliance, extent of connected transactions, internal control and risk control, and corporate governance. For further details, please refer to the section headed "Regulatory Overview — Regulations of the Microfinance Industry — Local Regulatory Policies in Jiangsu Province — Requirements for a rural microfinance company to conduct business" in this prospectus. We have also been awarded "Top Ten Best Microfinance Companies (十佳明星小貸公司)" in Yangzhou City by Yangzhou Finance Office for five consecutive years from 2012 to 2016. Our Chairman and founder, Mr. Bo Wanlin, was the founding chairman of Yangzhou Small Loan Industry Association, and has been the chairman of Yangzhou Small Loan Industry Association since its establishment in 2012. We believe these accreditations and recognitions enable us to be recognized among customers, local business community, market regulators and our local microfinance industry as a high quality microfinance company in Yangzhou City.

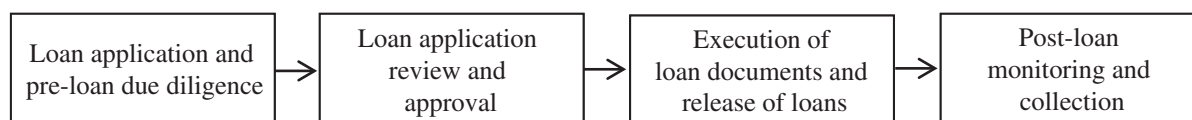
We operate through our headquarters and our branch office. From the commencement of our operations in 2008, we were authorized to engage in rural micro and small loan business in the Hanjiang District of Yangzhou City, where both our headquarters and our branch office were then located. Due to city re-zoning by the city government of Yangzhou in November 2011, the location of our headquarters was re-zoned to the Guangling District of Yangzhou City, and we were since authorized to conduct our micro and small loan business in both Hanjiang District and Guangling District. In March 2015, we were further authorized to conduct our micro and small loan business in all regions in Yangzhou City. According to Yangzhou Small Loan Industry Association, we were the first microfinance company in Yangzhou City authorized to conduct micro and small loan business across the city.

We have a relatively broad customer base comprising primarily SMEs, microenterprises and individual proprietors who are engaged in a variety of industries, a majority of which are also under the PBOC classification of AFR (三農) (that is an individual or organization engaged in agricultural business and/or rural development activities and/or residing in rural areas). During the Track Record Period, we granted loans to our customers in principal amounts ranging from RMB12,000 to RMB3,000,000, which were either backed by corporate and/or personal guarantees and/or secured

BUSINESS

with collaterals, with maturity generally within 12 months. Repayment terms of our loans are generally structured with monthly interest payments and repayment of principal upon maturity of the loans, and occasionally we may accept repayments by monthly installments of part principal plus interest. We consider our relatively small individual loan size coupled with the diversity of industries and businesses of our customers serve to alleviate our risk of concentration and position us to better withstand periodic business and economic cycles of different industries.

Our business model can be summarily illustrated by the following flow chart:



During the Track Record Period, our income comprised principally interest income generated from our business of provision of micro and small loans, where loans receivable from our customers represented a substantial component of our total assets. During the Track Record Period, we financed our business mainly through our own registered capital, internally generated funds, bank borrowings and, from time to time, short-term borrowings from other institutions.

The following table sets forth certain of our key financial and operational indicators:

	Year ended or as at 31 December		
	2014	2015	2016
Net interest income (<i>RMB'000</i>), of which:	96,674	94,505	73,899
-Interest income (<i>RMB'000</i>)	98,107	95,947	74,495
-Interest expense (<i>RMB'000</i>)	(1,433)	(1,442)	(596)
Profit after tax (<i>RMB'000</i>)	67,493	61,402	40,480
Total assets (<i>RMB'000</i>), of which:	536,675	610,659	597,951
-Loans receivable less allowance for impairment losses (<i>RMB'000</i>)	504,255	597,092	580,544
Total equity (<i>RMB'000</i>), of which:	523,900	585,302	580,783
-Paid-up capital (<i>RMB'000</i>)	450,000	450,000	450,000
Total amount of new loans granted during the year (<i>RMB'000</i>)	776,420	905,429	679,025
Number of new loans granted during the year	534	598	463
Average term of new loans (<i>days</i>)	279	310	316
Average loan repayment period per loan (<i>days</i>)	258	250	296
Weighted average interest rate per annum ⁽¹⁾	17.9%	15.0%	13.4%
Effective interest rate per annum ⁽²⁾	17.9%	16.5%	12.7%

BUSINESS

	Year ended or as at 31 December		
	2014	2015	2016
Outstanding amount of loans under extension as at the end of the year (RMB'000)	70,029	35,355	6,736
Extended loan ratio ⁽³⁾	13.2%	5.7%	1.1%
Outstanding amount of overdue loans as at the end of the year (RMB'000) ⁽⁴⁾	14,258	46,785	10,069
Overdue loan ratio ⁽⁵⁾	2.7%	7.6%	1.7%
Outstanding amount of impaired loans as at the end of the year (RMB'000) ⁽⁶⁾	17,884	13,298	9,981
Impaired loan ratio ⁽⁷⁾	3.4%	2.1%	1.7%

Notes:

- (1) The weighted average interest rate per annum refers to the weighted average of the interest rates of new loans granted during the year.
- (2) The effective interest rate per annum is calculated by dividing the interest income derived from our loans (not including any default interest) by the average daily balance of our loans receivable for the year indicated.
- (3) The extended loan ratio is calculated by dividing the outstanding amount of loans under extension as at the dates indicated by the total outstanding loans receivable as at the dates indicated.
- (4) Overdue loans refer to loans with whole or part of the principal and/or interest overdue for one day or more.
- (5) The overdue loan ratio is calculated by dividing the outstanding amount of overdue loans as at the dates indicated by the total outstanding loans receivable as at the dates indicated.
- (6) Impaired loans refer to loans identified as “individually impaired” in Note 28(a) to our financial statements included in the Accountants’ Report in Appendix I to this prospectus. As at 31 December 2014, 2015 and 2016, our impaired loans included “substandard”, “doubtful” and “loss” loans under the “Five-Tier Principle” loan classification approach pursuant to the Guideline for Loan Credit Risk Classification (貸款風險分類指引).
- (7) The impaired loan ratio is calculated by dividing the outstanding amount of impaired loans as at the dates indicated by the total outstanding loans receivable as at the dates indicated.

We adhere to our policy of “separation of due diligence and approval (審貸分離)” for risk management. We have put in place a comprehensive risk management system encompassing pre-loan due diligence, loan application review and approval, and post-loan monitoring. A key feature of our risk management system is the incorporation of certain key compliance monitoring functions, such as identification of connected loan applicants and/or guarantors, monitoring of regulatory compliance benchmarks, and control of loan application, approval and post-loan monitoring procedures into our office automation system (OA system) to facilitate automatic alert and, where appropriate, blockage of a loan approval process to safeguard continuous regulatory compliance. For details of our OA system, please refer to the section headed “Risk Management — Our OA System” in this prospectus.

BUSINESS

OUR COMPETITIVE STRENGTHS

We are a well-established microfinance company in Yangzhou City authorized to offer micro and small loan services across the city.

Established and in operation since 2008, we were the first rural microfinance company in Yangzhou City authorized by the Jiangsu Finance Office according to Yangzhou Small Loan Industry Association. Our authorized geographical coverage has expanded from the single region of Hanjiang District at our inception to all regions in Yangzhou City since March 2015.

Since our inception, we have been focusing on serving the business financing needs of SMEs, microenterprises and individual proprietors, enabling us to gain valuable local understanding of our target customers' financing needs as well as the business and credit environment they face. It also enables us to build a strong local brand reputation as a preferred partner for, as well as long-term and enduring relationships with, our customers.

We believe that our in-depth knowledge of local market and credit environment owing to our long-term commitment in serving the Yangzhou market has enabled us to identify and build a solid customer base. For the years ended 31 December 2014, 2015 and 2016, we granted loans to 350, 499 and 381 customers. Our customers comprise primarily SMEs, microenterprises and individual proprietors who are engaged in a variety of industries, including manufacturing, construction, wholesale and retail, transportation, warehousing and postal and other industries. During the Track Record Period, we granted loans in principal amounts ranging from RMB12,000 to RMB3,000,000, with an average loan size of approximately RMB1.5 million, RMB1.5 million and RMB1.5 million for the years ended 31 December 2014, 2015 and 2016, respectively, and had outstanding loans receivable of approximately RMB528.6 million, RMB619.5 million and RMB599.4 million as at 31 December 2014, 2015 and 2016, respectively. We consider our relatively small individual loan size coupled with the diversity of industries and businesses of our customers serve to alleviate our risk of concentration and position us to better withstand periodic business and economic cycles of different industries.

In recognition of our proven track record, we were awarded “Top Ten Best Microfinance Companies (十佳明星小貸公司)” in Yangzhou City by Yangzhou Finance Office for five consecutive years from 2012 to 2016 and a three stars standard (叁星級) of “File Management Model of Jiangsu Provincial Organizations and Business Units (江蘇省機關團體企事業單位檔案工作規範)” by Jiangsu Provincial Archives Administration in 2012.

We have a strong capital base and a high regulatory grading.

As a microfinance company, sufficient liquidity and ability to obtain debt financing when needed are among the crucial factors supporting our business development. Pursuant to the relevant laws and regulations, the maximum amount of debt financing eligible for a microfinance company is determined with reference to its net capital and its accredited grading under the Microfinance Companies Regulatory Grading Scheme. More particularly, according to the Working Opinions on Supporting Jiangsu Rural Microfinance Companies with High Grades and Limiting the Jiangsu Rural

BUSINESS

Microfinance Companies with Low Grades (Provisional) (江蘇省農村小額貸款公司扶優限劣工作意見(暫行)) issued by the Jiangsu Finance Office, a microfinance company with an “AA” or “AAA” grading is eligible for a maximum debt financing of 100% of its net capital, as compared to the lower maximum of 50% of net capital allowed for microfinance companies with “BBB”, “BB” or “B” grading. A microfinance company with a stronger capital base and higher grading therefore enjoys more flexibility to leverage up and expand its loan portfolio, which in turn enhances its capacity to achieve higher profitability and better return on equity.

We have a registered capital of RMB450 million, which according to the Ipsos Report ranked us the second largest licensed microfinance company in Yangzhou City in 2015 in terms of registered capital. In addition, we have been accredited an “A” grading since 24 October 2013 and subsequently an “AA” grading since 5 February 2015 by the Jiangsu Finance Office pursuant to the Microfinance Companies Regulatory Grading Scheme. We believe our strong capital base coupled with our accredited grading have provided, and will continue to provide, us with the flexibility and competitive edge to excel in our core business and support our business growth going forward.

We have a standardized and centralized risk management system.

We believe an effective risk management system is critical to the success of a financing business, particularly for microfinance companies that are more often than not focused on serving SMEs, microenterprises and individual proprietors who typically do not have the established business scale and track record or sufficient and acceptable collaterals to obtain traditional bank financing.

Through our extensive experience in serving the interim financing needs of SMEs, microenterprises and individual proprietors, we have developed a standardized and centralized risk management system, which allows us to offer flexible and efficient financing services to our customers, while safeguarding the integrity of our risk controls. To enhance the efficiency of our operations and strengthen our risk management capacity, we have launched an OA system that was customized to our operations in 2014, and since March 2015 have implemented multiple risk management functionality upgrades to our OA system to facilitate continuous on-line monitoring of our loan application and approval process, compliance status with key regulatory benchmarks and post-loan monitoring.

In addition, we adhere to our policy of “separation of due diligence and approval (審貸分離)”, under which pre-loan due diligence is conducted by our account managers and our risk management department separately and independently, and loan application review and approval process is performed by our general manager or the loan review committee, depending on the loan amount. We believe that this “separation of due diligence and approval” policy has safeguarded the effectiveness of our risk management and risk control efforts.

With the implementation and continued improvement of our risk management system, our impaired loan ratio remained at a relatively low level of approximately 3.4%, 2.1% and 1.7% as at 31 December 2014, 2015 and 2016, respectively.

BUSINESS

We have the ability to offer flexible, accessible and efficient financing services to our customers.

The rapidly growing PRC economy for the past 30 years has led to expansion of businesses and various commercial activities and thus increase the demand for alternative financing by SMEs, microenterprises and individual proprietors. However, the significant financing needs of these SMEs, microenterprises and individual proprietors have been largely underserved as they generally lack the established business scale or sufficient and acceptable collaterals to obtain traditional bank financing. Our micro and small loan business bridges this underserving gap by providing accessible and efficient financing services for SMEs, microenterprises and individual proprietors to satisfy their interim business financing needs. We provide door-to-door, flexible, accessible and efficient services from customers identification to drawdown of loan. Our established and standardized loan application review and approval process coupled with our efficient management structure enables us to facilitate expedient loan approval and drawdown. Subject to our pre-loan due diligence, we offer a variety of loan products, which may be unsecured or secured by guarantees and/or collaterals and may take the form of term loans or loans under credit facility. The term of loans we offer varies on a case-by-case basis but is generally within 12 months, and upon request from customers, we generally accept early repayment of loan principals to allow our customers the added flexibility in their cash flow management and reducing their funding costs. We believe our micro and small loan services are considerably more accessible than traditional bank borrowings and more aligned with the ad hoc, interim nature of financing needs more customarily faced by SMEs, microenterprises and individual proprietors in China.

We have an experienced management team which possesses an in-depth industry knowledge that ensures the successful development of our business.

Our success is attributable to our experienced and professional management team, including our Directors and senior management. Our chairman and founder, Mr. Bo Wanlin, was the founding chairman of Yangzhou Small Loan Industry Association, and has been the chairman of Yangzhou Small Loan Industry Association since its establishment in 2012. Mr. Bo Wanlin was also awarded the “Top Ten Economic Figures (十大經濟新聞人物)” in Yangzhou City in 2009. A majority of the members of our senior management team have been working in the finance field such as banking, internal control, and accounting for over eight years. Some of our senior management also possess working experience in well-reputed national or multinational financial institutions and audit firm, who bring in valuable industry awareness and risk management skills to enhance our management capability.

Our account managers play a key role in identification of potential customers, pre-loan due diligence and post-loan monitoring. A majority of our account managers possessed previous experience in the microfinance industry before joining us. We have adopted a performance-based compensation scheme with indicators that are linked to the measure of productivity as well as the ability of our account managers to manage credit risk, which incentivizes our account managers to provide quality services to our customers and manage credit risk prudently. We believe that the experience and in-depth industry knowledge of our management and dedication of our motivated employees will continue to contribute to our success.

BUSINESS

OUR BUSINESS STRATEGIES

Our goal is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, microenterprises and individual proprietors. Building on our competitive strengths and with the injection of further capital from our Listing, our capital base will be further enlarged to support the intended expansion of our micro and small loan business. We intend to achieve our goal by adopting the following business strategies:

Expand our customer base through further penetration in existing markets and expansion of our geographical coverage.

We believe that the financing needs of SMEs, microenterprises and individual proprietors have been largely underserved in China's banking system. Therefore, we intend to expand our customer base by enhancing our market penetration in our existing markets in Yangzhou City and in a longer run, strategically expanding our geographical coverage to other major cities in Jiangsu Province (subject to obtaining requisite regulatory approvals). Through the expansion of our customer base, we will be able to expand our operation scale, realize better economic efficiency, and further alleviate concentration risk. We plan to expand our customer base by the following strategies:

- At present, we have offered micro and small loan services to customers in Yangzhou City, including Hanjiang District and Guangling District, which are our major markets, and Jiangdu District, Yizheng (county-level city), Gaoyou (county-level city) and Baoying (county-level city), which we gradually tapped into after March 2015. We plan to leverage our in-depth knowledge of local market and credit environment in Hanjiang District and Guangling District of Yangzhou City to enhance our market penetration in other districts of Yangzhou City, particularly Jiangdu District, Yizheng (county-level city), Gaoyou (county-level city) and Baoying (county-level city). In addition, we plan to establish new branch offices in these markets to extend our reach to customers, as and when appropriate.
- In the long run, depending on market conditions and our ability to obtain requisite regulatory approvals and to recruit qualified local staff, we also plan to expand our coverage to other major cities in Jiangsu Province, where we consider the demand for micro and small loan services is high, by establishing subsidiaries/branch companies. In this connection, we intend to proceed cautiously and prudently and will endeavor to acquire sufficient knowledge on local business and credit market as well as regulatory compliance environment before venturing into such new geographical markets.

We believe that the continued expansion of our geographical coverage not only can alleviate local economic risk, but also can serve a strategic purpose of fostering our brand name and positioning us as a reliable partner among SMEs, microenterprises and individual proprietors.

Expand and strengthen our back office operational supports.

To implement our business expansion plan, we will expand our front and back office operational supports in the following key aspects:

- We plan to recruit appropriate experienced employees to support various operational functions, including (without limitation) customer services, risk management, compliance as well as finance and accounting to accommodate our business expansion.

BUSINESS

- We intend to continue upgrading our OA system, as and when required, to improve our operational efficiency and effectively control operational risk arising from our business growth; and to effectively control our compliance risk by responding to any changes of applicable laws, rules and regulations, from time to time.

OUR BUSINESS

We are a rural microfinance company in Yangzhou City focused on serving the business financing needs of SMEs, microenterprises and individual proprietors. We operate through our headquarters and our branch office, both located in Yangzhou City. From the commencement of our operations in 2008, we were authorized to engage in micro and small loan business in the Hanjiang District of Yangzhou City, where both our headquarters and our branch office were then located. Due to city re-zoning by the city government of Yangzhou in November 2011, the location of our headquarters was re-zoned to the Guangling District of Yangzhou City, and we were since authorized to conduct our micro and small loan business in both Hanjiang District and Guangling District. In March 2015, we were further authorized to conduct our micro and small loan business in all regions in Yangzhou City.

Through our expedient yet comprehensive pre-loan due diligence and loan application review and approval process, we offer flexible, accessible and efficient micro and small loan services aiming to best match our customers' interim business financing needs.

We classify our loan products into the following categories:

- Unsecured loans: loans based solely on borrowers' credit
- Guaranteed loans: loans backed by guarantees but not secured by any collateral
- Collateralized loans: loans secured by collaterals, primarily land use rights and ownership rights in buildings, and occasionally machinery, equipment and motor vehicles. We require registration of our security interest in all registerable collaterals with relevant government authority(ies) prior to any loan drawdown

We may offer loans to customers taking any one of the above forms or a combination of guaranteed and collateralized loans depending on, among other things, the size of the loan and the risk profile of the borrower.

During the Track Record Period, we offered loans principally under two formats, namely (i) term loans and (ii) loans under credit facility.

- **Term Loans:** A term loan provides a customer a fixed amount of short-term loan, with maturity generally within 12 months, at an agreed interest rate within a short period after execution of the loan documents.
- **Loans under Credit Facility:** A credit facility allows a customer to apply for and subject to our review and approval, to drawdown short-term loan(s) in one or more than one tranche within our pre-approved credit limit. The term of credit facility varies but is generally up

BUSINESS

to two years. Occasionally, we had, depending on the circumstances, granted credit facilities with terms of three years upon request of customers. In determining the terms and duration of the credit facility, we generally take into account a variety of factors, such as a loan applicant's financial conditions, its business operations, the industry in which it operates, the intended use of funds and other relevant factors to evaluate the applicant's repayment ability and willingness to repay. In a typical credit facility transaction, save for the first drawdown of loan which typically occurs within a short period following approval of the credit facility, any subsequent drawdown proposed to be made by a customer, despite within our pre-approved credit limit, is subject to our review and approval as if it were a new loan application. A customer has to enter into a separate term loan agreement, which contains detailed terms of each loan including principal loan amount, interest rate and term of loan, for each loan drawdown under the credit facility. The term of loans granted under the credit facilities varies but is generally within 12 months. We generally offer credit facilities to customers who anticipate periodic short-term business financing needs, mainly to reduce the administration work and additional costs of having repeated collateral registration. We currently do not have any loans granted under credit facility that is not backed by any guarantees nor secured by any collaterals. During the Track Record Period, substantially all of our collateralized loans were granted under credit facilities. As at 31 December 2014, 2015 and 2016, the aggregate principal amount of credit facilities granted was approximately RMB328.5 million, RMB231.7 million and RMB205.3 million, amongst which approximately RMB266.8 million, RMB173.4 million and RMB133.8 million had been drawn down and approximately RMB61.7 million, RMB58.3 million and RMB71.5 million remained unutilized as at the respective dates.

Our Interest Rate

Our revenue comprised principally interest income which arises from interest we charged on our micro and small loans extended to our customers. We generally adopt an initial standard rate which is benchmarked to the statutory and guiding interest rate ceilings stipulated under applicable regulatory rules, regulations and guidance (i.e. currently, four times of the PBOC Benchmark Interest Rate). Depending on factors such as the background, credit history and financial status of the loan applicant, whether any securities are provided, the value of collaterals, the quality of the guarantee, and the intended use and term of the loan, and upon request from and negotiations with a loan applicant, we may agree to offer an interest rate lower than that of our standard rate on a case-by-case basis. We do not charge additional administration fees or handling charges besides interest payments. For the years ended 31 December 2014, 2015 and 2016, our weighted average interest rate per annum was approximately 17.9%, 15.0% and 13.4%, respectively, and our effective interest rate per annum was approximately 17.9%, 16.5% and 12.7%, respectively. We generally require interest payments to be settled on a monthly basis during the term of the loan.

Historically, we did not comply with the guiding interest rate ceiling(s) stipulated under certain guidelines issued by Jiangsu Finance Office. However, we have been in compliance with all applicable statutory and guiding interest rate ceilings stipulated in regulatory rules, regulations and guidelines since the year 2015. For further details of the said non-compliance incident, please refer to the paragraph headed "Approval, Compliance and Legal Proceedings — Historical non-compliance with relevant guidelines specific to microfinance companies" in this section.

BUSINESS

OUR LOAN PORTFOLIO

During the Track Record Period, loans offered to and undertaken by our customers generally ranged from RMB12,000 to RMB3,000,000, which are either backed by corporate and/or personal guarantees and/or secured with collaterals, with maturity generally within 12 months. Repayment terms of our loans are generally structured with monthly interest payments and repayment of principal upon maturity of the loans. Recently, we have also accepted repayments by monthly installments of part principal plus interest occasionally to allow our customers the added flexibility in their cash flow management and reducing their funding costs.

The following table sets forth certain of our key operational statistics during the Track Record Period:

	Year ended or as at 31 December		
	2014	2015	2016
Total number of outstanding loans as at the end of the year	427	427	424
Total outstanding loans receivable as at the end of the year (<i>RMB'000</i>)	528,551	619,501	599,381
Total outstanding loans receivable less allowance for impairment losses as at the end of the year (<i>RMB'000</i>)	504,255	597,092	580,544
Total amount of new loans granted during the year (<i>RMB'000</i>)	776,420	905,429	679,025
Number of new loans granted during the year	534	598	463
Total amount of new loans granted to connected persons during the year (<i>RMB'000</i>) ⁽¹⁾	900	—	—
Outstanding amount of loans to connected persons as at the end of the year (<i>RMB'000</i>)	—	—	—
Total amount of new loans guaranteed by connected persons during the year (<i>RMB'000</i>) ⁽¹⁾	10,960	—	—
Outstanding amount of loans guaranteed by connected persons as at the end of the year (<i>RMB'000</i>)	—	—	—
Average term of new loans (<i>days</i>)	279	310	316
Average loan size (<i>RMB'000</i>)	1,454	1,514	1,467
Range of loan size (<i>RMB'000</i>)	20 to 3,000	20 to 3,000	12 to 3,000
Average loan repayment period per loan (<i>days</i>)	258	250	296
Weighted average interest rate per annum ⁽²⁾	17.9%	15.0%	13.4%
Effective interest rate per annum ⁽³⁾	17.9%	16.5%	12.7%
Net interest margin during the year ⁽⁴⁾	18.9%	16.3%	12.6%
Net profit margin during the year	68.8%	64.0%	54.3%
Total amount of loans granted with term extension during the year (<i>RMB'000</i>)	124,780	15,750	3,000

BUSINESS

	Year ended or as at 31 December		
	2014	2015	2016
Outstanding amount of loans under extension as at the end of the year (RMB'000)	70,029	35,355	6,736
Extended loan ratio ⁽⁵⁾	13.2%	5.7%	1.1%
Loan rejection ratio during the year ⁽⁶⁾	3.4%	5.1%	6.7%
Outstanding amount of overdue loans as at the end of the year (RMB'000) ⁽⁷⁾	14,258	46,785	10,069
Overdue loan ratio ⁽⁸⁾	2.7%	7.6%	1.7%
Outstanding amount of impaired loans as at the end of the year (RMB'000) ⁽⁹⁾	17,884	13,298	9,981
Impaired loan ratio ⁽¹⁰⁾	3.4%	2.1%	1.7%
Loan-to-value ratio of collateralized loans ⁽¹¹⁾	9.7%-100.0% ⁽¹²⁾	10.6%-78.9%	10.6%-74.3%

Notes:

- (1) We ceased granting loans to connected persons or loans guaranteed by connected persons since 2015. During the year ended 31 December 2014, new loans granted to connected persons and new loans guaranteed by connected persons represented approximately 0.1% and 1.4%, respectively, of the total amount of our new loans granted during the year. These loans were (i) subject to the same pre-loan due diligence and loan application review and approval process as those granted to or guaranteed by Independent Third Parties; (ii) granted under terms comparable with loans granted to or guaranteed by Independent Third Parties; and (iii) repaid on or before their respective maturity dates. As confirmed by our PRC Legal Advisers, the grant of these loans did not contravene any applicable PRC laws, rules and regulations.
- (2) The weighted average interest rate per annum refers to the weighted average of the interest rates of new loans granted during the year.
- (3) The effective interest rate per annum is calculated by dividing the interest income derived from our loans (not including any default interest) by the average daily balance of our loans receivable for the year indicated.
- (4) Net interest margin is calculated by dividing our net interest income by the average daily balance of our loans receivable for the year indicated.
- (5) The extended loan ratio is calculated by dividing the outstanding amount of loans under extension as at the dates indicated by the total outstanding loans receivable as at the dates indicated.
- (6) Loan rejection ratio is calculated by dividing the number of loan applications rejected during the year by the total number of loan applications during the year.
- (7) Overdue loans refer to loans with whole or part of the principal and/or interest overdue for one day or more.
- (8) The overdue loan ratio is calculated by dividing the outstanding amount of overdue loans as at the dates indicated by the total outstanding loans receivable as at the dates indicated.
- (9) Impaired loans refer to the loans identified as “individually impaired” in Note 28(a) to our financial statements included in the Accountants’ Report in Appendix I to this prospectus. As at 31 December 2014, 2015 and 2016, our impaired loans included “substandard”, “doubtful” and “loss” loans under the “Five-Tier Principle” loan classification approach pursuant to the Guideline for Loan Credit Risk Classification (貸款風險分類指引).

BUSINESS

- (10) The impaired loan ratio is calculated by dividing the outstanding amount of impaired loans as at the dates indicated by the total outstanding loans receivable as at the dates indicated.
- (11) The loan-to-value ratio of collateralized loans (with and without guarantee) is calculated by dividing the collateral value supported by the relevant valuation reports by the amount of the collateralized loans and/or maximum amount of credit facility granted. Please refer to the paragraph headed “Our Loan Portfolio — (b) Loan portfolio by security — Collateralized loans” in this section for further details of our policies regarding loan-to-value ratio.
- (12) The high end of our loan-to-value ratio of 100% for the year ended 31 December 2014 was arising from an isolated collateralized loan with guarantee. Excluding such isolated loan, the high end of our loan-to-value ratio for the year ended 31 December 2014 was around 77.8%.

During the Track Record Period, we granted loans with term extension in the aggregate amount of approximately RMB124.8 million, RMB15.8 million and RMB3.0 million, representing approximately 16.1%, 1.7% and 0.4%, respectively, of our new loans granted for the respective year. All of the said loans were extended on or before they fall due. Loans under extension as at each of the year ended 31 December 2014, 2015 and 2016 amounted to approximately RMB70.0 million, RMB35.4 million and RMB6.7 million respectively, representing approximately 13.2%, 5.7% and 1.1% of our total outstanding loans receivable as at the respective year end. Details on our processing of loan extension requests, including our criteria of consideration, are further set out in the section headed “Risk Management — Credit Risk Management — Loan extension” in this prospectus.

Prior to 2015 we generally took a more commercially lenient approach in receiving and considering our customers’ loan extension requests. Since 2015 we have taken a more conservative stance in risk management in general, pursuant to which we started dissuading our customers to apply for loan extension and applied a higher level of scrutiny in considering any grant of loan extension with a view of improving the general quality of our loan portfolio and further reducing our credit risk exposure. As a result, we have noted a significant decrease in our extended loan ratio since 2015. For the years ended 31 December 2014, 2015 and 2016, we rejected 13, 16 and 10 out of 111, 25 and 11 customers’ requests for loan extension, respectively.

The following sets out further analysis of our loan portfolio during the Track Record Period by way of various categorizations:

(a) Loan portfolio by loan format

Our loans can be granted under one of the two formats, namely (i) term loans and (ii) loans under credit facility. The following table sets forth our outstanding loans by loan format as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Term loans	261,719	49.5	446,112	72.0	465,628	77.7
Loans under credit facility	<u>266,832</u>	<u>50.5</u>	<u>173,389</u>	<u>28.0</u>	<u>133,753</u>	<u>22.3</u>
Total	<u><u>528,551</u></u>	<u><u>100</u></u>	<u><u>619,501</u></u>	<u><u>100</u></u>	<u><u>599,381</u></u>	<u><u>100</u></u>

BUSINESS

For the years ended 31 December 2014, 2015 and 2016, we granted 534, 598 and 463 new loans, respectively, among which 347, 454 and 359 were new term loans, and 187, 144 and 104 were new loans under the credit facility, respectively.

(b) Loan portfolio by security

We accept loans (i) backed by guarantees, (ii) secured by collaterals, or (iii) backed and secured by both guarantees and collaterals. During the Track Record Period, we had not offered any unsecured loans. The following table sets forth our outstanding loans by security as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Guaranteed loans	360,933	68.3	495,231	79.9	518,850	86.6
Collateralized loans	167,618	31.7	124,270	20.1	80,531	13.4
<i>included: Guaranteed and collateralized loans</i>	<u>128,110</u>	<u>24.2</u>	<u>101,171</u>	<u>16.3</u>	<u>77,466</u>	<u>12.9</u>
Total	<u>528,551</u>	<u>100</u>	<u>619,501</u>	<u>100</u>	<u>599,381</u>	<u>100</u>

The following table sets forth the details of the number of our loans granted for the years indicated by security:

	Year ended 31 December		
	2014	2015	2016
Guaranteed loans	387	503	395
Collateralized loans	147	95	68
<i>included: Guaranteed and collateralized loans</i>	<u>81</u>	<u>88</u>	<u>67</u>
Total	<u>534</u>	<u>598</u>	<u>463</u>

BUSINESS

Guaranteed loans

During the Track Record Period, a substantial portion of our loans were guaranteed loans, which were not secured by collateral. The following tables set forth the details of our outstanding guaranteed loans by guarantor type as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
By the nature of guarantor			
Individual guarantor	172,917	412,781	430,103
Enterprise guarantor	121,685	14,551	31,396
Individual and enterprise guarantor	<u>66,331</u>	<u>67,899</u>	<u>57,351</u>
Total	<u><u>360,933</u></u>	<u><u>495,231</u></u>	<u><u>518,850</u></u>
By guarantor's relationship with our Company			
Connected person guarantor ⁽¹⁾	—	—	—
Independent third party guarantor	<u>360,933</u>	<u>495,231</u>	<u>518,850</u>
Total	<u><u>360,933</u></u>	<u><u>495,231</u></u>	<u><u>518,850</u></u>
By the guarantee status among borrowers			
Cross guarantee among the borrowers	129,571	5,028	3,016
Non-cross guarantee	<u>231,362</u>	<u>490,203</u>	<u>515,834</u>
Total	<u><u>360,933</u></u>	<u><u>495,231</u></u>	<u><u>518,850</u></u>
By the number of loans a single guarantor guarantees			
Common guarantor ⁽²⁾	176,584	88,272	99,863
-Common guarantor guaranteeing for different borrowers	<u>144,529</u>	<u>42,389</u>	<u>65,937</u>
-Common guarantor guaranteeing for a single borrower	<u>32,055</u>	<u>45,883</u>	<u>33,926</u>
Non-common guarantor	<u>184,349</u>	<u>406,959</u>	<u>418,987</u>
Total	<u><u>360,933</u></u>	<u><u>495,231</u></u>	<u><u>518,850</u></u>

Notes:

- (1) Connected person guarantors included our Controlling Shareholders and Directors and their respective close associate during the Track Record Period. All of such guaranteed loans had been repaid and the relevant guarantees had been released as at the Latest Practicable Date. We have ceased approving and granting new loans with connected person guarantor(s) since 2015.
- (2) Common guarantors refer to the guarantors who guaranteed more than one loan for either a single borrower who obtained more than one loan during the relevant year or for different borrowers.

BUSINESS

The following table sets forth the details of the number of guaranteed loans by guarantor type for the years indicated:

	Year ended 31 December		
	2014	2015	2016
By the nature of guarantor			
Individual guarantor	212	393	313
Enterprise guarantor	122	31	19
Individual and enterprise guarantor	<u>53</u>	<u>79</u>	<u>63</u>
Total	<u><u>387</u></u>	<u><u>503</u></u>	<u><u>395</u></u>
By guarantor's relationship with our Company			
Connected person guarantor	8	—	—
Independent third party guarantor	<u>379</u>	<u>503</u>	<u>395</u>
Total	<u><u>387</u></u>	<u><u>503</u></u>	<u><u>395</u></u>
By the guarantee status among borrowers			
Cross guarantee among the borrowers	157	41	4
Non-cross guarantee	<u>230</u>	<u>462</u>	<u>391</u>
Total	<u><u>387</u></u>	<u><u>503</u></u>	<u><u>395</u></u>
By the number of loans a single guarantor guarantees			
Common guarantor	201	138	96
-Common guarantor guaranteeing for different borrowers	<i>171</i>	<i>86</i>	<i>43</i>
-Common guarantor guaranteeing for a single borrower	<i>30</i>	<i>52</i>	<i>53</i>
Non-common guarantor	<u>186</u>	<u>365</u>	<u>299</u>
Total	<u><u>387</u></u>	<u><u>503</u></u>	<u><u>395</u></u>

BUSINESS

During the Track Record Period, a majority of the guarantors for the loans we granted were individual guarantors, who are generally shareholder(s), authorized representative(s), business associate(s), friend(s) and family member(s) of the relevant borrower, while the enterprise guarantors are generally company(ies) controlled by the relevant borrower and/or the borrower's controlling shareholder(s) or corporate business associate(s) of the borrower or its controlling shareholder(s), which are with sufficient assets, of sound financial condition, and/or with established operating history.

When considering whether to accept a guarantor, we assess the guarantor's financial position and repayment ability and typically assign an internal overall credit limit for the guarantor, which is further segregated into two non-interchangeable components: (i) a maximum limit on guarantee exposure, and (ii) the maximum limit on loan exposure (which is only relevant to cross guarantee situations, if any). When reviewing a guaranteed loan application, we look into whether the guarantor is our existing customer and/or already a guarantor of our existing customer(s). In case a loan application involves a cross guarantee (the guarantor being our existing customer) and/or common guarantor (the guarantor already being a guarantor of our existing customer(s)), we make reference to the aforesaid internal credit limit to determine whether and in what guarantee amount the guarantor is allowed to assume. We may reject a guarantor or request for additional guarantors and/or collaterals to be provided in a loan application if the aggregate allowable guarantee exposure from the guarantor(s) provided by the loan applicant is not sufficient to cover the loan amount being applied for, or as we consider appropriate to seek additional credit risk protection.

We had cross guaranteed loans of approximately RMB129.6 million, RMB5.0 million and RMB3.0 million, representing approximately 35.9%, 1.0% and 0.6% of our outstanding guaranteed loan amount as at 31 December 2014, 2015 and 2016, respectively. As at 31 December 2014, over 30% of our guaranteed loans were cross guaranteed loans, where borrowers who were acquainted with each other guaranteed each other's obligations in respect of loans granted by us. These borrowers were mainly business associates engaging in businesses along the business value chain of the same industry or having business premises in close proximity to each other. To better control our credit risk, the number of loan applications with cross guarantee approved by us was significantly reduced since 2015.

In addition, we had outstanding loans guaranteed by common guarantors of approximately RMB176.6 million, RMB88.3 million and RMB99.9 million, representing approximately 48.9%, 17.8% and 19.2% of our outstanding guaranteed loan amount as at 31 December 2014, 2015 and 2016, respectively. These common guarantors are typically (i) wealthy individuals with established social status and good credit histories, or (ii) local enterprises with sound financial background and good credit history and having established personal and/or business relationship with the borrower. As advised by our PRC Legal Advisers, in respect of the abovementioned common guarantor arrangement, we do not contravene the relevant PRC laws, rules and regulations.

BUSINESS

As at 31 December 2014, 2015 and 2016, the aggregate value of loans guaranteed by the top five guarantors was approximately RMB139.0 million, RMB35.7 million and RMB60.6 million, respectively. None of such top five guarantors was our connected person. The following table sets forth the details of the aggregate value of loans guaranteed by each of the top five guarantors in terms of value of loans guaranteed at as the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	<i>% of total outstanding loans</i>	<i>RMB'000</i>	<i>% of total outstanding loans</i>	<i>RMB'000</i>	<i>% of total outstanding loans</i>
By the value of loans guaranteed by the top five guarantors						
The first largest guarantor	51,482	9.7	9,039	1.5	15,039	2.5
The second largest guarantor	33,383	6.3	7,038	1.1	15,039	2.5
The third largest guarantor	30,969	5.9	6,536	1.1	11,429	1.9
The fourth largest guarantor	12,066	2.3	6,536	1.1	10,026	1.7
The fifth largest guarantor	<u>11,061</u>	<u>2.1</u>	<u>6,536</u>	<u>1.1</u>	<u>9,056</u>	<u>1.5</u>
Total	<u><u>138,961</u></u>	<u><u>26.3</u></u>	<u><u>35,685</u></u>	<u><u>5.9</u></u>	<u><u>60,589</u></u>	<u><u>10.1</u></u>

Collateralized loans

Aside from guaranteed loans, we also grant loans with collaterals either with or without accompanying guarantees, as part of the security arrangement. We require registration of all registerable collaterals with relevant government authority(ies) prior to drawdown of collateralized loans. During the Track Record Period, most of the collaterals associated with our collateralized loans were land use rights and ownership rights in buildings, and they were duly registered with the relevant government authority prior to loan drawdown. As at 31 December 2014, 2015 and 2016, approximately 76.4%, 81.4% and 96.2% of our respective outstanding collateralized loans were also backed by guarantees.

BUSINESS

The following tables set forth the details of our outstanding collateralized loans and the number of collateralized loans (including guaranteed and collateralized loans) by collateral type and priority of secured rights as at the dates and for the years indicated, respectively:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
By the nature of collateral			
Land use rights	27,550	19,076	30,644
Building ownership rights	129,806	97,149	46,871
Others ^{Note}	<u>10,262</u>	<u>8,045</u>	<u>3,016</u>
Total	<u><u>167,618</u></u>	<u><u>124,270</u></u>	<u><u>80,531</u></u>

Note: Others include machinery, equipment and motor vehicles.

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
By the priority of secured right on the collateral			
First priority	66,941	54,294	25,435
Second priority	91,628	65,654	50,069
Third and lower priority	<u>9,049</u>	<u>4,322</u>	<u>5,027</u>
Total	<u><u>167,618</u></u>	<u><u>124,270</u></u>	<u><u>80,531</u></u>

	Year ended 31 December		
	2014	2015	2016
By the nature of collateral			
Land use rights	8	13	17
Building ownership rights	133	79	48
Others ^{Note}	<u>6</u>	<u>3</u>	<u>3</u>
Total	<u><u>147</u></u>	<u><u>95</u></u>	<u><u>68</u></u>

Note: Others include machinery, equipment and motor vehicles.

BUSINESS

	Year ended 31 December		
	2014	2015	2016
By the priority of secured right on the collateral			
First priority	60	32	23
Second priority	83	57	40
Third and lower priority	4	6	5
Total	147	95	68

It is our policy that the maximum loan amount granted on the back of real property collaterals (absent any additional guarantee) should not exceed 70% of its appraised value, and in the case where a first mortgage has been granted to banks or other financial institutions, the corresponding outstanding loan amount backed by such first mortgage will be deducted from the “70% appraised value” for the purpose of determining our maximum loan amount. When appraising the value of our real property collaterals, we generally take into account factors including (without limitation) location, appearance, nature of property, and open market value of surrounding properties of similar nature. We require property valuation report to be issued by independent valuer for real property collaterals to substantiate the appraised value. For other collaterals such as machinery, equipment and motor vehicles, subject to our determination as to their suitability as collaterals and absent any additional guarantee, we may agree to a loan amount of not more than 50% of a collateral’s invoice value, taking into consideration its quality, conditions and net book value. For collateralized loans that are additionally backed by guarantees, we assess such additional guarantees principally in the same way as with our guaranteed loans, and may approve an additional loan amount on top of what we consider and approve for the collateral on a stand-alone basis (which is subject to our stated maximum loan-to-collateral ratio). On such basis, we may from time to time grant loans backed by both collaterals and guarantees with an amount that exceed our stated maximum loan-to-collateral ratio.

The following table sets forth the range of the actual loan-to-value ratio of our collateralized loans⁽¹⁾ during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	%	%	%
Collateralized loans (without guarantee)			
Land use rights	—	—	—
Building ownership rights	10.6-69.5	20.6-69.0	56.0
Others ⁽²⁾	—	—	—
Collateralized loans (with guarantee)			
Land use rights	16.4-23.2	16.2-29.6	14.9-23.4
Building ownership rights	9.7-100.0 ⁽³⁾	10.6-78.9	10.6-74.3
Others ⁽²⁾	35.6-48.8	35.6-46.0	35.1-46.0

BUSINESS

Notes:

- (1) The loan-to-value ratio of collateralized loans (with and without guarantee) is calculated by dividing the collateral value supported by the relevant valuation reports by the amount of the collateralized loans and/or maximum amount of credit facility granted.
- (2) Others include machinery, equipment and motor vehicles.
- (3) The high end of our loan-to-value ratio of 100% for the year ended 31 December 2014 was arising from an isolated collateralized loan with guarantee. Excluding such isolated loan, the high end of our loan-to-value ratio for the year ended 31 December 2014 was around 77.8%.

(c) Loan portfolio by size

The following table sets forth our outstanding loans by size as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Less than or equal to RMB0.5 million						
- Guaranteed loans	14,866	2.7	12,623	2.0	10,275	1.8
- Collateralized loans	<u>14,946</u>	<u>2.8</u>	<u>13,255</u>	<u>2.2</u>	<u>8,470</u>	<u>1.4</u>
	29,812	5.5	25,878	4.2	18,745	3.2
Over RMB0.5 million but less than or equal to RMB1 million						
- Guaranteed loans	36,971	7.0	23,832	3.9	34,935	5.8
- Collateralized loans	<u>18,634</u>	<u>3.5</u>	<u>13,126</u>	<u>2.1</u>	<u>5,549</u>	<u>0.9</u>
	55,605	10.5	36,958	6.0	40,484	6.7
Over RMB1 million but less than or equal to RMB2 million						
- Guaranteed loans	108,500	20.5	295,243	47.6	368,303	61.4
- Collateralized loans	<u>39,949</u>	<u>7.6</u>	<u>31,439</u>	<u>5.1</u>	<u>17,288</u>	<u>2.9</u>
	148,449	28.1	326,682	52.7	385,591	64.3
Over RMB2 million but less than or equal to RMB3 million						
- Guaranteed loans	200,596	38.1	163,533	26.4	105,337	17.6
- Collateralized loans	<u>94,089</u>	<u>17.8</u>	<u>66,450</u>	<u>10.7</u>	<u>49,224</u>	<u>8.2</u>
	<u>294,685</u>	<u>55.9</u>	<u>229,983</u>	<u>37.1</u>	<u>154,561</u>	<u>25.8</u>
Total	<u><u>528,551</u></u>	<u><u>100</u></u>	<u><u>619,501</u></u>	<u><u>100</u></u>	<u><u>599,381</u></u>	<u><u>100</u></u>

BUSINESS

(d) Loan portfolio by term

We focus on providing short-term small loans to minimize our risk exposure, which generally had maturity profiles of up to one year. Loans with term of more than one year were principally loans that we granted extension upon customers' request before their initial maturity date. Our loans with term of over one year exhibited a declining trend during the Track Record Period, which is in line with the declining trend of our loans under extension mainly as a result of us taking a more conservative stance in risk management in general. The following table sets forth our outstanding loans by term as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%
Loans with term of three months or less						
- Guaranteed loans	2,009	0.4	—	—	—	—
- Collateralized loans	—	—	—	—	—	—
	<u>2,009</u>	<u>0.4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Loans with term of more than three months and of six months or less						
- Guaranteed loans	1,514	0.3	5,537	0.9	12,806	2.2
- Collateralized loans	4,159	0.8	3,645	0.6	6,111	1.0
	<u>5,673</u>	<u>1.1</u>	<u>9,182</u>	<u>1.5</u>	<u>18,917</u>	<u>3.2</u>
Loans with term of more than six months and of one year or less						
- Guaranteed loans	338,505	64.0	487,459	78.7	505,459	84.3
- Collateralized loans	120,816	22.9	89,769	14.5	68,519	11.4
	<u>459,321</u>	<u>86.9</u>	<u>577,228</u>	<u>93.2</u>	<u>573,978</u>	<u>95.7</u>
Loans with term of over one year						
- Guaranteed loans	18,905	3.6	2,235	0.4	585	0.1
- Collateralized loans	42,643	8.0	30,856	4.9	5,901	1.0
	<u>61,548</u>	<u>11.6</u>	<u>33,091</u>	<u>5.3</u>	<u>6,486</u>	<u>1.1</u>
Total	<u><u>528,551</u></u>	<u><u>100</u></u>	<u><u>619,501</u></u>	<u><u>100</u></u>	<u><u>599,381</u></u>	<u><u>100</u></u>

BUSINESS

(e) Loan portfolio by customer type

The following table sets forth the breakdown of the number of our new and repeat customers to whom we granted loans for the years indicated:

	2014	Year ended 31 December 2015	2016
	<i>Number</i>	<i>Number</i>	<i>Number</i>
New Customers⁽¹⁾			
Guaranteed loans	199	293	40
Collateralized loans	11	19	7
<i>included: Guaranteed and collateralized loans</i>	<u>—</u>	<u>—</u>	<u>1</u>
	210	312	47
Repeat customers⁽²⁾			
Guaranteed loans	69	143	300
Collateralized loans	71	44	34
<i>included: Guaranteed and collateralized loans</i>	<u>3</u>	<u>3</u>	<u>3</u>
	140	187	334
Total	<u><u>350</u></u>	<u><u>499</u></u>	<u><u>381</u></u>

Notes:

- (1) New customers are customers to whom we granted loans for the first time.
- (2) Repeat customers are customers who have previously obtained loans from us. The loan application review and approval process for a new loan application by a repeat customer is the same as that for a new loan application by a new customer.

BUSINESS

(f) Loan portfolio by industry

The following table sets forth our outstanding loans by industry as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Guaranteed Loans						
Manufacturing	114,778	21.7	58,519	9.4	48,188	8.0
Construction	149,088	28.2	329,131	53.1	340,815	56.9
Wholesale and retail	56,560	10.7	52,017	8.4	60,349	10.1
Transportation, warehousing and postal	22,631	4.3	8,030	1.3	20,561	3.4
Others	<u>17,876</u>	<u>3.4</u>	<u>47,534</u>	<u>7.7</u>	<u>48,937</u>	<u>8.2</u>
Subtotal outstanding guaranteed loans	<u>360,933</u>	<u>68.3</u>	<u>495,231</u>	<u>79.9</u>	<u>518,850</u>	<u>86.6</u>
Collateralized loans						
Manufacturing	26,027	4.9	20,346	3.3	23,004	3.8
Construction	28,045	5.3	36,767	5.9	17,750	3.0
Wholesale and retail	56,630	10.7	36,183	5.8	16,754	2.8
Transportation, warehousing and postal	24,841	4.7	11,930	1.9	50	0.0
Others	<u>32,075</u>	<u>6.1</u>	<u>19,044</u>	<u>3.2</u>	<u>22,973</u>	<u>3.8</u>
Subtotal outstanding collateralized loans	<u>167,618</u>	<u>31.7</u>	<u>124,270</u>	<u>20.1</u>	<u>80,531</u>	<u>13.4</u>
Total	<u><u>528,551</u></u>	<u><u>100</u></u>	<u><u>619,501</u></u>	<u><u>100</u></u>	<u><u>599,381</u></u>	<u><u>100</u></u>

As noted above, a significant portion of our outstanding loans during the Track Record Period were guaranteed loans granted to customers engaged in the construction industry, which accounted for approximately 28.2%, 53.1% and 56.9% of the total amount of outstanding loans as at 31 December 2014, 2015 and 2016, respectively. These customers are generally individual proprietors engaged in building renovation, trading of construction materials, infrastructure projects and construction of private and public housing, and which do not have acceptable collaterals to post as security for their loans.

To manage our risk associated with the concentration of loans receivable from customers in the construction industry, we augment the classification of loans under construction industry in sub-segments such as government housing construction, private/commercial buildings construction, renovation and public work construction. We set benchmarks on maximum outstanding loans for the construction industry in general (currently at 60% of total outstanding loan amount) and additionally

BUSINESS

selected sub-segment(s) considered to have a higher risk profile from time to time (such as private/commercial buildings construction), with the aim of better monitoring and controlling our credit risk exposure associated with the construction industry. Moreover, in approving a loan application from an applicant in the construction industry, we will consider additional factors such as the previous and current construction projects undertaken by the applicant, the creditability and financial background of the applicant, reputation of the applicant within the construction industry, and the construction licenses and qualification held by such applicant.

BUSINESS PROCESS

Our business process typically starts with identifying potential customers and covers acceptance of loan application, pre-loan due diligence, loan application review and approval, grant of loan, post-loan monitoring and collection. As a local microfinance company, we consider risk management to be an essential element for a healthy and proper functioning of our business, and have put in place a risk management system that integrates with our business process. The following is a summary description of our business process (further details of which and how they integrate with our risk management system are set out in the section headed “Risk Management” in this prospectus):

Identification of Potential Customers

Our customers are generally identified through door-to-door visit by our account managers, referrals from our customers and our two operation points.

Acceptance of Loan Application

We require a loan applicant to provide certain basic information to determine whether the loan application is eligible to be accepted. Loan applications that do not meet our basic customer eligibility requirements are liable to be rejected by our account manager without proceeding further.

Pre-loan Due Diligence

We proceed with a detailed due diligence on an applicant if the loan application passes our preliminary assessment. While the scope of such due diligence may vary depending on a variety of factors such as the applicant’s scale of business operation, the industry of the applicant’s business, the amount and term of the loan applied for and its intended usage, our further due diligence generally includes (i) collecting further business and financial information on the applicant; (ii) conducting on-site visits and interviews with the applicant; and (iii) assessing “soft data” from third party sources.

If a loan application involves guarantee, we conduct due diligence on the guarantor(s) of the loan application primarily in the same manner as that of the loan applicant. On the other hand, if a loan application involves collateral, we conduct due diligence to ascertain its ownership title and validity typically through physical inspection and obtaining the corresponding certificate of title or other ownership document(s) of the collateral. For real property collaterals, we require property valuation report to be issued by independent valuer on such real property.

Based on the results of the due diligence review, our account manager will prepare and submit a due diligence report for internal review and approval. For loan amounts equal to or exceed RMB100,000, our risk management department will separately compile a risk assessment report based on separate due diligence conducted independently from our account manager.

BUSINESS

Loan Application Review and Approval

The key terms and conditions of a loan, such as principal loan amount, interest rate, quality and sufficiency of guarantees and collaterals (if any) and term of loan, are considered and approved in the loan application review and approval process. Loans in the amount of RMB500,000 or above must be approved by our loan review committee, while loans in the amount of less than RMB500,000 can be approved by our general manager. Our loan review committee comprises six members and is headed by our general manager, who is vested with the right to veto a loan application. Please refer to the section headed “Risk Management — Risk Management Structure — Loan review committee” in this prospectus for details of our loan review committee.

Grant of Loans

After a loan application is approved, we proceed with execution of loan documents, which may include a term loan agreement or a credit facility agreement, a guarantee agreement and/or a collateral agreement as applicable. Please refer to the paragraph headed “Business Process — Our loan documents” in this section for further details. If any collateral provided is registerable, we proceed with registering our security interest in such collateral with the relevant government authorities before release of the loan.

Post-loan Monitoring and Collection

We continue to monitor our customers’ abilities to repay our loans after drawdown. Our account managers conduct periodic site visits and gather updated information to evaluate whether there are indications that customers may have difficulty in making timely repayments, and whether there are any changes in the appearance and condition of the collaterals which may affect their market value. Our account managers are required to prepare periodic post-loan monitoring memoranda and reports, which are regularly reviewed by our risk management department to identify any potential risk of defaults at an early stage, and bring forth to our management’s attention as and when appropriate.

We generally require our customers to pay monthly interest on our loans and repay the loan principal upon maturity of the loan, and occasionally we may accept monthly installment payments of part principal plus interest. We send advance notices to remind our customers of their payment obligations before the relevant due dates, and have in place collection procedures in case of overdue payments. For further details, please refer to the section headed “Risk Management — Credit Risk Management — Collection” in this prospectus.

Loan Extension

Our customers may apply for term extension of their respective loan before maturity of principal. The term of a loan extension, if granted at our sole discretion, generally will not exceed 12 months from the date of extension. We generally do not accept loan extension application for overdue loans. We consider and process an application for loan extension as if it were a new loan application.

Our Loan Documents

We have adopted standard form of loan documents in our business operations. The loan documents are prepared, reviewed and revised by our legal department as and when appropriate. Before September 2015, the loan documents adopted by us included: (i) for term loans, a term loan

BUSINESS

agreement, a guarantee agreement, a collateral agreement, and a composite loan and guarantee agreement (which was adopted subsequently to combine and supersede the term loan agreement and the guarantee agreement); and (ii) for credit facility loans, a composite credit facility and guarantee agreement, a composite credit facility and collateral agreement, and a guarantee agreement. The type of loan documents entered into by us depended on the format of loans and type of securities provided. In August 2015, Yangzhou Small Loan Industry Association published standard form of loan documents for microfinance companies in Yangzhou City to provide greater consistency. Since September 2015, we have adopted such standard form of loan documents, the key terms of which are set out below. The key terms in respect of grant of loans and provision of guarantees and collaterals under the loan documents we previously and currently adopted are substantially the same.

The key terms of our loan documents are as follows:

(i) For term loans:

(a) *Term loan agreement*

Key Terms	Summary
Details of borrower	Name, address, identification number and contact details of a borrower
Use of funds	The specified purpose on which the loans granted by us can be used
Principal amount	The principal amount that we agree to grant to a borrower, which during the Track Record Period was in the range of RMB12,000 to RMB3,000,000
Term of the loan	Usually not exceeding 12 months
Interest charges	We charge the borrower a fixed interest rate during the term of loan. During the Track Record Period, the interest rate we charged our customers was in the range of 4.35% to 18% per annum.
Early repayment	The borrower shall give us advance written notice in the event of early repayment.
Event of default and default interest	Failing to repay any interest and/or principal pursuant to the term loan agreement constitutes an event of default. We are entitled to charge the borrower default interest until the borrower repays in full the outstanding amount of interest and/or principal.
Other rights	We have the right to request a borrower to provide its financial statements and other relevant information to us regularly for our assessment of its financial condition during the term of loan. If there is any event or circumstance which adversely affects the borrower's ability to perform all or any of its repayment obligations, we may declare the loan and interest outstanding due and payable.

BUSINESS

Loan term extension

A borrower may apply for loan term extension before such loan becomes mature. The grant of loan extension is subject to our sole discretion.

(b) *Guarantee agreement*

Key Terms

Summary

Details of Guarantor(s)

Name, address, identification number(s) and contact details of guarantor(s)

Details of Guarantee

The guarantor agrees to provide guarantee in favor of our Company against the payment obligation of the borrower under the term loan agreement, including all the principal, interest, default interest, and any other damages and costs arising from the default of the loan and enforcement of our rights under the term loan agreement. Where there is more than one guarantor, the guarantors shall be jointly liable for the performance of the guaranteed obligation.

(c) *Collateral agreement*

Key Terms

Summary

Details of collateral

Detailed description of the collateral, the appraised value and the Premises Permit (房產證) number for real property collaterals

Scope of collateral

The chargor agrees to charge in favor of our Company the collateral as set forth in the collateral agreement as security for the payment obligation of the borrower under the term loan agreement, including all the principal, interest, default interest, and any other damages and costs arising from the default of the loan and enforcement of our rights under the term loan agreement.

Enforcement

In the event of default, we are entitled to enforce our rights in respect of collateral and/or guarantee (if any).

(ii) For credit facilities:

(a) *Credit facility agreement*

Key Terms

Summary

Details of borrower

Name, address, identification number and contact details of a borrower

BUSINESS

Credit limit for the credit facility The credit limit we agree to grant to a borrower, which during the Track Record Period was in the range of RMB100,000 to RMB20,000,000

Term of credit facility Varies but generally with a term of up to two years

Detailed terms of each loan A borrower may apply for and subject to our review and approval, drawdown short-term loan(s) in one or more than one tranche within our pre-approved credit limit. The borrower has to enter into a separate term loan agreement (in the same form we use for term loans) with us for each loan drawdown under the credit facility.

(b) Guarantee agreement

Key Terms

Summary

Details of Guarantor(s)

Name, address, identification number(s) and contact details of guarantor(s)

Details of Guarantee

The guarantor agrees to provide a guarantee in favor of our Company against the payment obligation of the borrower under all the term loan agreements entered into pursuant to the credit facility, subject to a maximum guaranteed loan amount as set out in the guarantee agreement. In general, such maximum guaranteed loan amount is equal to the credit limit of the relevant credit facility.

(c) Collateral agreement

Key Terms

Summary

Details of collateral

Detailed description of the collateral, the appraised value and the Premises Permit (房產證) number for real property collaterals

Scope of collateral

The chargor agrees to charge in favor of our Company the collateral as set forth in the collateral agreement as security for the payment obligation of the borrower under all the term loan agreements entered into pursuant to the credit facility, subject to a maximum secured obligation as set out in the collateral agreement. In general, such maximum secured obligation is equal to the credit limit of the relevant credit facility.

Enforcement

In the event of default, we are entitled to enforce our rights in respect of collateral and/or guarantee (if any).

BUSINESS

CUSTOMERS, SALES AND MARKETING

Our customers

We have a relatively broad customer base comprising primarily SMEs, microenterprises and individual proprietors situated or resided in Yangzhou City. Our customers are engaged in a variety of industries, and a majority of which are also under the PBOC classification of AFR (三農). We consider the diversity of industries and businesses of our customers, coupled with our relatively small individual loan size, serve to alleviate our risk of concentration and position us to better withstand periodic business and economic cycles of different industries. For the years ended 31 December 2014, 2015 and 2016, we granted loans to 350, 499 and 381 customers, respectively. The following table sets forth the number of customers to whom we have granted loans for the years indicated:

	Year ended 31 December					
	2014		2015		2016	
	<i>No. of Customers</i>	<i>%</i>	<i>No. of Customers</i>	<i>%</i>	<i>No. of Customers</i>	<i>%</i>
Customer by type						
SMEs and microenterprises	36	10.3	43	8.6	26	6.8
Individual proprietors	<u>314</u>	<u>89.7</u>	<u>456</u>	<u>91.4</u>	<u>355</u>	<u>93.2</u>
Total	<u>350</u>	<u>100</u>	<u>499</u>	<u>100</u>	<u>381</u>	<u>100</u>

The following table sets forth our outstanding loans by industry as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Corporation loans						
Manufacturing	23,305	4.4	22,048	3.6	16,925	2.8
Construction	21,355	4.0	18,494	3.0	14,425	2.4
Wholesale and retail	35,740	6.8	30,270	4.8	15,877	2.6
Transportation, warehousing and postal	23,408	4.4	13,886	2.2	15,542	2.6
Others	<u>15,681</u>	<u>3.0</u>	<u>14,714</u>	<u>2.4</u>	<u>12,583</u>	<u>2.1</u>
Subtotal outstanding loans to corporations	<u>119,489</u>	<u>22.6</u>	<u>99,412</u>	<u>16.0</u>	<u>75,352</u>	<u>12.5</u>

BUSINESS

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Individual loans						
Manufacturing	117,498	22.2	56,816	9.2	54,267	9.1
Construction	155,779	29.4	347,405	56.0	344,140	57.5
Wholesale and retail	77,451	14.7	57,931	9.4	61,226	10.2
Transportation, warehousing and postal	24,064	4.6	6,074	1.0	5,069	0.8
Others	<u>34,270</u>	<u>6.5</u>	<u>51,863</u>	<u>8.4</u>	<u>59,327</u>	<u>9.9</u>
Subtotal outstanding loans to individuals	<u>409,062</u>	<u>77.4</u>	<u>520,089</u>	<u>84.0</u>	<u>524,029</u>	<u>87.5</u>
Total outstanding loans to customers	<u><u>528,551</u></u>	<u><u>100</u></u>	<u><u>619,501</u></u>	<u><u>100</u></u>	<u><u>599,381</u></u>	<u><u>100</u></u>

Our top five customers from whom we generated interest income on loans receivable for the years ended 31 December 2014, 2015 and 2016 accounted for approximately 13.1%, 9.1% and 7.6% of our total interest income on loans receivable, respectively, while our largest customer accounted for approximately 3.2%, 2.0% and 1.8% of our total interest income on loans receivable, respectively, for the same period. All of our top five customers during the Track Record Period were Independent Third Parties. None of our Directors, Supervisors, or their respective close associates, or any Shareholder, which to the knowledge of our Directors, owns more than 5% of our Company's issued share capital, had any interest in any of our top five customers during the Track Record Period.

Sales and Marketing

We solicit our customers principally through door-to-door visit by our account managers, referrals from our customers and our own operation points. We also promote our brand and services on our company website.

(a) *door-to-door visit by our account managers*

Our primary sales and marketing focus is to provide door-to-door small loan financing services to our customers. Our account managers will pay door-to-door visit to SMEs, microenterprises and individual proprietors in the regions of our operations to obtain first hand information on those corporation/individuals and look for new potential customers with interim business funding needs. We believe that door-to-door visits could promote our brand as well as enable those potential customers to have access to our services.

(b) *referrals from our customers*

We also rely on referrals from former or existing customers. In view of our quality services, referral from customers is one of the important sources of our business.

BUSINESS

(c) *our operation points*

Our two operation points are located in Guangling District and Hanjiang District in Yangzhou City. SMEs, microenterprises or individual proprietors who have funding needs may also approach us directly through these operation points.

(d) *our company website*

We also promote awareness of our brand and services through other media channels and platforms. In view of the generality and popularity of the use of internet, we maintain our own company website, which includes information on our micro and small loan services, to promote our services and our brand.

SOURCE OF FUNDING

We had a paid-up registered capital of RMB450 million throughout the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, we financed our business mainly through our own registered capital, internally generated funds, bank borrowings and, from time to time, short-term borrowings from other institutions, including Jinnong Company and other microfinance companies. In 2014, we repaid all outstanding bank borrowings obtained by us before the Track Record Period, and did not obtain any bank borrowings during the Track Record Period and up to the Latest Practicable Date. In addition, in 2014, we obtained shareholder's loans in the aggregate principal sum of RMB7.5 million from Botai Group, one of our Controlling Shareholders, which had been fully repaid as at 31 December 2014.

In view of a shift in bank lending policies towards microfinance companies since 2014, we had not obtained any new bank borrowings during the Track Record Period and up to the Latest Practicable Date after we repaid all outstanding bank borrowings in 2014 that were obtained by us in 2013. As alternative sources of financing, we obtained short-term borrowings from Jinnong Company and other microfinance companies from time to time during the Track Record Period. In general, funding cost of Jinnong Company is relatively lower than that of other microfinance companies, whereas the borrowing from other microfinance companies is more accessible and efficient than that of Jinnong Company. Depending on our funding needs and the corresponding time frame according to our cash flow planning, we may choose to obtain short-term borrowings from either Jinnong Company or other microfinance companies as and when considered appropriate. In the future, depending on the lending policies of banks and other financial institutions then in effect, we may consider approaching banks and other institutions to obtain financing as and when we consider appropriate for our business expansion and/or to enhance our return on equity and return on assets. In addition, upon Listing, we will enjoy more flexibility and gain access to a variety of fund raising avenues, including (without limitation) debt and/or equity financing in the capital markets, to fund our further business expansion and long-term development as and when necessary.

According to relevant regulations in Jiangsu Province, a rural microfinance company may only obtain financing from commercial banks, shareholders and other institutions, subject to an upper limit. Currently, the maximum amount of financing that we could obtain shall not exceed 100% of our net capital, among which financing from banks and other institutions shall not exceed 50% and 40% of

BUSINESS

our net capital, respectively. For details, please refer to the section headed “Regulatory Overview — Regulations of the Microfinance Industry — Local regulatory policies in Jiangsu Province — Requirements for a rural microfinance company to conduct business” in this prospectus. We have established stable funding sources and managed our capital prudently. At the Latest Practicable Date, we had no outstanding borrowings.

Borrowings from Jinnong Company and other microfinance companies

Jinnong Company (江蘇金農股份有限公司) was established in 2010 to provide supporting services to microfinance companies in Jiangsu Province. It was commissioned by Jiangsu Finance Office to develop a computer system which is required to be used by all microfinance companies in Jiangsu Province for financial reporting and loan portfolio management purpose, and serves as a reporting platform that enables Jiangsu Finance Office to monitor the business operations of microfinance companies. For details, please refer to the paragraph headed “Information Technology” in this section. Jinnong Company also provides periodical training and seminars to microfinance companies. In addition, Jinnong Company was entrusted by Jiangsu Finance Office to operate and manage a fund pool where microfinance companies in Jiangsu Province may obtain short-term loans from the fund pool to facilitate their temporary liquidity needs; and on the other hand, voluntarily place their daily unutilized funds into the funds pool for interest income.

For the years ended 31 December 2014, 2015 and 2016, we obtained interim fundings from the fund pool, with term varying from one month to three months, to facilitate our liquidity management in the aggregate principal amount of approximately RMB45.0 million, RMB40.0 million and RMB20.0 million, respectively. For the years ended 31 December 2014, 2015 and 2016, we paid approximately RMB0.3 million, RMB0.7 million and RMB0.1 million to Jinnong Company, respectively, as our costs of funding from the fund pool. In addition, we place unutilized funds into the fund pool from time to time. For the years ended 31 December 2014, 2015 and 2016, we received an amount of approximately RMB0.6 million, RMB0.2 million and RMB0.1 million, respectively, for our funds placed into the fund pool.

In addition, we obtained short-term loans from other microfinance companies, with term varying from one month to six months, in aggregate principal amount of approximately RMB10.0 million, RMB20.0 million and RMB13.0 million for the years ended 31 December 2014, 2015 and 2016, respectively. Our interest payment to other microfinance companies amounted to approximately RMB0.1 million, RMB0.7 million and RMB0.6 million for the years ended 31 December 2014, 2015 and 2016, respectively.

As confirmed by Jiangsu Finance Office, the above arrangement relating to the fund pool does not contravene the regulations. We are advised by our PRC Legal Advisers that the above arrangement relating to the fund pool managed by Jinnong Company did not contravene any applicable PRC laws and regulations, and our borrowings from other microfinance companies did not contravene any applicable PRC laws and regulations.

Due to the nature of our business, we did not have any supplier during the Track Record Period.

BUSINESS

PROVISIONING POLICIES AND ASSET QUALITY

We adopt a loan classification approach to manage our loan portfolio. We categorize our loans by reference to the “Five-Tier Principle” set forth in the Guideline for Loan Credit Risk Classification (貸款風險分類指引) issued by the CBRC. According to the “Five-Tier Principle”, our loans are categorized as “normal”, “special-mention”, “substandard”, “doubtful” or “loss” according to their levels of risk. The following sets forth the definition of the five loan categories under the “Five-Tier Principle”:

Normal: Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special-Mention: Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.

Substandard: Borrowers’ ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.

Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Our management conducts periodic review on all our loans receivable individually for objective evidence of impairment. In general, loans for which no evidence of impairment has been individually identified will be categorized as “normal” unless we identify any specific factor which may adversely affect our customer’s repayment ability, in which case the loan will be categorized as “special-mention”. On the other hand, if there is objective evidence that an impairment loss on the loans has been incurred, these loans will be categorized as “substandard”, “doubtful” or “loss” with reference to the estimated amount of the loss. The estimated amount of loss is measured as the difference between the carrying amount and the estimated recoverable amount of the loans. In such assessment process, we take into account factors such as the length of delinquency, the repayment ability of customers, the realizable value of collateral and other factors that may affect the customer’s repayment ability.

The following table sets forth our outstanding loans by the “Five-Tier Principle” category as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Normal	442,365	83.7	570,454	92.1	588,991	98.2
Special-Mention	68,302	12.9	35,749	5.8	409	0.1
Substandard	14,156	2.7	9,322	1.5	5,092	0.9
Doubtful	3,728	0.7	3,197	0.5	1,790	0.3
Loss	—	—	779	0.1	3,099	0.5
Total	<u>528,551</u>	<u>100</u>	<u>619,501</u>	<u>100</u>	<u>599,381</u>	<u>100</u>

BUSINESS

We assess impairment either collectively or individually as appropriate. We assess our loans for impairment periodically (at intervals of no longer than six months), determine a level of allowance, and recognize any related provisions using the concept of impairment under IFRS. For details, please refer to the section headed “Financial Information — Significant Accounting Policies, Judgments and Estimates — Impairment of financial assets carried at amortized cost” in this prospectus and Notes 4 and 28 to our financial statements included in the Accountants’ Report in Appendix I to this prospectus.

According to our accounting policies, if there is objective evidence that indicates the cash flow for a particular loan is expected to decrease, and the amount can be estimated, we record such loan as an impaired loan and recognize a relevant amount of impairment loss. Our loans that are categorized as “substandard”, “doubtful” or “loss” are typically considered as impaired loans and are assessed individually for recognition of impairment loss.

For “normal” and “special mention” loans, given that they are not impaired, we make collective assessment based primarily on factors including prevailing general market and industry conditions and historical impaired ratio. For “substandard”, “doubtful” and “loss” loans, the impairment losses are assessed individually by evaluating the loss expected to be incurred on the balance sheet date.

The following table sets forth our loan quality analysis as at the dates indicated:

	As at 31 December		
	2014	2015	2016
Impaired loan ratio ⁽¹⁾	3.4%	2.1%	1.7%
Balance of impaired loans (<i>RMB'000</i>)	17,884	13,298	9,981
Total amount of loans receivable (<i>RMB'000</i>)	528,551	619,501	599,381
Allowance coverage ratio ⁽²⁾	135.9%	168.5%	188.7%
Allowance for impairment losses (<i>RMB'000</i>) ⁽³⁾	24,296	22,409	18,837
Balance of impaired loans (<i>RMB'000</i>)	17,884	13,298	9,981
Provisions for impairment losses ratio ⁽⁴⁾	4.6%	3.6%	3.1%
Balance of overdue loans (<i>RMB'000</i>)	14,258	46,785	10,069
Total amount of loans receivable (<i>RMB'000</i>)	528,551	619,501	599,381
Overdue loan ratio ⁽⁵⁾	2.7%	7.6%	1.7%

Notes:

- (1) Represents the balance of impaired loans divided by the total amount of loans receivable.
- (2) Represents the allowance for impairment losses on all loans divided by the balance of impaired loans. The allowance for impairment losses on all loans include provisions provided for loans which are assessed collectively and provisions provided for impaired loans which are assessed individually. Allowance coverage ratio indicates the level of allowance we set aside to cover probable loss in our loan portfolio.
- (3) Allowance for impairment losses reflects our management’s estimate of the probable loss in our loan portfolio.

BUSINESS

- (4) Represents the allowance for impairment losses divided by the total amount of loans receivable. Provisions for impairment losses ratio measures the cumulative level of provisions.
- (5) Represents the overdue loans, being loans with whole or part of the principal and/or interest that was overdue for one day or more, divided by the total amount of loans receivable.

Our balance of impaired loans was approximately RMB17.9 million, RMB13.3 million and RMB10.0 million as at 31 December 2014, 2015 and 2016, respectively. Our impaired loan ratio decreased from 3.4% as at 31 December 2014 to 2.1% and 1.7% as at 31 December 2015 and 2016, respectively.

Our provision for impairment losses ratio decreased from approximately 4.6% as at 31 December 2014 to approximately 3.6% as at 31 December 2015 and further to approximately 3.1% as at 31 December 2016, primarily as a result of a decrease in our impaired loan ratio during the relevant period. We believe that our provisions for impairment losses were adequate.

As at 31 December 2014, 2015 and 2016, we had overdue loans in the amount of approximately RMB14.3 million, RMB46.8 million and RMB10.1 million, representing approximately 2.7%, 7.6% and 1.7% of our total loans receivable, respectively. The balance of overdue loans as at 31 December 2014 was mainly attributable to the overdue loans receivable from customers in the wholesale and retail and manufacturing industries. As at 31 December 2015 and 2016, the balance of overdue loans were also attributable to overdue loans receivable from customers in the construction industry on top of the wholesale and retail and the manufacturing industries. Deterioration in any of the above industries, in particular the construction industry may affect the repayment ability of our customers which in turn may cause our balance of overdue loans and impaired loans to increase and adversely affect our financial position. Please refer to the section headed “Risk Factors — Risks relating to our Business and Industry — A significant majority of our outstanding loans during the Track Record Period were guaranteed loans without collaterals, and a significant portion of which were granted to customers in the construction industry. Negative development or deterioration of the construction industry may materially and adversely affect our financial conditions and results of operations” in this prospectus for details.

The higher balance of overdue loans as at 31 December 2015 was primarily a result of certain collateralized overdue loans with three borrowers who are related to each other, and which were under repayment plans where certain real properties were being arranged for disposal to settle the overdue loans. The principal of the overdue loans, together with interests accrued thereon, owed by these three borrowers were fully repaid as at 31 December 2016. Having considered that the overdue loans owed by these three borrowers were secured by adequate collaterals and there were repayment plans for settlement, these overdue loans were not identified as impaired loans as at 31 December 2015. As a result, despite the increase in overdue loans from approximately RMB14.3 million as at 31 December 2014 to approximately RMB46.8 million as at 31 December 2015, our impaired loan ratio decreased from approximately 3.4% as at 31 December 2014 to approximately 2.1% as at 31 December 2015 and further to 1.7% as at 31 December 2016, indicative of an overall improvement of our loan quality since 2015.

BUSINESS

COMPETITION

Since 2008, with the legalization of small loan service providers and introduction of various suggestive approaches on managing them, the microfinance industry in China has seen rapid expansion. According to the Ipsos Report, the barriers to enter into the microfinance industry include minimum registered capital requirement, obtaining requisite approvals and compliance with registration formalities and requirement of in-depth local knowledge. Despite the entry barriers, competition in the microfinance industry in Jiangsu Province, including Yangzhou City, has become intense. According to the Ipsos Report, there were 629 microfinance companies in Jiangsu Province as at 31 December 2016, among which there were 59 microfinance companies in Yangzhou City. According to the Ipsos Report, we were the second largest licensed microfinance company in Yangzhou City in terms of registered capital in 2015.

We compete directly with over 50 local licensed microfinance companies in Yangzhou City. We compete primarily on the basis of:

- our reputation and experienced management team;
- the quality and accessibility of our services;
- the efficiency of our loan application review and approval process;
- our capital scale; and
- risk management and risk control capabilities.

For more details on our competitive landscape, please refer to the section headed “Industry Overview — Competitive Landscape of the Microfinance Industry in Jiangsu Province and Yangzhou City” in this prospectus.

We have a long and established operating history in Yangzhou City with a solid customer base, strong local brand reputation and, according to the Ipsos Report, leading market ranking in 2015 in terms of revenue, outstanding loan balance and registered capital in Yangzhou City. We consider that we have been effective in competing through our competitive terms, dedicated services, sound risk management and established brand reputation in Yangzhou City. We believe the Listing will serve to further strengthen our financial position and reinforce our brand awareness, better position us to take on supportive initiatives of local government towards the microfinance industry, and enable us to enjoy more flexibility in acquiring funding to further our business strategies and get ahead of our competitors. We also believe we will remain in a position to compete effectively with P2P lending companies taking into account the foregoing and other competitive advantages that microfinance companies generally enjoy over P2P lending companies, as further set out in the section headed “Industry Overview — Competitive Landscape of the Microfinance Industry in Jiangsu Province and Yangzhou City — P2P lending industry” in this prospectus.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, we had a total of 31 employees, all of whom are based in Yangzhou City, China. The following table sets forth the breakdown of our employees by function as at the Latest Practicable Date:

	Number of employees
Management	4
Business and marketing	12
Risk Management, legal and internal audit	4
Finance and accounting	3
Administration	8
Total	31

We recruit our personnel in local markets mainly through a reputable recruitment website in China. The remuneration package of our employees varies subject to their position and length of services, and may include basic salary and annual and performance bonuses. In particular, as part of our remuneration policies of the account managers, we have adopted a performance-based compensation scheme, which is composed of a fixed base salary and a variable compensation. The variable compensation is determined based on indicators that are linked to, inter alia, the outstanding loan portfolio, number of new customers procured and repayment performance of customers served by the relevant account manager. We believe such compensation scheme can incentivize our account managers to provide quality services to our customers and manage credit risk prudently. We believe the salaries and benefits we provided to our employees are competitive with local market standards.

To improve employees' professional skill, we regularly arrange internal and external trainings for our employees. We provide orientation training when our employees first join us in areas such as company profile, corporate culture, code of practice and job responsibilities. We also provide our employees with trainings covering the areas such as risk management, legal and compliance, finance and marketing. In addition, we periodically arrange for our employees to attend trainings and seminars organized by Jinnong Company.

During the Track Record Period, we did not experience any strikes, protests or other significant labor disputes that had materially affected our operations or public image. We believe we maintain good employment relationships with our employees. Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. Pursuant to the applicable PRC laws, rules and regulations, as at the Latest Practicable Date, 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.

BUSINESS

INSURANCE

We maintain property insurance on our motor vehicles. However, consistent with the industry practice in China, we do not, and are not required by the PRC law to, maintain business interruption insurance or insurance covering potential liabilities. During the Track Record Period and up to the Latest Practicable Date, we had not made nor been the subject of any material insurance claims. We believe that our insurance coverage is sufficient for its present purpose and is consistent with the insurance coverage of other microfinance companies in China. We will continue to review and assess the risks and make necessary adjustments to our insurance practice so that it is in line with our operation needs and industry practice from time to time. For details of the risk relating to our insurance coverage, please refer to the section headed “Risk Factors — Risks relating to our Business and Industry — The lacking of business operation related insurance may have a material adverse effect on our business, financial condition and results of operations” in this prospectus.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had two registered trademarks in China and two registered trademark in Hong Kong. Details of our material intellectual property rights are set out in the section headed “Appendix VI — Statutory and General Information — C. Further Information about the Business — 2. Intellectual property rights” in this prospectus. However, we are unable to register the trademark “泰和” in China. As advised by the Trademark Office of the SAIC, it considered the trademark “泰和” under the trademark application filed by us in July 2014 was similar to the trademark “和泰” registered by a third party in 2010 and accordingly refused our trademark application for “泰和”. Our Directors consider that the failure to register the trademark “泰和” does not have any material impact on our business operations.

As at the Latest Practicable Date, we have not experienced any infringement of our intellectual property rights by third parties, nor are we aware of any claims of infringement of intellectual property rights owned by third parties either pending or threatened.

BUSINESS

AWARDS AND ACHIEVEMENTS

We have received numerous awards in recognition of our services since our incorporation. The table below sets forth key awards received by us as at the Latest Practicable Date.

Year	Award	Awarding Body(ies)
2012	Awarded a three stars standard (叁星級) of “File Management Model of Jiangsu Provincial Organizations and Business Units (江蘇省機關團體企事業單位檔案工作規範)”	Jiangsu Provincial Archives Administration
2013	Accredited an “A” grading pursuant to the Microfinance Companies Regulatory Grading Scheme since 24 October 2013	Jiangsu Finance Office
2015	Accredited an “AA” grading pursuant to the Microfinance Companies Regulatory Grading Scheme since 5 February 2015	Jiangsu Finance Office
2015	Awarded First Honor (一等獎) for financial data reporting	Yangzhou branch office of PBOC
2016	Awarded “Top Ten Best Microfinance Companies (十佳明星小貸公司)” in Yangzhou City for five consecutive years (2012-2016)	Yangzhou Finance Office
2016	Awarded “Advanced Enterprise in Services Industry (服務業先進企業)”	Yangzhou City Guangling District Committee of the Communist Party of China, Yangzhou City Guangling District People’s Government
2016	Awarded First Honor (一等獎) for financial data reporting	Yangzhou branch office of PBOC

PROPERTY INTEREST

Our headquarters is located at Beizhou Road, Lidian Town, Guangling District, Yangzhou City, Jiangsu Province, China (中國江蘇省揚州市廣陵區李典鎮北洲路), which is owned by an Independent Third Party, with gross floor area of approximately 2,224.5 square meters. Our branch office is located at No. 1 Hong Qi Avenue, Jiangwang Town, Hanjiang District, Yangzhou City, Jiangsu Province, China (中國江蘇省揚州市邗江區蔣王街道紅旗大街1號), which is owned by Liantai Guangchang, one of our Controlling Shareholders, with gross floor area of approximately 1,530.9 square meters. During the Track Record Period and as at the Latest Practicable Date, we used the above two leased properties as our operation points to support our business activities and operations. The terms of the lease of our headquarters and branch office will expire on 31 December 2022 and 31 December 2017, respectively. For the years ended 31 December 2014, 2015 and 2016, our total rental expenses were approximately

BUSINESS

RMB0.6 million, RMB0.6 million and RMB0.6 million, respectively. Our PRC Legal Advisers confirmed that the landlords have obtained legal and valid title to the abovementioned properties and are entitled to lease us the abovementioned properties. As at the Latest Practicable Date, we did not own any property.

For more details of the leases between us and Liantai Guangchang, one of our Controlling Shareholders, which constitute fully exempt continuing connected transactions, please refer to the section headed “Connected Transactions” in this prospectus.

As at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets. Therefore, we are not required by Chapter 8 of the GEM Listing Rules to include in this prospectus any valuation report. Pursuant to Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to Paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

INFORMATION TECHNOLOGY

We believe that information technology systems are critical to supporting our business operations and strengthening our risk management. We have incorporated a number of functions into our information technology systems to improve the efficiency and quality of our operations. We currently have the following information technology systems:

- *Jinnong small loan central processing platform*: this is a system designated by the Jiangsu Finance Office as a unified system to be adopted by all microfinance companies in Jiangsu Province to facilitate its monitoring of the loan portfolio and financial condition of microfinance companies across Jiangsu Province. The basic functions of this platform include recording and monitoring loan portfolio and processing financial and accounting data. We mainly use this platform to record our financial data and generate financial statements, and record relevant operation data to facilitate regulator’s continuous monitoring of our financial and loan portfolio status; and
- *Our OA system*: this is our custom designed office automation system with multiple functionality modules adopted firm-wide to facilitate continuous on-line monitoring of our loan application and approval process and compliance status with key compliance and regulatory benchmarks and supports the internal communication among different departments. For details, please refer to the section headed “Risk Management — Our OA System” in this prospectus.

During the Track Record Period, we did not suffer any major information technology system failures or related losses. However, we may face information technology risks arising from the improper performance or malfunction of our information technology systems on which our operations rely. For details, please refer to the section headed “Risk Factors — Risks relating to our Business and Industry — Failure of our IT systems may adversely affect our business operations” in this prospectus.

BUSINESS

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

As a microfinance company, we do not believe that the nature of our business involves substantial risks associated with the environmental, health and safety matters.

APPROVAL, COMPLIANCE AND LEGAL PROCEEDINGS

Approvals, Licenses and Permits

We had been authorized to engage in micro and small loan business since our establishment in 2008. Pursuant to our business license, which was issued by Yangzhou Administration for Industry and Commerce and provides for an expiry date of 12 November 2038 on our business operation, our business scope includes providing financing to AFR (三農), providing financing guarantees and conducting agency businesses for financial institutions and other businesses (businesses that require pre-approvals according to laws and regulations can only be conducted after obtaining approvals from the relevant authorities).

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had obtained all the requisite licenses, permits and approvals from the relevant regulatory authorities material for our operations in China, including the approvals on the promotion (籌建) and commencement of business issued by Jiangsu Province Rural Microfinance Pilot Work Organization Leading Group (江蘇省農村小額貸款組織試點工作領導小組) and the business license issued by the local administration of industry and commerce, and all of them are in force as at the Latest Practicable Date. For details of the requisite regulatory licenses, permits and approvals, please refer to the section headed “Regulatory Overview — Regulations of the Microfinance Industry” in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, our PRC Legal Advisers confirmed that save as disclosed in the paragraph headed “Approval, Compliance and Legal Proceedings — Historical non-compliance with relevant guidelines specific to microfinance companies” in this section, we have complied, in all material respects, with the applicable PRC laws and regulations. A summary of the relevant PRC laws and regulations has been set out in the section headed “Regulatory Overview” in this prospectus.

Compliance

The microfinance industry in China is a highly regulated industry. For details of the normative requirements relevant to our micro and small loan business, please refer to the section headed “Regulatory Overview — Regulations of the Microfinance Industry” in this prospectus. The following table summarizes the key normative requirements and the compliance status regarding our micro and small loan business. The compliance indices set forth in the table below were calculated based on the normative documents formulated by the Jiangsu Finance Office, the non-adherence of which will result in not being awarded any point designated for adherence.

Key requirements	Compliance status
(1) The total balance of small loans shall account for no less than 70% of the total balance of loans	During the Track Record Period, small loans, being loans in the amount of RMB3 million or below, accounted for 100% of the total balance of our loans. Therefore, we were in compliance with the relevant requirements throughout the Track Record Period.

BUSINESS

Key requirements

Compliance status

- (2) The total balance of AFR-related loans shall account for no less than 70% of the total balance of loans
- As at 31 December 2014, 2015 and 2016, the total balance of our AFR-related loans accounted for approximately 77.6%, 87.5% and 87.3% of the total balance of our loans, respectively. Therefore, we were in compliance with the relevant requirement throughout the Track Record Period.
- (3) The total balance of business loans (經營性貸款) with a term longer than three months shall account for no less than 70% of the total balance of loans
- As at 31 December 2014, 2015 and 2016, the total balance of our business loans with a term longer than three months accounted for approximately 99.6%, 100.0% and 100.0% of the total balance of our loans, respectively. Therefore, we were in compliance with the relevant requirement throughout the Track Record Period.
- (4) (i) The balance of the loans to a single borrower shall not exceed 3% of the net capital (unless in exceptional circumstances and with prior approval from Yangzhou Finance Office, may exceed 3% but in any event shall not exceed 5% of the net capital); and (ii) the total balance of the loans and guarantees to a single borrower and its related parties shall not exceed 10% of the net capital
- As at 31 December 2014, 2015 and 2016, the maximum balance of our loans to a single borrower accounted for approximately 2.6%, 2.3% and 2.6% of our net capital, respectively. In addition, as at 31 December 2014, 2015 and 2016, the maximum total balance of our loans and guarantees to a single borrower and its related parties accounted for approximately 5.2%, 4.7% and 2.6% of our net capital, respectively. Therefore, we were in compliance with the relevant requirements throughout the Track Record Period.
- (5) Restrictions on the average interest rate per annum and the highest interest rate per annum charged by a microfinance company
- Pursuant to the Guiding Opinions, a microfinance company shall follow the market principle in fixing its interest rate provided that the maximum interest rate shall not exceed the maximum interest rate prescribed by the judicial department, which is four times of the PBOC Benchmark Interest Rate.

In addition, pursuant to the applicable guidelines issued by the Jiangsu Finance Office:

- effective from 1 January 2014, (i) for loans in the amount of RMB500,000 or below, the annualized interest rate for a single loan shall not exceed 18%; and (ii) for loans in the amount exceeding RMB500,000, the weighted average interest rate charged for all such loans shall not exceed 15%, while the highest annualized interest rate for a single loan shall not exceed 18%;
- effective from 1 January 2015, (i) for loans in the amount of RMB500,000 or below, the annualized interest rate charged for a single loan shall not exceed four times of PBOC Benchmark Interest Rate; and (ii) for loans in the amount exceeding RMB500,000, the weighted average interest rate charged for all such loans shall not exceed 18%, while the highest annualized interest rate charged for a single loan shall not exceed four times of the PBOC Benchmark Interest Rate.

BUSINESS

Key requirements

Compliance status

For the year ended 31 December 2014, our weighted average interest rate charged for all loans in amount exceeding RMB500,000 was 18.0%, which exceeded the guiding ceiling of 15%. Therefore, we were not in compliance with the guidelines issued by Jiangsu Finance Office for the year ended 31 December 2014. For details, please refer to the paragraph headed “Approval, Compliance and Legal Proceedings — Historical non-compliance with relevant guidelines specific to microfinance companies” in this section. Save for the above, we were in compliance with the relevant requirements throughout the Track Record Period.

For the year ended 31 December 2014, our highest annualized interest rate of a single loan⁽¹⁾, whether in an amount exceeding RMB500,000 or in an amount of RMB500,000 or below, was 18%. In addition, details of our highest annualized interest rate for the years ended 31 December 2015 and 2016 are as follows:

	From 1 January to 28 February 2015	From 1 March to 10 May 2015	From 11 May to 27 June 2015	From 28 June to 25 August 2015	From 26 August to 23 October 2015	From 24 October 2015 to 31 December 2016
Four times PBOC Benchmark Interest Rate for short-term loans according to the Guiding Opinions	22.4%	21.4%	20.4%	19.4%	18.4%	17.4%
Highest annualized interest rate of a single loan ⁽¹⁾ in the amount of RMB500,000 or below	18.0%	18.0%	18.0%	18.0%	18.0%	17.4%
Highest annualized interest rate of a single loan ⁽¹⁾ in amount exceeding RMB500,000	18.0%	18.0%	18.0%	18.0%	18.0%	17.4%

For the year ended 31 December

	2015	2016
--	-------------	-------------

Weighted average annual interest rate of all loans in amount exceeding RMB500,000 ⁽²⁾	13.7%	13.0%
--	-------	-------

Notes:

- (1) According to the applicable guidelines issued by Jiangsu Finance Office and the confirmation from Jiangsu Finance Office and Jinnong Company, this refers to the highest interest rate of a single loan that was outstanding as at the end of the review period.
- (2) According to the applicable guidelines issued by Jiangsu Finance Office and the confirmation from Jiangsu Finance Office and Jinnong Company, this refers to the weighted average annual interest rate of all loans in amount exceeding RMB500,000 that were outstanding as at the end of the review period.

BUSINESS

- (6) The financing ratio of rural microfinance companies shall not exceed certain statutory limit
- (i) For microfinance companies accredited an “A” grading⁽¹⁾ pursuant to the Microfinance Companies Regulatory Grading Scheme in Jiangsu Province, the maximum amount of financing that we could obtain was capped at 80% of our net capital, among which bank financing shall not exceed 40% of our net capital, and financing from other institutions shall not exceed 30% of our net capital. Furthermore, financing by Shareholder’s loan shall not exceed 80% of our paid-in capital, where the amount of loans granted by a single Shareholder shall not exceed 80% of such Shareholder’s paid-in capital amount.
- (ii) For microfinance companies accredited an “AA” grading⁽¹⁾ pursuant to the Microfinance Companies Regulatory Grading Scheme in Jiangsu Province, the maximum amount of financing that we could obtain was capped at 100% of our net capital, among which bank financing shall not exceed 50% of our net capital and financing from other institutions shall not exceed 40% of our net capital. Furthermore, financing by Shareholder’s loan shall not exceed 80% of our paid-in capital, where the amount of loans granted by a single Shareholder shall not exceed 80% of such Shareholder’s paid-in capital amount.

We were in compliance with the relevant requirements throughout the Track Record Period, details of which are set out as follows:

	Years ended 31 December		
	2014	2015	2016
Maximum daily outstanding financing from banks during the relevant year (RMB'000) (A)	30,000	—	—
Maximum daily outstanding financing from other institutions during the relevant year (RMB'000) (B)	40,000	35,000	35,000
Maximum daily outstanding Shareholder’s loan amount during the relevant year (RMB'000) (C)	6,000	—	—
Maximum daily balance of financing amount (RMB'000) (D)	45,000	35,000	35,000
Our Company’s net capital (RMB'000) (E) ⁽²⁾	471,744	543,733	552,018
Paid-in capital during the relevant year (RMB'000) (F)	450,000	450,000	450,000
Paid-in capital of the Shareholder who granted loans to our Company (RMB'000) (G)	240,200	—	—
Maximum bank financing to net capital ratio during the year (A/E) (%)	6.36	—	—
Maximum financing from other institutions to net capital ratio during the year (B/E) (%)	8.48	6.44	6.34
Maximum financing by Shareholder’s loan to paid-in capital ratio during the year (C/F) (%)	1.33	—	—
Shareholder’s loan to such Shareholder’s paid-in capital ratio (C/G) (%)	2.50	—	—
Maximum balance of financing to net capital ratio during the year (D/E) (%)	9.54	6.44	6.34

BUSINESS

Note:

- (1) We were accredited an “A” grading since October 2013 and an “AA” grading since February 2015.
 - (2) The minimum net capital (as at the end of each month) during the relevant year is used in the above calculations for demonstrative purposes.
- (7) Microfinance companies which have obtained bank financing or commenced guarantee business shall not grant loans to their shareholders, unless with approval from the finance office of the municipal-level in the case of exceptional circumstances
- During the Track Record Period, we have granted loans in the sum of RMB13.2 million to our then Shareholder and we have already obtained approval from Yangzhou Finance Office in this regard. Therefore, we were in compliance with the relevant requirements throughout the Track Record Period.
- (8) In case a microfinance company grants loans to its related parties other than its shareholders, the balance of loans to such related parties shall not exceed the limit set for small loans by the municipality in which it operates (i.e. RMB3 million). In the event that such balance exceeds RMB1.5 million, the microfinance company shall make filings with the finance office of the municipal level before granting such loan
- During the Track Record Period, loans granted to our related parties amounted to RMB0.9 million only. Therefore, we were in compliance with the relevant requirements throughout the Track Record Period.
- (9) The registered capital of a microfinance company in Yangzhou City shall not be less than RMB20 million
- We had a registered capital of RMB450 million throughout the Track Record Period and up to the Latest Practicable Date. Therefore, we were in compliance with the relevant requirements throughout the Track Record Period.
- (10) The largest shareholder and its related parties shall not hold more than 60% shareholding in a microfinance company
- During the Track Record Period and up to the Latest Practicable Date, our largest shareholder, the Botai Group, and its related parties hold in aggregate more than 60% shareholding in us. For details, please refer to the section headed “History and Development — Our Corporate Development” in this prospectus. However, our PRC Legal Advisers have confirmed, and based on our consultation with the Jiangsu Finance Office which confirmed that it approved the incorporation of the Company in accordance with the 24 November 2007 Opinions (which did not restrict the shareholding ratio of the shareholders), such requirement is not applicable to us as we were incorporated before the relevant government circulars came into effect.

Legal Proceedings

We may, from time to time, be involved in legal proceedings arising in the ordinary course of our business. These legal proceedings mainly involve claims initiated by us to recover payment of overdue loans from our customers.

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge after having made reasonable enquiries, save for a number of proceedings initiated by us to recover payment of overdue loans, there was no litigation or arbitration proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our financial condition or operating results.

Historical Non-Compliance with Relevant Guidelines Specific to Microfinance Companies

The following table sets out details of our non-compliance with relevant guidelines specific to microfinance companies during the Track Record Period:

Details of Non-compliance Incident(s)	Consequences of Non-compliance Incident(s)	Current Status	Remedial Actions and Internal Control Measures
<p>During the year ended 31 December 2014, we were not in compliance with the guiding interest rate ceiling as stipulated in the Circular Concerning Adjusting and Improving Regulatory Policies on Rural Microfinance Companies (關於調整完善農村小額貸款公司部分監管政策的通知) (the “Circular”).</p> <p>The then general manager of our Company (who later retired) consulted both Jiangsu Finance Office and Yangzhou Finance Office on the applicability of the guiding interest rate ceiling and was given to understand that the guiding interest rate ceiling requirement was for interest rate only and was not mandatory, which led to our Company forming an inaccurate view that non-adherence to the guiding interest rate ceiling requirement was not considered an act of non-compliance.</p> <p>Consequently, our Company charged interest rates on its loans during the year ended 31 December 2014 which resulted in its weighted average interest rate charged for all loans exceeding RMB500,000 exceeded the guiding ceiling as stipulated under the Circular.</p>	<p>Based on our consultation with Yangzhou Finance Office and Jiangsu Finance Office on 16 May 2016 and 17 May 2016, respectively, the non-adherence of the guiding interest rate ceiling would result in not being awarded any point designated for adherence under the Microfinance Companies Regulatory Grading Scheme. Notwithstanding the above, we had been accredited an “AA” grading under the Microfinance Companies Regulatory Grading Scheme since 5 February 2015, prior to which we held an “A” grading.</p>	<p>We obtained a written confirmation in January 2015 from Jiangsu Finance Office confirming that the guidelines were for guidance only and were not mandatory, and that as our Company had complied with the PBOC’s “Four Times Requirement” (in respect of interest rate ceiling for all lending transactions in the PRC), our Company had not breached any relevant PRC laws and regulations in respect of the non-adherence to the interest rate ceiling as stipulated under the guidelines. Our PRC Legal Advisers confirmed that the Jiangsu Finance Office is the appropriate competent authority to provide the written confirmation.</p> <p>The view of the Jiangsu Finance Office as set out in the above mentioned written confirmation was re-affirmed during the interviews conducted with the responsible officer of Jiangsu Finance Office on 4 February 2015 and 17 May 2016, respectively.</p> <p>As at the Latest Practicable Date, neither our Company, our Directors nor senior management had been subject to any penalty in respect of the historical grant of loans that exceeded the guiding interest rate ceiling stipulated in the Circular.</p>	<p>Actions taken by us included:</p> <p>i. since January 2015, updated our compliance benchmark monitoring list to include the applicable guiding interest rate ceiling, and regularly review to ensure all applicable compliance/regulatory benchmarks, whether mandatory or otherwise, are included;</p> <p>ii. in March 2015, commenced upgrading the OA system which facilitates monitoring and tracking of loan application and approval process on-line, and integrated various compliance monitoring and risk management functionalities into the OA system (including, without limitation, checking and monitoring of all applicable compliance/regulatory benchmarks as updated from time to time) to ensure compliance with all applicable benchmarks, and promptly reject loan application if any of the applicable benchmarks were to be exceeded or breached;</p>

Details of Non-compliance Incident(s)	Consequences of Non-compliance Incident(s)	Current Status	Remedial Actions and Internal Control Measures
			<p>iii. in March 2015, updated our internal policies to include regular contacts by our legal department with Yangzhou Finance Office and Jiangsu Finance Office to keep abreast of, and enquire into relevant laws, regulatory rules and guidelines specific to microfinance companies which may take effect in the coming time for early preparation;</p>
			<p>iv. in March 2015, introduced additional internal training module to cover updates of relevant laws, regulatory rules and guidelines specific to microfinance companies, which are delivered by the legal department and compulsorily attended by our Directors, senior management, risk management and compliance related personnel as well as front-line staff; and</p>
			<p>v. in March 2015, updated internal policies to include monthly reporting by the legal department of the status of compliance with all applicable compliance / regulatory benchmarks to our general manager.</p>

BUSINESS

As mentioned above, to prevent recurrence of the non-compliance incident, we have utilized our OA system to assist in carrying out risk management, internal control and compliance functions in areas including but not limited to monitoring of regulatory benchmark compliance. In this regard, our legal department and risk management department are together responsible for monitoring and updating all applicable compliance and regulatory benchmarks in our OA system. Our legal department is also responsible for monitoring any changes in laws and regulations, providing training on regulatory updates specific to microfinance companies, and reporting the status of compliance to our general manager on a monthly basis. The responsible officer for the legal department is Ms. Gu Qian, who is also a member of the loan review committee. She has more than four years of experience in banking laws and compliance matters. The risk management department is headed by Mr. Xu Lei, our deputy general manager and joint company secretary. For biographical details of Mr. Xu Lei, please refer to the section headed “Directors, Supervisors and Senior Management — Senior Management” in this prospectus. Moreover, we have designated Ms. Zhang Xuejuan, our manager of the General Office and a member of the loan review committee, to be responsible for monitoring the overall implementation of our internal control policies. Ms. Zhang Xuejuan has more than 11 years of experience in administrative management and joined us since July 2010.

In preparation of the Listing, we have engaged an independent consulting firm (the “**Internal Control Consultant**”) in January 2016 to conduct an independent review on the key internal control measures and procedures at (i) the entity level including control environment, risk assessment, control activities, information and communication and monitoring; and (ii) the process level over financial reporting, including its loan business, treasury management, finance and accounting, fixed asset management, tax management, human resources and other major business processes. Upon completion of the internal control review in May 2016, the Internal Control Consultant has identified a number of findings which mainly related to insufficient details in certain of our formalized policies and procedures to reflect our operational, risk management and internal control practices. We have implemented all the internal control enhancement measures recommended by the Internal Control Consultant by May 2016, pursuant to which the Internal Control Consultant completed a follow-up review in June 2016 on the implementation of such enhancement measures. No material internal control deficiencies were identified by the Internal Control Consultant during the said follow-up review in June 2016.

After considering the above remedial actions and internal control measures taken by us and our business nature and operation scale, our Directors are satisfied that our internal control system is adequate and effective for our current operation environment and consider that the non-compliance incident does not have any material impact on the suitability of our Directors under Rule 5.01 and 5.02 of the GEM Listing Rules and our suitability for listing under Rule 11.06 of the GEM Listing Rules.

In addition, after making enquiries of our management, reviewing our internal control procedures and discussing with the Internal Control Consultant regarding our internal control system, the Sole Sponsor, who is not expert in internal control, is not aware of any reasons to disagree with our Directors’ view that our internal control system is adequate and effective under the GEM Listing Rules. Also, having considered the facts and circumstances leading to the non-compliance incident as disclosed above, the above remedial actions and internal control measures taken by us and having conducted reasonable due diligence on our on-going compliance with applicable regulatory benchmarks, the Sole Sponsor concurred with our Directors’ view that the non-compliance incident does not have any material impact on the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules and our suitability for listing under Rule 11.06 of the GEM Listing Rules.

BUSINESS

Compliance with Chapter 19 and Rules 17.15 to 17.18 of the GEM Listing Rules

We are licensed to engaged in rural micro and small loan business in Yangzhou City by providing financing solutions to our customers as a form of financial assistance. According to the GEM Listing Rules, the provision of financial assistance may constitute a notifiable transaction under Chapter 19 of the GEM Listing Rules, save for (i) a “banking company” providing financial assistance in its ordinary and usual course of business, or (ii) any transaction of a revenue nature in the “ordinary and usual course of business”. Under Rule 19.04(8) of the GEM Listing Rules, “financial assistance not provided by a banking company” means “financial assistance not provided in the ordinary and usual course of business”. As we are not a restricted license bank and thus do not meet the definition under Rule 20.86, we are not regarded as a “banking company” under the GEM Listing Rules, and our principal business is not regarded as one that is carried out in the “ordinary and usual course of business”. Therefore, upon Listing, the financial assistance provided by us to our customers may constitute notifiable transactions under Chapter 19 of the GEM Listing Rules and is subject to the relevant reporting, announcement and the Shareholders’ approval requirements.

Furthermore, the loans advanced by us to our customers may trigger a general disclosure obligation pursuant to Rules 17.15 to 17.18 of the GEM Listing Rules and subject to the relevant announcement and reporting requirements, in the event that the relevant advances to an entity by us individually exceeds 8% under the assets ratio as defined in Rule 19.07(1) of the GEM Listing Rules. As disclosed in the section headed “Regulatory Overview — Regulations of the Microfinance Industry — Local regulatory policies in Jiangsu Province” in this prospectus, we have to comply with the relevant regulations in terms of size of loan advanced to each borrower, namely the balance of loans granted to a single borrower shall not exceed 3% of the net capital of a microfinance company and in exceptional circumstances such ratio shall not exceed 5%. We have adopted internal policy to ensure compliance with such regulatory requirement during the Track Record Period. As such, the requirements under the applicable regulations to our Company are considered to be more stringent than the abovementioned requirement under the GEM Listing Rules. Our Directors are therefore of the view that we have put in place sufficient procedures to ensure our compliance with the requirements under Chapter 19 and Rules 17.15 to 17.18 of the GEM Listing Rules after Listing. Our Directors are also of the view that our existing loan portfolio does not exceed the thresholds under those rules.

RISK MANAGEMENT

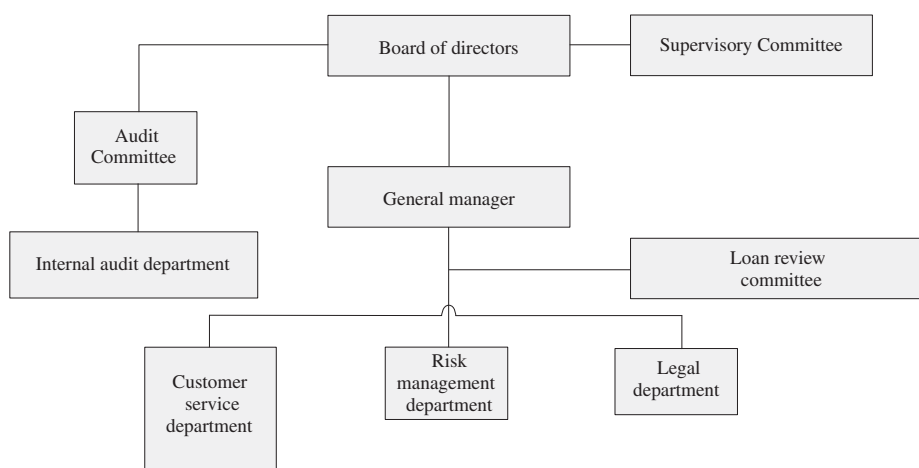
OVERVIEW

As a microfinance company dedicated to providing micro and small loan services to SMEs, microenterprises and individual proprietors, credit risk is the most significant risk inherent to our business. We have put in place a risk management system with the aim of addressing the credit risks specific to our business and operational environment as a local microfinance company. Our risk management system encompasses pre-loan due diligence, loan application review and approval, and post-loan monitoring. We incorporate a policy of “separation of due diligence and approval (審貸分離)” through a multi-layer risk management structure comprising (i) the loan review committee; (ii) the general manager; (iii) the risk management department; (iv) the legal department; and (v) the customer service department. With a separation of duty between pre-loan due diligence and loan approval, we can ensure the effectiveness of our risk management and risk control efforts. We strive to achieve an optimal balance between an acceptable and manageable credit risk level and an efficient use of available funds to improve returns for our Shareholders.

We also face risks relating to our operations and compliance. In this regard, we have adopted and implemented streamlined processes and procedures aiming to achieve operational efficiency and effectiveness while ensuring compliance with all applicable laws and regulations. During the Track Record Period, we have upgraded our OA system to incorporate a variety of risk management and compliance related functionalities to enhance our risk management and compliance efficiency.

RISK MANAGEMENT STRUCTURE

The following diagram illustrates the organization structure of our risk management system:



RISK MANAGEMENT

Board of Directors

Our Board of Directors takes ultimate responsibility for our overall risk management. It oversees the risk management functions through our general manager, the risk management department and other departments and committees as further described below.

General Manager

Our general manager, Ms. Bai Li, is the chairman of our loan review committee. She is also responsible for the review and approval of loan applications in amount of less than RMB500,000. Ms. Bai possesses more than 18 years of experience in the financing industry. For Ms. Bai's biographical details, please refer to the section headed "Directors, Supervisors and Senior Management — Board of Directors — Executive Directors" in this prospectus.

Loan Review Committee

Our loan review committee is responsible for the review and approval of loan applications in amount of RMB500,000 or above. The loan review committee currently comprises six members and is headed by our general manager, Ms. Bai Li, who is vested with the right to veto a loan application. The following table sets forth the current members of our loan review committee and their relevant experience:

Name	Position	Nature of experience	Years of experience
Bai Li	General Manager	Financing experience	18 years
Zhou Yinqing	Deputy General Manager	Accounting and financial experience	20 years
Xu Lei	Deputy General Manager	Audit, risk management experience	9 years
Zhang Xuejuan	Manager of General Office	Administrative management experience	11 years
Gu Qian	Responsible Officer of the Legal Department	Banking laws compliance experience	4 years
Representative from our external general legal counsel	External Legal Advisers	Legal experience	N/A

RISK MANAGEMENT

Risk Management Department

Our risk management department is primarily responsible for compiling our risk management policies, managing risks associated with pre-loan due diligence and post-loan monitoring, reviewing, verifying and ensuring completeness of loan application materials, advising on risk management related matters and arranging trainings in risk management. Our risk management department currently consists of three employees, who in average have seven years of experience in risk management and/or the finance industry.

Supervisory Committee

Our supervisory committee oversees our Board of Directors and senior management on risk management and compliance perspectives. For details, please refer to the section headed “Directors, Supervisors and Senior Management — Supervisory Committee” in this prospectus. Our supervisory committee currently consists of three members and is chaired by Ms. Wang Chunhong.

Audit Committee

Our audit committee is responsible for reviewing and supervising our financial reporting, risk management and internal control systems, overseeing the audit process and providing advice and comments to the Board. For details, please refer to the section headed “Directors, Supervisors and Senior Management — Board Committees — Audit committee” in this prospectus. Our audit committee currently consists of three members and is chaired by Mr. Chan So Kuen, our independent non-executive Director.

Internal Audit Department

Our internal audit department is responsible for formulating annual audit plans, conducting internal audits according to the annual audit plans, and if applicable, liaising with and assisting external audit consultant in conducting internal audits.

Legal Department

Our legal department is responsible for our legal and compliance risk management. To ensure compliance with applicable laws, rules and regulations, it monitors the updates of all applicable laws, rules, regulations and guidelines, arranges legal and compliance trainings, drafts and reviews our legal documents, and assists in loan collection and enforcement of collaterals.

Customer Service Department

Our customer service department, which comprised 12 account managers as at the Latest Practicable Date, is responsible for preliminary review on loan applications, conducting pre-loan due diligence, post-loan monitoring, and sales and marketing.

RISK MANAGEMENT

CREDIT RISK MANAGEMENT

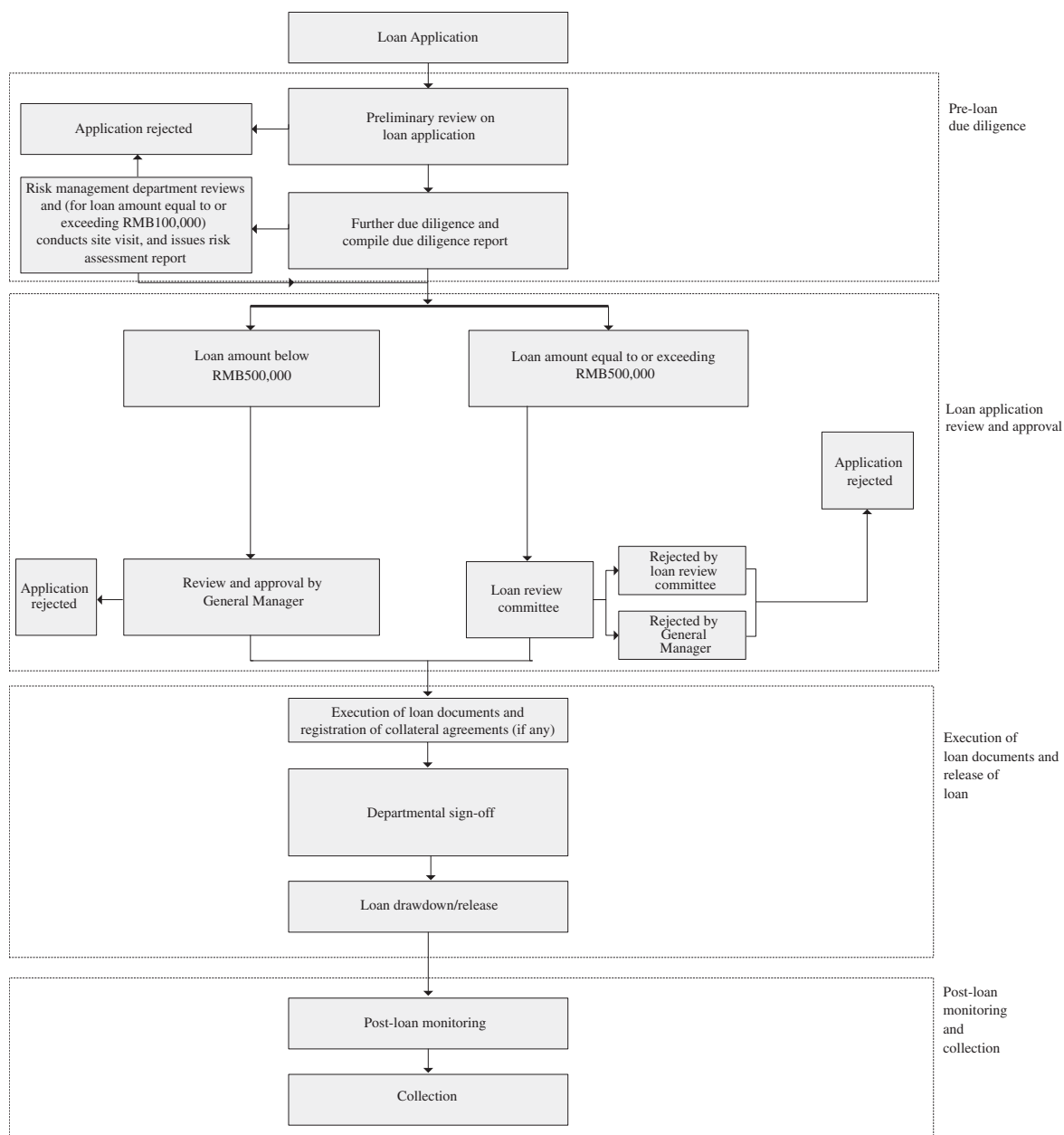
Credit risk is the principal risk inherent to our business. Credit risk arises from a borrower's inability or unwillingness to perform its repayment obligations in a timely manner. We have adopted a loan application review and approval process in order to effectively identify, manage and minimize the credit risk in connection with each loan we grant. Our credit risk management is subject to the following principles:

- “Small and diverse” principle (小額分散): we strive to maintain a diverse customer base relative to the size of our capital base in order to mitigate the risk in our loan portfolio; and
- “Short maturity” principle (短貸款期): we typically offer short-term loans of up to 12 months to reduce our exposure to default risk inherent in long-term loans.

In order to reinforce the incentives for our account managers to exercise the utmost care to manage the credit risks involved in our business, we have also adopted a performance-based compensation scheme, which is composed of a fixed base salary and a variable compensation. The variable compensation is determined based on indicators that are linked to, inter alia, the outstanding loan portfolio, number of new customers procured and repayment performance of customers served by the relevant account manager. As advised by our PRC Legal Advisers, the performance-based compensation scheme adopted by us did not contravene any applicable PRC laws, rules and regulations.

RISK MANAGEMENT

Our risk management system incorporates various risk management and compliance procedures and check points throughout our business process, including loan application, pre-loan due diligence, loan application review and approval, release of loans, and post-loan monitoring. The flowchart below summarizes the key procedures of our credit risk management in a loan transaction:



RISK MANAGEMENT

Loan application

Our credit risk management process begins with loan application. Our account managers are responsible for obtaining loan application materials from the applicants, responding to initial inquiries from the applicants and analyzing the applicants' financial needs and financing plans. Our account managers are required to obtain, at the initial loan application stage, basic information including the amount and term of loan applied for, the proposed use of the loan, and documents that are necessary to facilitate an initial assessment on the background of the applicants, such as identification documents, basic corporate documents, commercial contracts and bank statements.

Application acceptance and due diligence

Upon receiving the loan application materials, our account manager will conduct a preliminary review to consider whether the loan application is eligible for further processing.

We have a loan rejection policy that sets out explicit scenarios where a loan application shall be rejected at the outset and shall not be proceeded further. A loan application is liable to be rejected directly by our account manager at this initial stage if such loan applicant does not meet our basic customer eligibility requirements, such as legality of business, stable income, track record and sound credit history. A loan application is also liable to be rejected at the outset if the industry in which the loan applicant operates involves high risk, such as an industry subject to tight regulations or vulnerable to the macroeconomic control policy of the PRC Government.

If a loan application is accepted based on the preliminary review, we will conduct further due diligence on the loan applicant, which includes one or more of the following:

- *Due diligence*: our account managers will obtain further materials that they deem relevant to assess the creditworthiness of a loan applicant, such as financial statements and other business information from the loan applicant, company information from websites of public sources, credit status reports obtained from the PBOC and Jinnong small loan central processing platform and litigation search reports obtained through the court system. Most importantly, our account managers will conduct on-site visits to inspect the business operations of the loan applicant and, where relevant, the guarantor(s) as well as the collateral(s) offered. After the investigation, our account managers will prepare a due diligence report which sets out, among other things, the background, business and credit information of the loan applicant and, where relevant, the guarantor(s), an analysis on the applicant's repayment capability, the proposed loan/credit amount, interest rate and term of loan, intended use of funds, means of repayment, and where applicable, details of the collaterals;
- *Parallel due diligence*: our risk management department will review the due diligence report prepared by our account manager to ensure the documents and information contained therein are sufficient and in order. In addition, our risk management department is required to conduct its own due diligence and prepare its own risk assessment report for loans in the amount equal to or exceeding RMB100,000;

RISK MANAGEMENT

- *Use of “soft information”*: where practical and relevant, we also gather “soft information” during the due diligence process to help us assess the creditability of the applicant. Such “soft information” includes the loan applicant’s or its controlling person’s reputation, expertise, experience and credit histories which may be gathered from interviewing and making enquiries with the loan applicant’s upstream and downstream counterparties and other third parties who have personal or business relationships with the applicant. Owing to our geographical focus of serving local customers in Yangzhou City, we are generally able to gain access to such “soft information” to facilitate our loan review;
- *Due diligence on guarantors*: guarantors of our loans include individual guarantors, who are generally shareholder(s), authorized representative(s), business associate(s), friend(s) and family member(s) of the relevant borrower, and enterprise guarantors, which are generally company(ies) controlled by the relevant borrower and/or the borrower’s controlling shareholder(s) or corporate business associate(s) of the borrower or its controlling shareholder(s), which are with sufficient assets, of sound financial condition, and/or with established operating history. We assess a guarantor’s financial condition and repayment ability to decide whether to accept such guarantor and to determine the maximum amount that such guarantor may guarantee. We conduct due diligence on guarantor(s) primarily in the same manner as that of the loan applicant, and the result of which will form part of our overall evaluation of the credit profile of a loan application. Our due diligence on guarantor(s) also includes identifying whether the guarantor is our existing customer and/or already a guarantor of our existing customer; and
- *Due diligence on collateral*: our collaterals are generally real properties, but we may consider other forms of collaterals such as machinery, equipment and motor vehicles. We typically require loan applicants to provide document proof to ascertain proper title ownership of the collaterals, and we typically conduct on-site visits and physical inspections to ascertain the existence and evaluate the conditions of the proposed collaterals. For real property collaterals, we also require a property valuation report to be issued by independent valuer to substantiate our assessment on the value of the collateral.

Loan application and approval

Our loan application review and approval processes vary by loan size. Loans in the amount of RMB500,000 or above must be approved by our loan review committee, while loans in the amount of less than RMB500,000 can be approved by our general manager, each in the following manner.

Loans equal to or more than RMB500,000

Loans equal to or more than RMB500,000 are reviewed and approved by our loan review committee through collective decision-making. The loan review committee will consider the loan application by reviewing the due diligence report submitted by our account managers and the risk assessment report submitted by the risk management department.

RISK MANAGEMENT

Our loan review committee comprises six members, namely Messrs. Bai Li, Zhou Yinqing, Xu Lei, Zhang Xuejuan and Gu Qian, and representative from our external general legal counsel, and is headed by our general manager, Ms. Bai Li. The loan application will be rejected if less than four members of the loan review committee vote in favor of such application, and notwithstanding the above, our general manager is vested with the right to veto a loan application.

Loans less than RMB500,000

Loans less than RMB500,000 are subject to review and approval by our general manager. Our general manager will consider the loan application by reviewing the due diligence report submitted by our account managers for loans less than RMB100,000 or by reviewing both the due diligence report submitted by our account managers and the risk assessment report submitted by the risk management department for loans equal to or more than RMB100,000.

Our credit review focuses on evaluating the applicant's repayment ability and willingness to repay. When considering and approving a loan application, our general manager or loan review committee, as appropriate, would take into account a variety of factors, such as the applicant's financial conditions, the intended use of funds, the guarantor's financial conditions and creditworthiness, the quality and value of collaterals and other information contained in the due diligence report and, where applicable, the risk assessment report to evaluate the applicant's repayment ability. We also consider the applicant's credit and repayment history, reputation and other relevant information in assessing a loan applicant's willingness to repay.

For collateralized loans, it is our policy to adopt a specified loan-to-value ratio as a measure to control our credit risk exposure. For details, please refer to the section headed "Business — Our Loan Portfolio — (b) Loan portfolio by security — Collateralized loans" in this prospectus.

Rejection

Based on the loan review results, we may: (i) approve a loan application; (ii) request further due diligence be conducted before reaching a conclusion or revise the terms of a loan application; or (iii) reject a loan application. Typically, we may reject a loan application for the following reasons:

- financial data not consistent with industry data, or not supported by due diligence results;
- use of funds not substantiated;
- negative information about the loan applicant, its controlling persons or its products;
- unsatisfactory source of funding for the repayment; and
- foreseeable difficulty in enforcing our rights on the collateral.

RISK MANAGEMENT

Grant of loans

If a loan application is approved according to our review and approval procedures, we will proceed with execution of loan documents. We adopt standard form of loan documents, which are reviewed and revised by our legal department as and when appropriate. We enter into a term loan agreement or a credit facility agreement and other security documents, such as a guarantee agreement and a collateral agreement, as applicable, depending on the format of loans and type of securities provided. For details of our loan documents, please refer to the section headed “Business — Business Process — Our loan documents” in this prospectus. In case of guaranteed loans, our customers and their guarantors are jointly and severally liable for the repayment of the principal and the interest accrued. For collateralized loans, we require registration of our security interest in all registerable collaterals with relevant government authority(ies) prior to release of loans.

For term loans, we generally proceed with the release of funds within a short period after the signing of the loan documents and registration of the relevant collateral, if applicable. For loans under credit facility, save for the first drawdown of loans within a short period following approval of the facility, any subsequent drawdown proposed to be made by a customer is subject to our review and approval as if it were a new loan application.

Post-loan monitoring

We continue to monitor the customer’s ability to repay our loans after our loans are drawn down. Our account manager is responsible for preparing a post-loan monitoring memorandum within 15 days after the initial drawdown of loan to report on the customer’s use of funds, and thereafter on a monthly basis to record their post-loan follow-up findings. For loans of RMB1,000,000 or more, our account managers are further required to compile a monitoring report every three months following the initial loan drawdown. Our account managers may conduct on-site visits, assess market development of the industries and regions in which the customers operate, and gather periodic financial information from customers to assess their financial conditions, such as level of sales revenue, inventory and accounts receivables, to consider whether there are indications that customers may have any difficulty in making timely repayments. We also monitor the status of our collaterals by arranging periodic site visits to observe whether there is any changes in the appearance and condition of the collaterals which may affect their market value, and we engage independent property valuer to conduct valuation on all our real property collaterals outstanding as at 30 June and 31 December of each year to monitor the market value of these collaterals.

In order to monitor the risk associated with loans, our risk management department regularly reviews the post-loan monitoring memorandum and records prepared by our account managers with the aim of identifying potential risk of defaults at an early stage, and bring forth to our management’s attention, as and when appropriate. If we identify grounds from our post-loan monitoring findings that suggest deterioration of a customer’s repayment capability, such as (i) significant reduction of customer’s production; (ii) extended absence of controlling person(s), senior management or guarantor(s) from duty; (iii) involvement of material dispute or legal proceeding; (iv) bad credit records with other financial institutions; and (v) significant fall in collateral value, we may take precautionary measures against the loan, such as acceleration of loan repayment or request for additional security.

RISK MANAGEMENT

Collection

In general, our customers are required to pay monthly interest on our loans and repay the principal amount of the loans upon maturity of the loan, and occasionally we may accept monthly installments of part principal plus interest. To ensure timely payment, our account managers generally remind our customers of their payment obligations before the relevant due dates. We consider any loan with whole or part of principal and/or interest that was overdue for one day or more to be overdue. When a loan principal is overdue; or any loan interest is not repaid by the relevant month-end, our account manager will pay an on-site visit to remind the customer of the overdue situation, and assess the conditions and reasons for such overdue. If the overdue situation is not rectified after the visit, our account manager together with a representative of our legal department will conduct another on-site visit to remind the default customer of his/her payment obligation. If the overdue situation remains unresolved, we may arrange an on-site meeting with the default customer to negotiate a repayment plan for the overdue amount. If the customer persists in failing to follow through with the repayment plan, our risk management department and legal department will initiate the following steps to seek collection:

- having recourse to the guarantor: if repayment of a loan is guaranteed by a guarantor, we will demand the guarantor to repay the principal of the loan and any interests accrued thereon; or
- foreclosure of the collateral: for a loan secured by collateral, we will initiate foreclosure proceeding by applying to court to attach and preserve the collateral. Upon obtaining a favorable judgment, we will file an enforcement application with the court to realize the value of the collateral through auction or sale, and subsequently apply all or part of such value toward repayment of the loan.

As at 31 December 2014, 2015 and 2016, we had overdue loans in the amount of approximately RMB14.3 million, RMB46.8 million and RMB10.1 million, representing approximately 2.7%, 7.6% and 1.7% of our total loans receivable, respectively. The higher balance of overdue loans as at 31 December 2015 was primarily a result of certain collateralized overdue loans with three borrowers who are related to each other, and which were under repayment plans where certain real properties were being arranged for disposal to settle the overdue loans. The principal of the overdue loans, together with the interest income accrued thereon, owed by these three borrowers were fully repaid as at 31 December 2016.

Despite our effort in recovering overdue loans, we may fail to recover the overdue loans, whether in whole or in part, due to our business nature. If there is objective evidence that an impairment loss on the loan has been incurred, we record such loan as an impaired loan according to the “Five-Tier Principle” and recognize a relevant amount of impairment loss. Loans receivable are identified as impaired loans if there are objective evidences indicating that the loans’ estimated future cash flows are influenced by one or several factors and the impact can be estimated reliably. During the Track Record Period, the impaired loans identified by us included overdue loans with objective evidence of impairment. Meanwhile, overdue loans related to customers considered to have good credit records or adequate collaterals were not classified as impaired. Our loans receivable which were past due but not

RISK MANAGEMENT

impaired amounted to approximately RMB3.5 million, RMB33.5 million and RMB87,570 as at 31 December 2014, 2015 and 2016, respectively. For details, please refer to the section headed “Business — Provisioning Policies and Asset Quality” in this prospectus. As at 28 February 2017, we had fully recovered principal amount of overdue loans of approximately RMB9.8 million, RMB30.9 million and RMB24,600 among the overdue loans outstanding as at 31 December 2014, 2015 and 2016, respectively, for which it took approximately less than one month up to approximately 3.5 years to fully recover the principal amount of those overdue guaranteed loans, and approximately less than three months up to approximately three years to fully recover the principal amount of those overdue collateralized loans. Among those overdue collateralized loans, we recovered the principal amount of overdue loans of approximately RMB4.2 million, which were secured by real property collaterals, through foreclosure proceedings, the entire recovery process of which took approximately eight months up to approximately three years. In general, the time required for recovering an overdue loan varies on a case-by-case basis, depending on factors such as time required to reach an agreement on repayment plan, repayment schedule, and where appropriate, time involved in the foreclosure proceedings.

Loan Extension

Our customers may apply for term extension of their respective loans before maturity of principal. The term of a loan extension, if granted at our sole discretion, generally will not exceed 12 months from the date of extension. We generally do not accept loan extension application for overdue loans.

We consider and process a customer’s request for loan extension as if it were a new loan application. In considering whether to grant a loan extension, our general manager or our loan review committee (as the case may be) will consider additional factors such as repayment history, the cause(s) and reason(s) for the loan extension, the up-to-date status of collaterals and/or the guarantor(s), and the aggregate amount of outstanding borrowings and guarantee exposure the borrower has with us. We usually only agree to extend the term of a loan for customers who apply for extension due to the needs to manage their short-term liquidity as part of their business operations such as delayed settlement of receivables, temporary tie-up of funds in capital expenditure or delayed receipt of incoming additional funding such as bank loans. Similar to a new loan application, our credit review focuses on evaluating the customer’s repayment ability (including, where appropriate, assessing the recoverability of receivables by such customer) and willingness to repay. In addition, we will review and assess the genuineness of the reasons for applying for loan extension, such as reviewing business contracts, invoices and/or bank loan agreements of customers.

Prior to 2015 we generally took a more commercially lenient approach in receiving and considering our customers’ loan extension requests. Since 2015 we have taken a more conservative stance in risk management in general, pursuant to which we started dissuading our customers to apply for loan extension and applied a higher level of scrutiny in considering any grant of loan extension with a view of improving the general quality of our loan portfolio and further reducing our credit risk exposure. As a result, we have noted a significant decrease in our extended loan ratio from 13.2% to 5.7% and further to 1.1% as of each of the years ended 31 December 2014, 2015 and 2016. For the years ended 31 December 2014, 2015 and 2016, we rejected 13, 16 and 10 out of 111, 25 and 11 customers’ requests for loan extension, respectively.

RISK MANAGEMENT

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk resulting from inadequate or failed internal control systems, human errors or external events. We consider operational risk to be one of the major risks in our business and believe that this inherent risk can be controlled or minimized through adequate and comprehensive operational policies and procedures. We have adopted the following measures:

- establishing a sound corporate governance structure with clearly defined duties of the Board, the Supervisory Committee and senior management;
- establishing a loan review committee and collective decision making procedures for loans equal to or more than RMB500,000 to mitigate the risk relating to personal judgment or prejudice of single decision maker in approving loans that are considered significant in size relative to our loan portfolio;
- our risk management department, which reports directly to our general manager, is independent from other departments to ensure the independence of our risk management;
- establishing operational procedures and internal control system and utilizing our information technology system to monitor and control their implementation and proper functioning. For details, please refer to section headed “Business — Information Technology” in this prospectus and the paragraph headed “Our OA System” in this section. We also adopt a system of “separation of due diligence and approval (審貸分離)” and require multi-aspect pre-loan due diligence and parallel due diligence from both account managers and risk management department to prevent and detect potential employee frauds;
- implementing a performance-based compensation scheme with indicators linked to, inter alia, the repayment performance of customers served by the relevant account manager; and
- providing professional trainings to the employees, especially those participating in our loan application review and approval process.

LEGAL AND COMPLIANCE RISK MANAGEMENT

Our business is subject to extensive regulations and supervisions by national, provincial and local government authorities with regard to our operations, capital structure, pricing and provisioning policy, which are subject to constant changes. Please refer to the section headed “Regulatory Overview” in this prospectus for more information. If we do not respond to these changes in a timely manner or are found to be not in compliance with applicable laws and regulations, our business could be adversely affected. Please refer to the section headed “Risk Factors — Risks relating to our Business and Industry — Our business is heavily regulated and supervised by national, provincial, municipal and local government authorities. If we fail to respond to the changes in applicable regulatory requirements in a timely manner or at all, or if we fail to renew our business license, our business operations may be adversely affected or even be terminated” in this prospectus.

RISK MANAGEMENT

Our risk management department and legal department are responsible for operational compliance review, examination of the completeness of loan application procedures, implementation of regulatory policies, provision of operational guidance and trainings, handling of legal matters related to loan collection, foreclosure of collaterals and drafting and review of legal documents. More particularly, our legal department is responsible for monitoring any changes in laws and regulations, and clarifying with relevant regulatory authorities and/or seeking external legal advice in case of ambiguity in the interpretation and implementation of such regulatory rules and regulations.

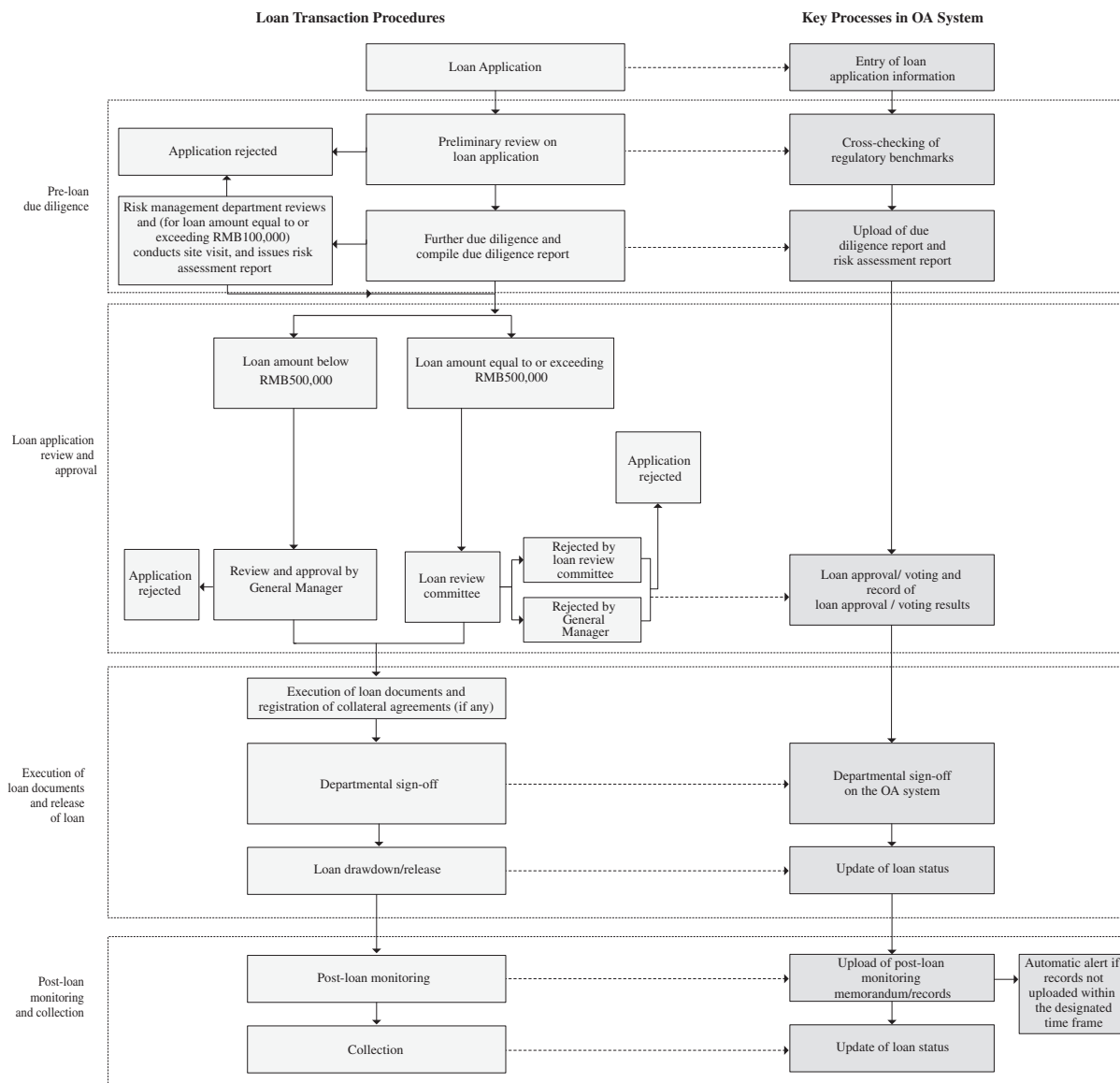
Our risk management department and legal department utilize our OA system to assist in carrying out risk management, internal control and compliance functions in areas such as identification of connected borrowers/guarantors and cross borrowers/guarantors, monitoring of regulatory benchmark compliance, adherence to pre-loan due diligence and post-loan monitoring procedures, etc.

OUR OA SYSTEM

We launched our OA system initially in the second half of 2014 to increase operational efficiency and reduce risks and human errors. As part of our effort to enhance our risk management and compliance efficiency and to further mitigate operational and compliance risks resulting from human errors or employee misconduct, we commenced upgrading our OA system since March 2015 to facilitate on-line management and monitoring of various risk management and compliance procedures, checkpoints and benchmarks. In this respect, our legal department and risk management department are together responsible for monitoring and updating all applicable compliance and regulatory benchmarks as well as our connected persons database in our OA system to facilitate proper safeguarding of our compliance with all applicable PRC laws, regulations, rules and guidelines.

RISK MANAGEMENT

Our OA system currently supports certain key procedures in our loan transactions, from loan application, pre-loan due diligence, loan application review and approval to post-loan monitoring as demonstrated below:



RISK MANAGEMENT

Loan application

At loan application stage, our account manager inputs into our OA system the loan application information, including the identity of a loan applicant, his/her guarantor(s) and their respective connected persons, information of collateral(s), the applied loan amount, and the proposed interest rate. This allows us to check and identify whether any of the loan applicants, their guarantors and their respective connected persons is a current or former customer, guarantor, or a connected person or a company owned or controlled by a connected person of us, and if so, such information would be remarked automatically on the relevant loan application for our general manager's and/or loan review committee members' attention.

In addition, our OA system automatically processes such loan application information relevant to key regulatory benchmarks and guidelines, and generates various updated benchmark indicators, ratios and amounts and alerts to facilitate our compliance checking, in particular, that:

- (1) the total balance of small loans shall not be less than 70% of the total balance of our outstanding loans;
- (2) the total balance of AFR-related loans shall not be less than 70% of the total balance of our outstanding loans;
- (3) the total balance of business loans (經營性貸款) with a term longer than three months shall account for no less than 70% of the total balance of our outstanding loans;
- (4) the total balance of loans to a single borrower shall not exceed 3% of our net capital, unless with approval from our general manager, provided that in no event shall it exceed 5% of our net capital;
- (5) the total balance of loans and guarantees to a single borrower and its related parties shall not exceed 10% of our net capital;
- (6) for a single loan in an amount of RMB500,000 or below, the interest rate shall not exceed four times of the PBOC Benchmark Interest Rate;
- (7) for a single loan greater than RMB500,000, the maximum interest rate shall not exceed four times of the PBOC Benchmark Interest Rate;
- (8) the weighted average interest rate for all loans in an amount exceeding RMB500,000 shall not exceed 18% per annum;
- (9) there shall not be less than 60 borrowers for each tranche of loans in an aggregate principal amount of RMB100 million;
- (10) the borrower shall not be a guarantee company, pawnshop, investment and asset management company or other entity involved in finance business (貨幣經營); and
- (11) the total balance of loans to borrowers in industries or fields which the PRC Government shall exercise strict control shall not exceed 30% of our net capital.

RISK MANAGEMENT

As part of our loan application review and approval process, our risk management department is tasked to check, with the assistance of our OA system which automatically alerts any potential breach of key regulatory requirements and benchmarks, for compliance with all applicable regulatory requirements and benchmarks. Loan applications that prompt our OA system to alert a breach of any regulatory requirements and benchmarks will be rejected by our risk management department and will not be proceeded further. The compliance and regulatory benchmarks of the OA system and our connected persons database are monitored by our legal department from time to time. Updates of the compliance and regulatory benchmarks and our connected persons database are subject to risk management department's review and our general manager's approval.

Application acceptance and due diligence

Upon completion of the due diligence, our account manager and risk management department (for loans equal to or more than RMB100,000) will upload onto the OA system the due diligence report and risk assessment report of a loan applicant, respectively. This allows our general manager and loan review committee to have on-line access to review these reports.

Loan application review and approval

For each loan application, our general manager or members of our loan review committee (as the case may be) are required to cast their vote on our OA system through their own login interface. The voting results will be displayed and automatically recorded in the OA system, and that rejected applications are prohibited from proceeding further through the OA system.

Grant of loans

Before release of a loan, each of the customer service department, the legal department, the risk management department and the general manager is required to acknowledge their respective approval for release of loan through the OA system. After all the above departments have acknowledged their approval, the OA system will send a notification to the finance department for preparation of the release of loan. Once the loan has been released, the finance department will update the status of the loan in the OA system.

Post-loan monitoring

Our account manager is required to upload the initial "15-day" post-loan monitoring memorandum and all the subsequent monthly monitoring memoranda and, where applicable, the "three-month" monitoring reports to the OA system within the stated time frame. Any delay in posting of such memoranda and/or reports to the OA system would result in the OA system automatically sending out a reminder notice to the relevant account manager and an alert to our risk management department and our general manager for internal follow-up. Our finance department will update any repayment of loan principal onto the OA system.

RISK MANAGEMENT

System security and maintenance

To ensure information and data security, access to customers' information and records in the OA system are restricted to certain employees dedicated to specific departments and functions. We have also adopted internal policies and restricted access rights to ensure that authorization is tailored to employee seniority and department function, so that selected information can only be obtained by different departments on a need-to-know basis.

Our servers have security control protocols and daily on-site surveillance monitoring, among others, to ensure only authorized personnel can gain physical access to the servers. Any upgrade or update of the software applications, hardware devices or system configurations has to be pre-approved by our general manager. Our server is also linked to our data backup system, which backs up data on a daily basis.

ANTI-MONEY LAUNDERING PROCEDURES

According to our PRC Legal Advisers, we are currently not subject to anti-money laundering laws and regulations in China other than the Circular of PBOC and CBRC regarding Policies on Rural Banks and Township Banks, Loan Companies, Rural Mutual Aid Institutions and Microcredit Companies (中國人民銀行、中國銀行業監督管理委員會關於村鎮銀行、貸款公司、農村資金互助社、小額貸款公司有關政策的通知). The circular provides that we are required to record and preserve records of cash deposit or withdrawal, cash remittance, negotiable instruments (票據) for settlement or any other forms of cash receipt and payment in a single transaction or aggregate transactions in one day with an amount exceeding RMB200,000. Please refer to the section headed "Regulatory Overview — Laws and Regulations Related to Anti-money Laundering" in this prospectus for further details.

We do, however, implement a policy on anti-money laundering, and observe certain procedures in our daily operation to ensure that our customers have genuine purpose of obtaining financing from us and that we are not assisting any money laundering activities during our business operation. We have established the following procedures:

- (a) conduct due diligence review on potential customers' background information including their business operation and financial background;
- (b) request the potential customers to provide their purpose of obtaining the loans;
- (c) adopt post-loan monitoring to track the actual usage of the loans by the customers; and
- (d) arrange trainings to our employees on conducting due diligence or knowledge regarding anti-money laundering.

Based on the procedures described above, and given that we are not subject to the anti-money laundering regime in China, our Directors are of the view that our procedures adopted during our daily operation are capable of assisting us to be reasonably alert to potential money laundering activities and to take appropriate measures if necessary.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

The Board consists of eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The functions and duties of the Board include but are not limited to: convening Shareholders' general meetings and reporting the Board's work at the Shareholders' general meetings; implementing resolutions passed at Shareholders' general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for increase or decrease in registered capital; and exercising other power, functions and duties as conferred by the Articles of Association. Each of our Directors has entered into a service contract with our Company.

The following table sets forth certain information of our Directors.

Name	Age	Position	Date of Appointment	Date of Joining the Company	Responsibilities	Relationships with other Directors, Supervisors and senior management
Mr. Bo Wanlin (柏萬林)	68	Chairman and executive Director	12 November 2008	12 November 2008	Corporate strategic planning and overall business development and management of our Company	Father of Mr. Bo Nianbin and Ms. Bai Li
Ms. Bai Li (柏莉)	41	Executive Director	23 August 2012	1 July 2010	Formulating and implementing our corporate strategies, overseeing our overall business development and participating in the day-to-day management of our business operations	Daughter of Mr. Bo Wanlin and sister of Mr. Bo Nianbin
Ms. Zhou Yinqing (周吟青)	38	Executive Director	6 May 2013	6 May 2013	Overseeing the financial management of our Company	None
Mr. Bo Nianbin (柏年斌)	42	Non-executive Director	12 November 2008	12 November 2008	Attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations	Son of Mr. Bo Wanlin and brother of Ms. Bai Li
Mr. Zuo Yuchao (左玉潮)	45	Non-executive Director	12 November 2008	12 November 2008	Attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Appointment	Date of Joining the Company	Responsibilities	Relationships with other Directors, Supervisors and senior management
Mr. Bao Zhenqiang (包振強)	54	Independent non-executive Director	31 May 2016	31 May 2016	Attending meetings of our Board to perform duties as a Board member, and providing independent opinion and judgment to our Board	None
Mr. Wu Xiankun (吳賢坤)	66	Independent non-executive Director	15 January 2015	15 January 2015	Attending meetings of our Board to perform duties as a Board member, and providing independent opinion and judgment to our Board	None
Mr. Chan So Kuen (陳素權)	37	Independent non-executive Director	15 January 2015	15 January 2015	Attending meetings of our Board to perform duties as a Board member, and providing independent opinion and judgment to our Board	None

Executive Directors

Mr. Bo Wanlin (柏萬林), aged 68, is the Chairman of the Board and the executive Director. He is primarily responsible for corporate strategic planning and overall business development and management of our Company. Mr. Bo is the father of Mr. Bo Nianbin and Ms. Bai Li. Mr. Bo has been our Chairman and executive Director since the incorporation of our Company in November 2008 and has over seven years of experience in small loan financing industry. The previous working experience of Mr. Bo is set out as below:

Term of office (Year/Month)	Company/ organization	Principal (business) activity	Position	Job duties
October 2013 to January 2015	Zhongcheng Bank	Banking Business (as defined in the section headed "Relationship with the Controlling Shareholders — Other Businesses Invested by our Controlling Shareholders — Competition between the principal businesses of Mintai Bank and Zhongcheng Bank and the Company is limited and not extreme" in this prospectus)	Supervisor	Supervising performance of the board of directors of company

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Term of office (Year/Month)	Company/ organization	Principal (business) activity	Position	Job duties
November 2009 to September 2014	Mintai Bank	Banking Business (as defined in the section headed “Relationship with the Controlling Shareholders — Other Businesses Invested by our Controlling Shareholders — Competition between the principal businesses of Mintai Bank and Zhongcheng Bank and the Company is limited and not extreme” in this prospectus)	Director	Involving in formulation of company’s operational development strategy and planning
August 1996 to November 2014	Botai Group	Manufacturing, import, export, sales of garment and investment management	Chairman	Formulation of company’s operational development strategy and planning, oversee company’s operations and management
January 1991 to July 1996	Jiangsu Qinman Group Limited (江蘇琴曼集團 有限公司)	Manufacturing and sales of garment	Chairman and general manager	Fully responsible for company’s operations and management
February 1973 to December 1990	Yangzhou Zhenxing Garment Factory (揚州市振興服裝廠)	Manufacturing and sales of garment	Factory director, secretary of the branch of the Party (黨支部書記) (last position)	Fully responsible for company’s operations and management as well as the Party and political works

Mr. Bo once served as the chairman and legal representative of 揚州唯一製衣有限公司 (Yangzhou Weiyi Garment Manufactory Co., Ltd.), a company incorporated in the PRC. Its business scope includes manufactory and sale of luxury garment. Since this company no longer carried on business and did not conduct annual inspection, the business license of this company was revoked on 16 April 2008.

Mr. Bo once served as the supervisor of 江蘇凱昌服裝有限公司 (Jiangsu Kaichang Garment Co., Ltd.), a company incorporated in the PRC. Its business scope includes manufacture and sale of garment. Since this company no longer carried on business and did not conduct annual inspection, the business license of this company was revoked on 2 December 2010.

According to PRC laws, a person who acts as the legal representative of a company or enterprise, the business license of which is revoked due to violation of the laws and is personally liable for the revocation of the business license, is prohibited from acting as a director, supervisor or senior management within three years from the date of revocation of the business license thereof.

On the basis that (i) Mr. Bo was not personally liable for the revocation of the business license of 揚州唯一製衣有限公司 (Yangzhou Weiyi Garment Manufactory Co., Ltd.) for reason that Mr. Bo was not the person in charge of handling the annual industry and commerce inspection, and the person

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

then in charge of the matter failed both to hand over the relevant work to others before he left the company and notify Mr. Bo of not having conducted annual industry and commerce inspection; (ii) Mr. Bo only acted as supervisor of 江蘇凱昌服裝有限公司 (Jiangsu Kaichang Garment Co., Ltd.) and was not its legal representative; and (iii) the relevant administration for industry and commerce confirmed that the revocation of license of each of 揚州唯一製衣有限公司 (Yangzhou Weiyi Garment Manufactory Co., Ltd.) and 江蘇凱昌服裝有限公司 (Jiangsu Kaichang Garment Co., Ltd.) did not and will not cause any adverse effect on Mr. Bo or other companies connected with Mr. Bo and Mr. Bo may continue to act as legal representative, director, supervisor or senior management of other companies, our PRC Legal Advisers advised that such revocation will not cause any materially adverse legal effect on Mr. Bo or other companies connected with Mr. Bo and Mr. Bo may act as the legal representative, director, supervisor or senior management of other PRC companies.

Mr. Bo completed his secondary school education in Jiangsu Province Hanjiang Middle School (江蘇省邗江中學) in the PRC in 1968.

Ms. Bai Li (柏莉), aged 41, is our executive Director and the general manager. She is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and participating in the day-to-day management of our business operations. Ms. Bai is the daughter of Mr. Bo Wanlin and the sister of Mr. Bo Nianbin. Ms. Bai has over 18 years of experience in financing industry. Ms. Bai was appointed as an executive Director on 23 August 2012. She joined our Company on 1 July 2010 as a deputy general manager and was subsequently promoted as a general manager on 6 May 2013 responsible for overall management and operations. The previous working experience of Ms. Bai is set out as below:

Term of office (Year/Month)	Company/ Organization	Principal (business) activity	Position	Job duties
March 2010 to August 2012	Botai Group	Manufacturing, import, export, sales of garment and investment management	Supervisor	Supervising performance of the board of directors of company
August 1998 to March 2010	Bank of Communications Co., Ltd. Yangzhou Branch (交通銀行股份 有限公司揚州分行) (listed company) (Stock Code: 601328.SH)	Commercial banking business	Customer manager	Loan investigation and issue

Ms. Bai graduated from Yangzhou University (揚州大學) in the PRC in July 1997 majoring in international business.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Zhou Yinqing (周吟青), aged 38, is our executive Director and the deputy general manager. She is primarily responsible for overseeing the financial management of the Company. Ms. Zhou has over 20 years of experience in accounting and finance. Ms. Zhou was appointed as an executive Director on 6 May 2013 and as a deputy general manager on 10 March 2014. The previous working experience of Ms. Zhou is set out as below:

Term of office (Year/Month)	Company/ Organization	Principal (business) activity	Position	Job duties
March 1996 to March 2014	Botai Group	Manufacturing, import, export, sales of garment and investment management	Financial controller (last position)	Responsible for financial management of Botai Group

Ms. Zhou graduated from Central Radio and Television University (中央廣播電視大學, currently known as The Open University of China (國家開放大學)) majoring in financial accounting in the PRC in July 2007.

Non-executive Directors

Mr. Bo Nianbin (柏年斌), aged 42, is our non-executive Director. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. Mr. Bo is the son of Mr. Bo Wanlin and the brother of Ms. Bai Li. Mr. Bo has been our non-executive Director since the incorporation of our Company in November 2008 and has over seven years of experience in small loan financing industry. The other working experience of Mr. Bo is set out as below:

Term of office (Year/Month)	Company/ Organization	Principal (business) activity	Position	Job duties
March 2017 to present	Jiangsu Botai Company Limited (江 蘇柏泰股份有限公司)	Manufacturing and sales of garment	Chairman and general manager	Fully responsible for company's operation and management
December 2014 to present	Botai Group	Manufacturing, import, export, sales of garment and investment management	Chairman	Formulation of company's operational development strategy and planning, oversee company's operations and management
November 2014 to present	Shanghai Boke Fashion Co., Ltd. (上海柏可時裝有限公 司)	Sale of garment	Supervisor	Supervising performance of the board of directors of company
November 2004 to present	Liantai Guangchang	Household building materials trading business	Supervisor	Supervising of company
July 2001 to present	Yangzhou Bo Tai Garment Company Limited (揚州柏泰製衣 有限公司)	Manufacturing and sales of garment	Director and general manager	Fully responsible for company's operation and management
April 1995 to present	Botai Group	Manufacturing, import, export, and sales of garment and investment management	Director	Formulation of company's operational development strategy and planning

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Bo completed his secondary school education in Jiangsu Province Yangzhou Middle School (江蘇省揚州中學) in the PRC in May 1992.

Mr. Zuo Yuchao (左玉潮), aged 45, is our non-executive Director. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. Mr. Zuo has over 14 years of experience in finance industry. Mr. Zuo joined our Company in 12 November 2008 as a non-executive Director. The other working experience of Mr. Zuo is set out as below:

Term of office (Year/Month)	Company/ Organization	Principal (business) activity	Position	Job duties
March 2017 to present	Jiangsu Botai Company Limited (江蘇柏泰股份有限公 司)	Manufacturing and sales of garment	Chairperson of the Supervisory Committee	Supervising performance of the board of directors of the company
December 1999 to present	Botai Group	Manufacturing, import, export, sales of garment and investment management	General manager (last position)	Fully responsible for company's operations and management
July 1992 to December 1999	Agricultural Bank of China Limited Yangzhou Guangling Branch (中國農業銀行 揚州廣陵支行) (Stock Code: 601288.SH)	Commercial banking business	Loan officer	Loan review

Mr. Zuo graduated from Suzhou Urban Construction and Environmental Protection Institute (蘇州城建環保學院) (currently known as Suzhou University of Science and Technology (蘇州科技學院)) in July 1992 majoring in real estate management.

Independent non-executive Directors

Mr. Bao Zhenqiang (包振強), aged 54, was appointed as our independent non-executive Director on 31 May 2016. Mr. Bao has over 34 years of teaching experience in the field of academic research and teaching. The working experience of Mr. Bao Zhenqiang is set out as below:

Term of office (Year/Month)	Company/Organization	Principal (business) activity	Position	Job duties
July 2004 to present	Yangzhou University	Education	Professor	Academic research and Teaching
February 1982 to July 2004	Yangzhou University	Education	Teacher	Academic research and Teaching

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Bao graduated from Yangzhou Industrial College (揚州工業專科學校) (currently known as Yangzhou University (揚州大學)) in December 1981 majoring in mechanical manufacturing. He obtained a doctorate degree in electric engineering from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in December 2003.

Mr. Wu Xiankun (吳賢坤), aged 66, was appointed as our independent non-executive Director on 15 January 2015. Mr. Wu has over 35 years of experience in teaching and administration management. The working experience of Mr. Wu is set out as below:

Term of office (Year/Month)	Company/Organization	Principal (business) activity	Position	Job duties
September 2000 to June 2010	Hanjiang Secondary School (邗江中等專科學校)	Education	Party secretary (黨總支書記)	Party and government work
September 1983 to September 2000	Guangling Beizhou Middle School (廣陵北洲中學)	Education	Principal	Teaching and administrative work
February 1981 to July 1983	Hanjiang County Middle School (邗江縣中學)	Education	Teacher	Teaching

Mr. Wu graduated from Yang Zhou Normal College (揚州師範學院) (currently known as Yangzhou University (揚州大學)) in January 1981 majoring in Chinese.

Mr. Chan So Kuen (陳素權), aged 37, was appointed as our independent non-executive Director on 15 January 2015. Mr. Chan has over 14 years of experience in accounting, auditing and finance industry. The working experience of Mr. Chan is set out as below:

Term of office (Year/Month)	Company/Organization	Principal (business) activity	Position	Job duties
October 2014 to present	Link Holdings Limited (華星控股有限公司) (Stock Code: 8237.hk)	Hotel business in Singapore	Independent non-executive Director	Providing independent judgment on the issues of strategy, performance, resources and standard of conduct

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Term of office (Year/Month)	Company/Organization	Principal (business activity)	Position	Job duties
December 2013 to present	Huazhang Technology Holding Limited (華章科技控股有限公司) (Stock Code: 1673.hk)	Research and development, manufacture and sale of industry automation systems and sludge treatment products	Chief financial officer and company secretary	Responsible for internal control and overseeing financial and accounting activities
November 2009 to October 2012	China Great Wall Electric Holdings Limited (中國長城電氣控股有限公司)	Manufacture and sales of electrical equipment	Chief financial officer and company secretary	Responsible for compliance and overall financial and accounting activities
January 2004 to July 2009	KPMG	Audit firm	Manager (last position)	Responsible for project audit
June 2001 to October 2003	Ho and Ho & Company (何錫麟會計師行)	Audit firm	Semi-senior audit clerk	Responsible for project audit

Mr. Chan obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University in November 2001. He is a member of the Hong Kong Institute of Certified Public Accountants.

Save as disclosed, each of our Directors has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 17.50(2) (h) to (v) of the GEM Listing Rules as at the Latest Practicable Date.

SUPERVISORY COMMITTEE

The Supervisory Committee consists of three Supervisors, comprising two non-employee representative supervisors and one employee representative supervisor. The functions and duties of the Supervisory Committee include reviewing and monitoring the financial activities of the Company; supervising the performance of the Directors, the chairman of the Board and senior management members; monitoring the due diligence of the Directors, the general manager and senior management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

members; requesting the Directors, the general manager and senior management members to rectify actions which are damaging to the Company's interests; conducting specific review and departure review of Directors and senior management members; reviewing and monitoring business strategy, risk management and internal control of the Company, and supervising internal auditing; enquiring Directors, the chairman of the Board and senior management members; proposing to convene extraordinary shareholder's meeting; proposing to remove any Directors or Supervisors who fail to perform their duties; exercising rights given to them under the relevant laws, regulations and the Articles of Association of the Company and other rights given to them by the shareholder's meeting of the Company. Each of the Supervisors has entered into a service contract with our Company.

The following table sets forth certain information of our Supervisors.

Name	Age	Position	Date of Appointment	Date of Joining the Company	Responsibilities	Relationships with other Directors, Supervisors and senior management
Ms. Wang Chunhong (王春宏)	67	Chairperson of the Supervisory Committee	15 January 2015	15 January 2015	Supervising performance of the board of directors of the Company	None
Mr. Zhang Yi (張翼)	31	Employee Supervisor and department manager	6 May 2013	5 December 2011	Supervising performance of the board of directors of the Company	None
Ms. Li Guoyan (李國彥)	37	Supervisor	15 January 2015	15 January 2015	Supervising performance of the board of directors of the Company	None

Ms. Wang Chunhong (王春宏), aged 67, is the chairperson of the Supervisory Committee and a Supervisor since 15 January 2015. Ms. Wang joined our Company on 15 January 2015. Prior to joining our Company, the previous working experience of Ms. Wang is set out as below:

Term of office (Year/Month)	Company/ Organization	Principal (business) activity	Position	Job duties
August 1988 to July 2005	Hanjiang Professional Education Centre (邗江職教中心)	Education	Teacher	Teaching and research

Ms. Wang has retired since August 2005 and has not been engaged in any employment until her current position with our Company.

Ms. Wang graduated from the long distance learning courses of the Long Distance Learning School of China Central Party School (中共中央黨校函授學院) in the PRC in December 1999.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhang Yi (張翼), aged 31, has been an employee Supervisor since 6 May 2013. Mr. Zhang joined our Company on 5 December 2011 as account manager, and currently serves as a department manager of the customer service department in our Company and he is responsible for preliminary review of loan applications. The working experience of Mr. Zhang is set out as below:

Term of office (Year/Month)	Company/ Organization	Principal (business) activity	Position	Job duties
August 2010 to November 2011	Jiangsu Ruilian Electronic Technology Co., Ltd. (江蘇瑞聯電子科技 有限公司)	R&D of electronic products	Product R&D personnel	Involving in new product development

Mr. Zhang obtained a bachelor's degree in international business from Yangzhou University (揚州大學) in the PRC in June 2009.

Ms. Li Guoyan (李國彥), aged 37, a Supervisor of the Company since 15 January 2015. The previous working experience of Ms. Li is set out as below:

Term of office (Year/Month)	Company/ Organization	Principal (business) activity	Position	Job duties
July 2005 to present	Nanjing University of Aeronautics and Astronautics (南京航空航天大學)	Education	Teacher	Teaching

Ms. Li graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in June 2001 majoring in engineering management, and obtained a master's degree in technical economics and management from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in the PRC in April 2005.

Save as disclosed, each of our Supervisors has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Supervisors that needs to be brought to the attention of the Shareholders and there was no information relating to our Supervisors that is required to be disclosed pursuant to Rules 17.50(2) (h) to (v) of the GEM Listing Rules as at the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The following table sets forth certain information of the members of the senior management of our Company.

Name	Age	Position	Date of Appointment	Date of Joining the Company	Responsibilities	Relationships with other Directors, Supervisors and senior management
Ms. Bai Li (柏莉)	41	General manager	6 May 2013	1 July 2010	Formulating and implementing our corporate strategies, overseeing our overall business development and participating in the day-to-day management of our business operations	Daughter of Mr. Bo Wanlin and sister of Mr. Bo Nianbin
		Deputy general manager	1 July 2010			
Ms. Zhou Yinqing (周吟青)	38	Deputy general manager	10 March 2014	10 March 2014	Overseeing the financial management of our Company	None
Mr. Xu Lei (許磊)	32	Secretary to the Board	31 January 2015	8 April 2014	Overseeing risk management	None
		Joint Company Secretary	31 January 2015			
		Deputy general manager	8 April 2014			

For biographical details of Ms. Bai Li (柏莉) and Ms. Zhou Yinqing (周吟青), please refer to the paragraph headed “Executive Directors” above.

Mr. Xu Lei (許磊), aged 32, has been our deputy general manager since 8 April 2014 and secretary to the Board and joint company secretary since 31 January 2015. Prior to joining our Company, the previous working experience of Mr. Xu is set out as below:

Term of office (Year/Month)	Company/Organization	Principal (business) activity	Position	Job duties
March 2010 to April 2014	Huiyin Household Appliances (Holdings) Co., Ltd. (匯銀家電(控股)有限公司) (Stock Code: 1280.HK)	Sales of household appliances, establishment and operation of e-commerce platform	Internal audit controller, investor relationship manager	Responsible for company’s internal audit and management of investor relationship
August 2007 to March 2010	PricewaterhouseCoopers Zhong Tian LLP	Accounting firm	Senior auditor	Responsible for project audit

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Xu obtained a bachelor's degree in economics from Fudan University (復旦大學) in the PRC in July 2007.

Save as disclosed, each of our senior management has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

JOINT COMPANY SECRETARY

Mr. Wong Yat Tung (黃日東), aged 44, has been our joint company secretary since 31 January 2015. He has more than eight years' experience in providing company secretary services. He joined SW Corporate Services Group Limited (a corporate service provider) in July 2013 and has been a manager since October 2014 and responsible for assisting in providing company secretary services.

Mr. Wong currently serves as the company secretary of Wonderful Sky Financial Group Holdings Limited (Stock Code: 1260) since April 2015, Tianjin Jinran Public Utilities Company Limited (Stock Code: 1265) since December 2015 and Auto Italia Holdings Limited (Stock Code: 720) since April 2016; and the joint company secretary of China Zheshang Bank Co., Ltd. (Stock Code: 2016) since July 2015, Guangdong Join-Share Financing Guarantee Investment Co., Ltd. (Stock Code: 1543) since May 2015, Yihai International Holding Ltd. (Stock Code: 1579) since March 2016, Shanghai Dazhong Public Utilities (Group) Co., Ltd. (Stock Code: 1635.HK, 600635.SH) since February 2016 and Jilin Jiutai Rural Commercial Bank Corporation Limited (Stock Code: 6122) since January 2017.

Mr. Wong obtained a bachelor's degree in quantitative analysis for business from the City University of Hong Kong in December 1996 and a master's degree in corporate governance from the Hong Kong Polytechnic University in October 2009. He became an associate of the Hong Kong institute of chartered secretaries and the Institute of Chartered Secretaries and Administrators since December 2009.

Mr. Xu Lei (許磊), aged 32, has been our joint company secretary since 31 January 2015. For biographical details of Mr. Xu Lei, please refer to the paragraph headed "Senior Management" above.

COMPLIANCE OFFICER

Ms. Bai Li, our executive Director, is the compliance officer of our Company.

BOARD COMMITTEES

Audit committee

Our Company has established an audit committee on 31 January 2015 with its written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting, risk management and internal control system, oversee the audit process and to provide advice and comments to the Board.

Our audit committee consists of three members, being Mr. Chan So Kuen, Mr. Bao Zhenqiang and Mr. Wu Xiankun. Mr. Chan So Kuen currently serves as the chairman of our audit committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Remuneration committee

Our Company has established a remuneration committee on 31 January 2015 with its written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to make recommendations on the remuneration of our senior management and to recommend on the remuneration of members of the Board.

Our remuneration committee consists of three members, being Mr. Bao Zhenqiang, Mr. Wu Xiankun and Mr. Chan So Kuen. Mr. Bao Zhenqiang currently serves as the chairman of our remuneration committee.

Nomination committee

Our Company has established a nomination committee on 31 January 2015 with its written terms of reference in compliance with paragraph A.5 of the Corporate Government Code set out in Appendix 15 to the GEM Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board.

Our nomination committee consists of three members, being Mr. Bo Wanlin, Mr. Wu Xiankun and Mr. Bao Zhenqiang. Mr. Bo Wanlin currently serves as the chairman of our nomination committee.

REMUNERATION POLICY

Our Directors, Supervisors and senior management receive compensation in the form of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of our Company. Our Company also reimburses our Directors, Supervisors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Company or executing their functions in relation to the operations of our Company. We regularly review and determine the remuneration and compensation packages (including incentive plans) of the Directors, Supervisors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors, Supervisors and senior management and the performance of our Company.

COMPENSATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the three years ended 31 December 2014, 2015 and 2016, the aggregate amount of fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) paid by our Company to our Directors and Supervisors were approximately RMB946,233, RMB1,038,662 and RMB1,018,506, respectively. Our Directors' and Supervisors' remuneration is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

For the three years ended 31 December 2014, 2015 and 2016, the aggregate amount of fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

benefits in kind (if applicable) paid by our Company to our senior management were approximately RMB274,048, RMB541,304 and RMB549,570, respectively. Our senior management remuneration is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

The fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) payable by the Company to the top five highest paid individuals (including Directors and Supervisors) for the three years ended 31 December 2014, 2015 and 2016, were approximately RMB890,712, RMB1,382,407 and RMB1,207,355, respectively.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, past Directors, our Supervisors, past Supervisors or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of our Company.

None of our Directors or Supervisors had waived any remuneration during the Track Record Period. Save as disclosed above, no other payments have been paid, or are payable, by our Company to our Directors, Supervisors or the five highest-paid individuals during the Track Record Period.

It is estimated that under the arrangements currently in force, the aggregate amount of compensation (including salaries, benefits in kind but excluding discretionary bonuses) payable to our Directors and Supervisors for the year ending 31 December 2017, will be approximately RMB1,028,442 and RMB209,128, respectively.

COMPLIANCE ADVISER

Our Company has appointed China Galaxy International Securities (Hong Kong) Co., Limited as our compliance adviser upon Listing pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;
- (3) where our Company proposes to use the proceeds of the Public Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of operation of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the H Shares or any other matters under Rule 17.10 of the GEM Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The term of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the second full financial year commencing after the Listing and such appointment maybe subject to extension by mutual agreement.

CORPORATE GOVERNANCE CODE

As at the Latest Practicable Date, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, our Directors are not aware of any deviation from provisions in the Corporate Governance Code under Appendix 15 to the GEM Listing Rules.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

OVERVIEW

Our Predecessor Company was established on 12 November 2008 and was converted into a joint stock limited liability company on 10 August 2012 and became our Company in accordance with the PRC laws. Immediately after completion of the Public Offer, Botai Group and Liantai Guangchang will hold approximately 40.03% and 31.65% of the total issued share capital of our Company respectively. As at the Latest Practicable Date, both Botai Group and Liantai Guangchang were wholly owned by the Bo Family. More particularly, Liantai Guangchang was owned as to approximately 48.67% by Botai Group, 26.33% by Mr. Bo Wanlin, 15% by Mr. Bo Nianbin and 10% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin). Botai Group was owned as to approximately 33.33% by Mr. Bo Wanlin, 16.67% by Mr. Bo Nianbin, 16.67% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin), 16.67% by Ms. Bai Li and 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin), and as such, the Bo Family, Botai Group and Liantai Guangchang will be a group of our Controlling Shareholders after the Public Offer.

Mr. Bo Wanlin, Ms. Wang Zhengru, Mr. Bo Nianbin, Ms. Bai Li and Ms. Zhu Wenying, being members of the Bo Family, are parties acting in concert, whereby members of the Bo Family, namely Ms. Wang Zhengru, Mr. Bo Nianbin, Ms. Bai Li and Ms. Zhu Wenying agreed to vote in concert with Mr. Bo Wanlin at shareholders' meeting of our Company. As such, the Bo Family, Botai Group and Liantai Guangchang will remain as a group of Controlling Shareholders after the Public Offer.

Botai Group was established as a limited liability company on 7 September 1994 in accordance with the PRC laws. Its business scope includes manufacturing, sale, import and export of clothing products, finery, tent, electronic equipment, sweater leather, wrapper, tie, textile and its raw material and investment management.

Liantai Guangchang was established as a limited liability company on 18 November 2004 in accordance with the PRC laws. Its business scope includes sale, import and export of furniture, building decoration materials, metals, machinery, chemical and industrial products, general merchandise, motor vehicles, textile, commodity, technological products, software and office equipment, warehousing and venue rental services.

OTHER BUSINESSES INVESTED BY OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, each of Botai Group and Liantai Guangchang held 10% interest in Mintai Bank as passive investors, and Botai Group held 8% interest in Zhongcheng Bank in the capacity as passive investor.

General Information about Mintai Bank and Zhongcheng Bank

As at the Latest Practicable Date, Mintai Bank principally engages in the Banking Business (as defined in the paragraph headed "Other Businesses Invested by Our Controlling Shareholders — Competition between the principal businesses of Mintai Bank and Zhongcheng Bank and the Company is limited and not extreme" below in this prospectus) in Hanjiang District of Yangzhou. The remaining shareholdings in Mintai Bank are owned as to approximately 51% by Zhejiang Mintai Commercial Bank Co. Ltd (浙江民泰商業銀行股份有限公司), approximately 10% by Wuxi Xiexin Woolens & Textile Co. Ltd (無錫協新毛紡織有限公司), approximately 10% by Changzhou Junhao Textile Co. Ltd (常州君豪紡織品有限公司) and approximately 9% by Yangzhou Woyuan Textile Clothing Factory (揚州沃源紡織服裝廠), all of which are Independent Third Parties.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Zhongcheng Bank principally engages in the Banking Business in Guangling District of Yangzhou City. The remaining shareholdings in Zhongcheng Bank are owned as to approximately 60% by Chengdu Rural Commercial Bank Co., Ltd. (成都農村商業銀行股份有限公司), approximately 8% by Yangzhou Golden Penguin Woolens & Textile Co. Ltd. (揚州金企鵝毛紡有限公司), approximately 8% by Yangzhou Jiangyang Concrete Product Co. Ltd. (揚州江陽砼製品有限公司), approximately 8% by Jiangsu Zhongxian Group Co. Ltd. (江蘇中顯集團有限公司), approximately 8% by Jiangsu Diyi Group Co. Ltd. (江蘇帝一集團有限公司), all of which are Independent Third Parties.

The registered capital of Mintai Bank and Zhongcheng Bank were RMB115,000,000 and RMB200,000,000 respectively as at the Latest Practicable Date.

Competition between the Principal Businesses of Mintai Bank and Zhongcheng Bank and the Company is limited and not extreme

Upon Listing, the equity interests held by Botai Group and Liantai Guangchang in Mintai Bank and Zhongcheng Bank, which are principally engaged in the Banking Business, will continue to be retained by Botai Group and Liantai Guangchang. Our Directors are of the view that such investment in Mintai Bank and Zhongcheng Bank should not be included into our Company and the competition between the principal businesses of Mintai Bank and Zhongcheng Bank is limited and not extreme for the following reasons:

- Botai Group and Liantai Guangchang are passive investors and hold only minority equity interests in Mintai Bank and Zhongcheng Bank.
- As at the Latest Practicable Date, none of the members of the board of directors, board of supervisors and senior management of Mintai Bank and Zhongcheng Bank holds any position in any of our Board of Directors, Supervisory Board or senior management, and vice versa. Our Directors confirmed that as at the Latest Practicable Date, as our Controlling Shareholders are only minority shareholders of Mintai Bank and Zhongcheng Bank, they do not participate in the management of Mintai Bank and Zhongcheng Bank.
- Mintai Bank and Zhongcheng Bank are principally engaged in the business of taking public deposit; providing short term, medium term and long term loans; domestic exchange settlement; notes acceptance and discount; inter-bank borrowing; debit card issuing; issuing and cashing agency, undertaking governmental bond; accounts receivable and payable agency; and other business approved by China Banking Regulatory Commission (collectively referred to as “**Banking Business**”). While we mainly focus on providing short term loans to SMEs, micro enterprises and individual proprietors, the business nature and scope of the Banking Business are notably wider than and distinct from the business of our Company. In addition, we as a microfinance company are prohibited from taking deposit from the general public as a source of funding. Therefore we have historically financed our business mainly through our own registered capital, internally generated funds, bank borrowings and from time to time, short-term borrowings from other institutions, including Jinnong Company and other microfinance companies.
- We are authorized to engage in rural micro and small loan business in Yangzhou and primarily focus on serving SMEs, microenterprises and individual proprietor. During the Track Record Period, loans granted by us were generally short term with a duration within 12 months, while Mintai Bank and Zhongcheng Bank may also offer medium and long term loans thereby serving the different needs of borrowers.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- During the Track Record Period, the loans granted by us to our customers are within RMB3,000,000. Zhongcheng Bank and Mintai Bank can offer loans up to RMB10,000,000.
- As advised by our PRC Legal Adviser, the daily operations of our company is mainly supervised by Yangzhou Finance Office, while the daily operation of Mintai Bank and Zhongcheng Bank are mainly supervised by the Yangzhou branch of the CBRC.
- Mintai Bank and Zhongcheng Bank are rural banks while our Company is a microfinance company. As advised by Ipsos, the benchmarks for considering and granting loans for rural banks are typically higher than those of our Company. Rural banks usually only accept first charge and our Company usually accept first charge or second charge. With respect to the requirement on loan guarantor, rural banks usually require a medium or large size enterprise to act as the guarantor and our Company would generally consider individuals or small enterprises as eligible guarantors. Rural banks usually take a longer time than our Company to approve loans, but offer a more favorable interest rate.
- As advised by Ipsos, customers decide whether to obtain a loan from a rural bank or a microfinance company by taking into account their own abilities and conditions for securing a loan and the degree of urgency of their funding needs as a whole. If customers fulfill the loan granting requirements of a rural bank and do not have an urgent funding needs, they will tend to borrow from a rural bank over a microfinance company. If customers cannot fulfill the loan granting requirements of a rural bank, or have a relatively urgent funding needs, they usually choose to secure a loan from a microfinance company instead. Rural banks and microfinance companies have different constraints and considerations in granting loans, and therefore in practice they serve a relatively different customer base.

As compared with Mintai Bank and Zhongcheng Bank, our Company targets different customer base and customer needs, and our loan business is generally different from that of Mintai Bank and Zhongcheng Bank in various aspects, namely: (i) the scope of the Banking Business of Mintai Bank and Zhongcheng Bank are notably wider and distinct from our business; (ii) the loans which Mintai Bank and Zhongcheng Bank provide can be longer and of greater amount than those we provide to our customers as small and micro-loans; (iii) the benchmarks for considering and granting loans for rural banks such as Mintai Bank and Zhongcheng Bank are typically higher than those of our Company, which may include, amongst others, accepting principally only first charge as security by rural banks versus accepting both first and second charges as security by us, and the general requirement of a medium or large size enterprise to act as guarantor by rural banks versus the acceptance of small size enterprise or individuals as eligible guarantors by us; and (iv) the timing of approving loans are also different in that we generally cater our loan business towards servicing interim and urgent funding needs of our customers and thus generally have a shorter loan approval time than rural banks such as Mintai Bank and Zhongcheng. On the basis set out above, our Directors are of the view that we serve a relatively different customer base as compared with Mintai Bank and Zhongcheng Bank and the competition between the principal businesses of Mintai Bank and Zhongcheng Bank and the Company is limited and not extreme. Therefore, the equity interests in Mintai Bank and Zhongcheng Bank owned by our Controlling Shareholders or their respective associate(s) would unlikely to complete, directly or indirectly, with our principal business in material aspects.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

DIRECTORS' COMPETING INTERESTS

Save as disclosed in this prospectus, none of the Controlling Shareholders, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with our principal business, which would require disclosure under Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION AGREEMENT

To ensure that competition will not exist in the future, our Controlling Shareholders have entered into Non-competition Agreement with our Company to the effect that each of them will not, and will procure their subsidiaries (other than our Company) and their close associate(s) not to, directly or indirectly participate in, or hold any interest or right or otherwise be involved in, our principal business.

Non-competition

We entered into the Non-competition Agreement with the Controlling Shareholders on 6 April 2017, under which the Controlling Shareholders agreed not to, and to procure their subsidiaries (other than our Company) and their respective close associate(s) not to compete, either directly or indirectly, with our principal business and granted to our Company the option for new business opportunities, option for acquisitions and pre-emptive rights during the term of the Agreement.

The Controlling Shareholders have further irrevocably undertaken in the Non-competition Agreement that, during the term of the Non-competition Agreement, they will not, and will also procure their subsidiaries (other than our Company) and their respective close associate(s) not to, alone or with any other entity, in any form, directly or indirectly, engage in, participate in, assist or support a third party to engage in or participate in any business (other than the equity interest invested in Mintai Bank and Zhongcheng Bank) that competes, or is likely to compete, directly or indirectly with our principal business.

The aforesaid undertaking does not apply to (1) the equity interest invested in Mintai Bank and Zhongcheng Bank; (2) the purchase by the Controlling Shareholders, their subsidiaries or their close associate(s) for investment purpose of not more than 10% equity interest in other listed companies whose business competes or is likely to compete with our principal business; or (3) the holding by the Controlling Shareholders, their subsidiaries or their close associate(s) of not more than 10% equity interest in other companies whose business competes or is likely to compete with our principal business, as a result of a debt restructuring of such companies (collectively referred to as “**Investment Companies**” for scenarios (2) and (3)). For the avoidance of doubt, the exceptions above do not apply to such Investment Companies which the Controlling Shareholders, their subsidiaries or their close associate(s) are able to control their respective board of directors notwithstanding the fact that not more than 10% of the equity interests of such Investment Companies are being held by the Controlling Shareholders, their subsidiaries or their close associate(s).

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Options for New Business Opportunities

The Controlling Shareholders have undertaken in the Non-competition Agreement that, during the term of the Non-competition Agreement, if the Controlling Shareholders and/or their subsidiaries (other than our Company) and/or their close associate(s) become aware of a business opportunity which competes, or is likely to compete, directly or indirectly with our principal business, the Controlling Shareholders will notify us in writing immediately and provide to us all information which is reasonably necessary for us to consider whether or not to engage in such business opportunity (“Offer Notice”). The Controlling Shareholders are also obliged to use their best efforts to procure that such opportunity is first offered to us on terms that are fair and reasonable. We are entitled to decide whether or not to take up such business opportunity within 30 business days from receiving the Offer Notice (subject to our request to extend the notice period of 30 business days), subject to compliance with the applicable requirements under the GEM Listing Rules.

The Controlling Shareholders and/or their subsidiaries (other than our Company) will use their best efforts to procure their respective close associate(s) to offer to us an option to acquire any new business opportunity which competes, or is likely to complete, directly or indirectly with our principal business according to the terms of the Non-competition Agreement.

Any such business opportunity will be referred to our independent non-executive Directors for discussion and review. In deciding whether or not to take up such business opportunity, our independent non-executive Directors will consider a range of factors including the feasibility and viability of such business opportunity, its potential synergies with our Company, the relevant risk and its potential contribution to our business and profits. If necessary, our independent non-executive Directors may, at the cost of the Company, engage independent advisors such as financial advisors, valuers, market consultants or other professionals to evaluate and to give independent advice on business opportunity such that our independent non-executive Directors are able to form their views based on the best interest of the Shareholders and our Company as a whole in a timely manner.

If we decide not to take up the new business opportunity for any reason or do not respond to the Controlling Shareholders and/or their subsidiaries and/or their close associate(s) within 30 business days from receiving the Offer Notice (subject to our request to extend the notice period of 30 business days), we should be deemed to have decided not to take up such new business opportunity, and the Controlling Shareholders and/or their subsidiaries and/or their close associates may operate such new business opportunity on their own.

Given that (i) our independent non-executive Directors are able to engage independent professional advisors, including those who possess relevant knowledge and/or experience in the microfinance industry (if necessary), at the cost of the Company; and (ii) such business opportunity may involve certain counterparties and other competing bidders who are both interested in pushing forward in reaching a deal as soon as commercially practicable, our Directors (including our independent non-executive Directors) are of the view that the 30 business days time period should be a reasonable time frame which strikes a balance between responding to the counterparty of such business opportunity in a timely manner and allowing adequate time for our independent non-executive Directors to make a proper and informed decision.

If such business opportunity is turned down by us, we will disclose our decision of not taking up such business opportunity as well as the basis for such decision or a relevant negative statement in our annual reports after the Listing.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Option for Acquisitions

In relation to any new business opportunity of the Controlling Shareholders referred to in the Non-competition Agreement, which has been offered to, but has not been taken up by, our Company and has been retained by the Controlling Shareholders or any of their subsidiaries (other than our Company) or any of their close associate(s), which competes, or may lead to competition, directly or indirectly with our principal business, the Controlling Shareholders have undertaken to grant us the option, which is exercisable at any time during the term of the Non-competition Agreement, subject to applicable laws and regulations, to purchase at one or more times any equity interest, assets or other interests which form part or all of the new business as described above, or to operate the new business as described above by way of, including but not limited to, management outsourcing, lease or subcontracting. However, if a third party has the pre-emptive right, in accordance with applicable laws and regulations and/or a prior legally binding document (including but not limited to articles of association and shareholders' agreement), our option for acquisitions shall be subject to such third party rights. In this case, the Controlling Shareholders will use their best efforts to procure the third party to waive its pre-emptive right.

The Controlling Shareholders shall use their best efforts to procure their subsidiaries (other than our Company) and/or their close associate(s) to comply with the option granted to us by the Controlling Shareholders above. The consideration shall be determined following negotiation between the parties under the fair and reasonable principle based on the valuation conducted by a third party professional valuer (selected by both the Controlling Shareholders and us) and the mechanism and procedure provided by applicable laws and regulations.

Pre-emptive Right

The Controlling Shareholders have undertaken that, during the term of the Non-competition Agreement, if it intends to transfer, sell, lease, license or otherwise permit to use, to a third party any new business opportunity (other than the equity interest invested in Mintai Bank and Zhongcheng Bank) of the Controlling Shareholders referred to in the Non-competition Agreement, which has been offered to, but has not been taken up by, our Company and has been retained by the Controlling Shareholders or any of their subsidiaries (other than our Company) or any of their close associate(s) (as appropriate), which competes, or may lead to competition, directly or indirectly with our principal business, the Controlling Shareholders or their subsidiaries or any of their close associate(s) shall notify us by written notice ("**Selling Notice**") in advance. The Selling Notice shall attach the terms of the transfer, sale, lease or license and any information which may be reasonably required by our Company. We shall reply to the Controlling Shareholders and/or their subsidiaries and/or their close associate(s) within 30 business days after receiving the Selling Notice. The Controlling Shareholders and/or their subsidiaries (other than our Company) and/or their close associate(s) have undertaken that until they receive the reply from us, they shall not notify any third party of the intention to transfer, sell, lease or license the business. If our Company decides not to exercise its pre-emptive right or if our Company does not reply within the agreed time period, or if our Company does not accept the terms as set out in the Selling Notice and issues to the Controlling Shareholders a written notice within the agreed time period stating acceptable conditions which, however, are not acceptable to the Controlling Shareholders or their subsidiaries or any of their close associate(s) following negotiation between the parties under the fair and reasonable principle, the Controlling Shareholders or their subsidiaries or any of their close associate(s) are entitled to transfer the business to a third party pursuant to the terms stipulated in the Selling Notice.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

The Controlling Shareholders shall procure their subsidiaries (other than our Company) and their close associate(s) to comply with the above pre-emptive right.

Decision-making as to whether to Take Up the Options or Pre-emptive Right

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the option for new business opportunities or the option for acquisitions or our pre-emptive right. In assessing whether or not to exercise such options or pre-emptive right, the independent non-executive Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our business and the legal, regulatory and contractual landscape and form their views based on the best interest of the Shareholders and our Company as a whole and if necessary, our independent non-executive Directors will consider to engage an independent third party valuer to evaluate the options or the business opportunities. Our independent non-executive Directors are also entitled to engage an independent financial advisor, at the cost of our Company in connection with the exercise of the options.

The Controlling Shareholders' Further Undertakings

Each of the Controlling Shareholders has further undertaken that:

- (i) it will provide all information necessary for our independent non-executive Directors to review the Controlling Shareholders', their subsidiaries' and their close associate(s)' compliance with and enforcement of the Non-competition Agreement;
- (ii) it consents to our disclosure of the decision made by the independent non-executive Directors in relation to the compliance with and enforcement of the Non-competition Agreement in our annual report, or by way of announcement; and
- (iii) it will make a declaration to our Company and our independent non-executive Directors annually regarding its compliance with the Non-competition Agreement for our disclosure in our annual report.

The Non-competition Agreement will become effective upon Listing and remain in full force and be terminated upon the earlier of:

- (i) the date when the Controlling Shareholders and their subsidiaries (other than our Company) and their close associate(s), directly and/or indirectly in aggregate hold less than 30% of our total issued share capital; or
- (ii) the date on which our H Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the H Shares).

Our PRC Legal Advisers are of the view that the Non-competition Agreement does not violate any applicable PRC laws, and the Controlling Shareholders' undertakings pursuant to the Non-competition Agreement are valid and binding obligations of the Controlling Shareholders under PRC laws after the Non-competition Agreement takes effect, and may be enforced by us in the courts of the PRC thereafter.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

The following corporate governance measures are expected to be adopted by our Company.

- (a) our Directors will comply with our Articles of Association which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested;
- (b) our independent non-executive Directors will, on an annual basis, review the compliance and enforcement of the Non-competition Agreement by our Controlling Shareholders. Our Controlling Shareholders have undertaken that they will and will procure their subsidiaries and their close associates to provide all information reasonably required by our independent non-executive Directors to assist them in the assessment. Our Company will disclose the review in our annual report or by way of announcement to the public. Our Controlling Shareholders have also undertaken that they will make an annual declaration on the compliance with the Non-competition Agreement and other connected transaction agreements in our annual report;
- (c) our independent non-executive Directors will also review, on an annual basis, all decisions made in relation to any new business opportunities offered during the year. Our Company will disclose such decisions and the basis for them in our annual report or by way of announcement to the public;
- (d) our Company will appoint a compliance advisor who shall provide it with professional advice and guidance, in respect of compliance with the GEM Listing Rules and applicable laws; and
- (e) any transaction (if any) between (or proposed to be made between) our Company and connected persons will be required to comply with Chapter 20 of the GEM Listing Rules, including, where applicable, the announcement, reporting, annual review and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the GEM Listing Rules.

INDEPENDENCE OF MANAGEMENT, FINANCIAL AND OPERATION

Having considered the following factors, our Directors are satisfied that our Company will be able to be operationally and financially independent from our Controlling Shareholders and their respective close associates (other than our Company):

Non-competition

Although there are certain businesses owned by our Controlling Shareholders as mentioned above in this section, none of our Controlling Shareholders or their respective close associates has any interest in a business (other than the equity interest invested in Mintai Bank and Zhongcheng Bank) which competes or is likely to compete, either directly or indirectly, with our Company's business. In addition, each of our Controlling Shareholders has executed the Non-competition Agreement in favor of us. For details, please refer to the paragraph "Non-competition Agreement" in this section.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Management Independence

Our Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors.

The following table sets forth a summary of the positions and roles held by our Directors and members of our senior management team within our Company, Botai Group and Liantai Guangchang as at the Latest Practicable Date:

Name	Position with our Company	Position with the Banking Business	Position with Botai Group and its subsidiaries	Position with Liantai Guangchang and its subsidiaries
Mr. Bo Wanlin	Chairman and executive Director	None	None	None
Ms. Bai Li	Executive Director and general manager	None	None	None
Ms. Zhou Yinqing	Executive Director and deputy general manager	None	None	None
Mr. Bo Nianbin	Non-executive Director	None	Director; general manager and chairman	None
Mr. Zuo Yuchao	Non-executive Director	None	General manager; chairperson of the supervisory committee	None
Mr. Bao Zhenqiang	Independent non-executive Director	None	None	None
Mr. Wu Xiankun	Independent non-executive Director	None	None	None
Mr. Chan So Kuen	Independent non-executive Director	None	None	None
Mr. Xu Lei	Deputy general manager	None	None	None

Save as disclosed above, none of our Directors or members of the senior management holds any directorship or senior management position in Botai Group and Liantai Guangchang and/or their subsidiaries. Our executive Directors do not hold any executive role in Botai Group and Liantai Guangchang. Our Company's management team is different from those of Botai Group and Liantai Guangchang. Therefore, there are sufficient non-overlapping Directors who are independent and have relevant experience to ensure the proper functioning of the Board.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Mr. Bo Nianbin and Mr. Zuo Yuchao are the non-executive Directors of our Company. They are principally responsible for attending meetings of our Board to perform duties as Board members but are not involved in our Company's day-to-day operations. They hold and will continue to hold positions in Botai Group after the Listing.

Despite the interest of the Controlling Shareholders in certain business outside our Company, we believe that our Directors and members of the senior management are able to perform their roles in our Company independently and that our Company is capable of managing our business independently from the Controlling Shareholders for the following reasons:

- (a) each Director is aware of his/her fiduciary duties as a Director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and that he/she does not allow any conflict between his duties as a Director and his/her personal interest;
- (b) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of conflicts of interest, such as consideration of resolutions in relation to transactions with the Controlling Shareholders and/or their subsidiaries, the relevant Directors who are connected with the Controlling Shareholders and/or their subsidiaries will abstain from voting and will not be counted towards the quorum of the relevant meeting. Furthermore, when considering connected transactions, only our independent non-executive Directors will review the relevant transactions;
- (c) the Directors who hold positions with the Controlling Shareholders involving its day-to-day management are our non-executive Directors only. They are not involved in the day-to-day management of our Company, but are primarily responsible for making decisions on matters such as formulation of our general development strategy and corporate operation strategy as members of the Board of Directors. The day-to-day operation of our Company is managed by our executive Directors and senior management team who have relevant experience;
- (d) our Board comprises eight Directors and three of them are independent non-executive Directors who represent more than one-third of the members of the Board; This provides a balance between the number of interested and independent non-executive Directors with a view to promoting the interests of our Company and our Shareholders as a whole. This is also in line with the requirement as set out in the GEM Listing Rules.

Based on the above, our Directors believe that our Company is capable of maintaining management independence from the Controlling Shareholders.

Financial Independence

Our Company has an independent financial system and makes financial decisions according to its own business needs. During the Track Record Period, we financed our operations through our own registered capital, internally generated funds, bank borrowings and, from time to time, short-term borrowings from other institutions, including Jinnong Company and other microfinance companies.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

While we obtained shareholder's loans in the aggregate principal sum of RMB7.5 million from our Controlling Shareholder, Botai Group, in 2014, they were fully repaid as at 31 December 2014 and we had no outstanding amount to our Controlling Shareholders as at the Latest Practicable Date. As at the Latest Practicable Date, no bank borrowings was guaranteed either directly or indirectly by our Controlling Shareholders. In the circumstances, we believe we are capable of obtaining financing from third parties without reliance on our Controlling Shareholders.

Based on the above, our Directors believe that our Company is capable of maintaining financial independence from the Controlling Shareholders.

Operational Independence

Currently, our Company engages in our business independently, with the independent right to make operational decisions and implement such decisions. Our Company has an independent work force to carry out our operations and has not shared its operation team with our Controlling Shareholder's business outside our Company. Although during the Track Record Period, there have been certain transactions between us and the related parties, details of which are set out in Note 23 to our financial statements included in the Accountants' Report, our Directors have confirmed that these related party transactions, if trade related, were conducted on fair and reasonable normal commercial terms. Save as disclosed in the section headed "Connected Transactions" in this prospectus, none of the historical related party transactions with the connected persons as defined in the GEM Listing Rules are expected to continue after the Listing.

Having considered that (i) we have established our own organizational structure comprising individual departments and business and administrative units, each with specific areas of responsibilities and (ii) our Company does not share our operational resources, such as customers, marketing, sale and general administration resources with our Controlling Shareholders and/or their close associates and (iii) our Controlling Shareholders have no interest in any of our top customers, our Directors consider that our Company can operate independently from our Controlling Shareholders from the operational perspective.

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

We have entered into a transaction with our connected persons which will continue following the Listing and will constitute continuing connected transactions within the meaning of the GEM Listing Rules.

CONNECTED PERSONS

Liantai Guangchang

The business scope of Liantai Guangchang includes sale, import and export of furniture, building decoration materials, metals, machinery, chemical and industrial products, general merchandise, motor vehicles, textile, commodity, technological products, software and office equipment, warehousing and venue rental services. Other businesses engaged by Liantai Guangchang's subsidiaries outside our Company are summarized in the section headed "Relationship with the Controlling Shareholders — Other Businesses Invested by our Controlling Shareholders" in this prospectus. As at the Latest Practicable Date, Liantai Guangchang was owned by Botai Group as to approximately 48.67%, Mr. Bo Wanlin as to approximately 26.33%, Mr. Bo Nianbin as to approximately 15% and Ms. Zhu Wenying (mother of Mr. Bo Wanlin) as to approximately 10%.

As Botai Group and Liantai Guangchang are a group of our Controlling Shareholders, they are considered as connected persons of our Company under Rule 20.07 of the GEM Listing Rules. Accordingly, the following transactions between Liantai Guangchang and our Company, which will continue after the Listing, will constitute continuing connected transactions of our Company under Chapter 20 of the GEM Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Leasing of premises from Liantai Guangchang for use as our branch office

Background

Since 2010, we, as leasee, have been leasing premises from Liantai Guangchang for use as our branch office. On 10 November 2014, we, as leasee, terminated all the previous lease agreements and re-entered into a new lease agreement (the "2014 Lease") in respect of the relevant premises for a term of three years commencing from 1 January 2015 to 31 December 2017 for use as the branch office.

Date: 10 November 2014

Parties: Our Company as leasee

Liantai Guangchang as lessor

CONNECTED TRANSACTIONS

Subject:	Office premises with a total gross area of approximately 1,530.9 square meters located at No. 1 Hongqi Avenue, Jiangwang Town, Hanjiang District, Yangzhou City, Jiangsu Province, the PRC (中國江蘇省揚州市邗江區蔣王街道紅旗大街1號)
Term:	three years commencing from 1 January 2015 to 31 December 2017
Annual Rental Payable:	RMB500,000 for the year ended 31 December 2015, RMB525,000 for the year ended 31 December 2016, RMB551,250 for the year ending 31 December 2017

Reasons for the transaction

Since 2010, We have been using the above office premises as our branch office. Having considered the rentals of comparable office premises in the close proximity, and additional renovation and associated costs which we may incur if we move out of the above premises, our Directors consider that it is desirable and in the interests of our Company and the Shareholders as a whole to continue using the above premises as our branch office.

Historical transaction value

For the three years ended 31 December 2016, the aggregate rental incurred were RMB474,805, RMB500,000 and RMB525,000 respectively.

Basis of annual rental payable

The above annual rental payable were mainly determined with reference to the prevailing market rate of similar properties in the locality. An independent valuer has reviewed the annual rental payable for the 2014 Lease and has confirmed that it is fair, reasonable and is consistent with the prevailing market rates of similar properties in the locality.

GEM Listing Rules implications

Given that the total amount of rental payment under the 2014 Lease by us will not exceed HK\$3,000,000 and each of the applicable percentage ratios (other than the profits ratio) for such transaction for the year ending 31 December 2017 is expected to be less than 5%, the transaction contemplated under the 2014 Lease, which constitute a de minimis continuing connected transaction after the Listing, will be exempted from reporting, annual review, announcement, circular and the independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Confirmation from Directors

The Directors (including the independent non-executive Directors) confirm that the above continuing connected transactions have been entered into in the ordinary and usual course of our Company's business and is based on normal commercial terms that are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, each of the following persons will, as at the date of this prospectus, have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Capacity/Nature of interest	Number of Shares and class of securities ⁽¹⁾	Approximate shareholding percentage in the Company
Botai Group	Beneficial Owner of the Company	240,200,000 Domestic Shares (L)	53.38%
	Interest in controlled corporation ⁽²⁾	189,900,000 Domestic Shares (L)	42.20%
Mr. Bo Wanlin	Interest in controlled corporation ⁽³⁾	430,100,000 Domestic Shares (L)	95.58%
Ms. Wang Zhengru	Family Interest of spouse ⁽⁴⁾	430,100,000 Domestic Shares (L)	95.58%
Liantai Guangchang	Beneficial Owner of the Company	189,900,000 Domestic Shares (L)	42.20%

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Domestic Shares.
- (2) As at the Latest Practicable Date, Liantai Guangchang is held as to approximately 48.67% by Botai Group, approximately 26.33% by Mr. Bo Wanlin, approximately 15% by Mr. Bo Nianbin and approximately 10% by Ms. Zhu Wenyong (mother of Mr. Bo Wanlin). Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO.
- (3) As at the Latest Practicable Date, Botai Group is held as to approximately 33.33% by Mr. Bo Wanlin, approximately 16.67% by Mr. Bo Nianbin, approximately 16.67% by Ms. Bai Li, approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin) and approximately 16.67% by Ms. Zhu Wenyong (mother of Mr. Bo Wanlin). Mr. Bo Wanlin and his spouse control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in the Company by virtue of the SFO.
- (4) Ms. Wang Zhengru, the spouse of Mr. Bo Wanlin, is deemed to be interested in Mr. Bo Wanlin’s interest in the Company by virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, each of the following persons will, immediately following completion of the Public Offer, have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Shareholders	Nature of interest	Number of Shares held after the Public Offer ⁽¹⁾	Approximate shareholding percentage in the relevant class of Shares after the Public Offer ⁽²⁾	Approximate percentage of shareholding in the total share capital of the Company after the Public Offer ⁽³⁾
Botai Group	Beneficial Owner of the Company	240,200,000 Domestic Shares (L)	53.38%	40.03%
	Interest in controlled corporation ⁽⁴⁾	189,900,000 Domestic Shares (L)	42.20%	31.65%
Mr. Bo Wanlin	Interest in controlled corporation ⁽⁵⁾	430,100,000 Domestic Shares (L)	95.58%	71.68%
Ms. Wang Zhengru	Family Interest of spouse ⁽⁶⁾	430,100,000 Domestic Shares (L)	95.58%	71.68%
Liantai Guangchang	Beneficial Owner of the Company	189,900,000 Domestic Shares (L)	42.20%	31.65%

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Domestic Shares.
- (2) The calculation is based on the percentage of shareholding in the Domestic Shares.
- (3) The calculation is based on the total number of 600,000,000 Shares in issue after the Public Offer.
- (4) As at the Latest Practicable Date, Liantai Guangchang is held as to approximately 48.67% by Botai Group, approximately 26.33% by Mr. Bo Wanlin, approximately 15.00% by Mr. Bo Nianbin and approximately 10.00% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin). Botai Group controls more than one-third of the voting rights of Liantai Guangchang and is deemed to be interested in its interest in the Company by virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS

- (5) As at the Latest Practicable Date, Botai Group is held as to approximately 33.33% by Mr. Bo Wanlin, approximately 16.67% by Mr. Bo Nianbin, approximately 16.67% by Ms. Bai Li, approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin) and approximately 16.67% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin). Mr. Bo Wanlin and his spouse control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in the Company by virtue of the SFO.
- (6) Ms. Wang Zhengru, the spouse of Mr. Bo Wanlin, is deemed to be interested in Mr. Bo Wanlin's interest in the Company by virtue of the SFO.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Public Offer, have an interest or short position in Shares or underlying Shares, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

SHARE CAPITAL

As at the date of this prospectus, the registered share capital of the Company is RMB450,000,000, divided into 450,000,000 Domestic Shares with a nominal value of RMB1.00 each.

The share capital of the Company immediately following the Public Offer will be increased to RMB600,000,000 and set out as follows:

Number of Shares	Description of Shares	Approximate percentage of total share capital (%)
450,000,000	Domestic Shares ⁽¹⁾	75
150,000,000	H Shares to be issued under the Public Offer	25
		<u>100</u>

Note:

- (1) These Domestic Shares may be converted into H Shares. Please refer to the paragraph headed “Conversion of Our Unlisted Shares into H Shares” in this section.

PUBLIC FLOAT REQUIREMENTS

Rule 11.23(7) and (9) of the GEM Listing Rules requires there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer’s listed securities to be maintained. This normally means that (i) at least 25% of the issuer’s total issued share capital must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer’s total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer’s total issued share capital and must have an expected market capitalization at the time of listing of not less than HK\$30 million.

Based on the information in the above tables, our Company will meet the public float requirement under the GEM Listing Rules after the completion of the Public Offer. We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

The above tables assume the Public Offer becomes unconditional and is completed.

OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars between legal or natural persons of Hong Kong, the Macau Special Administrative Region of the PRC, Taiwan or any country or jurisdiction other than the PRC and qualified domestic institutional investors of the PRC. If the H Shares are eligible securities under the South bound Trading Link, they can also be subscribed for and traded by PRC investors in accordance with the rules and limits of Shanghai - Hong Kong Stock Connect or Shenzhen - Hong Kong Stock Connect. Domestic Shares, on the other hand, may only be

SHARE CAPITAL

subscribed for and traded in Renminbi. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in Renminbi.

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix V to this prospectus, our Domestic Shares and our H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the Public Offer, we do not propose to carry out any public or private issue or to place securities simultaneously with the Public Offer or within the next six months. We have not approved any share issue plan other than the Public Offer.

CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

Conversion of Unlisted Shares

We have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange. Upon completion of the Public Offer, all unlisted Shares are Domestic Shares held by Botai Group, Liantai Guangchang, Bo Family, Ms. Lu Shuyi, Mr. Zuo Yuchao, Ms. Li Yunzhen and Ms. Zhou Yinqing and therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term “unlisted Shares” is used to describe whether certain Shares are listed on a stock exchange and is not unique to PRC laws. Given the above, our PRC Legal Advisers, Commerce & Finance Law Office, has advised us that the use of the term “unlisted Shares” in the Articles of Association does not contravene and are not inconsistent with any PRC laws and regulations (including the Special Regulations and Mandatory Provisions).

According to the stipulations by the State Council’s securities regulatory authority and the Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council’s securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Hong Kong Stock Exchange is required if any of our unlisted Shares are to be converted into and traded as H Shares on the Hong Kong Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of shares for

SHARE CAPITAL

entry on the H Share register. As any listing of additional shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Hong Kong Stock Exchange after our initial Listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

Mechanism and Procedure for Conversion

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange in compliance with the Hong Kong Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Promoters currently proposes to convert any of the unlisted Shares held by it into H Shares.

TRANSFER OF SHARES ISSUED PRIOR TO THE LISTING DATE

The Company Law provides that in relation to the public share offering of a company, the shares issued by a company prior to the public share offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

REGISTRATION OF SHARES NOT LISTED ON THE OVERSEAS STOCK EXCHANGE

According to 《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》(the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange) issued by China Securities Depository and Clearing Corporation Limited, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 business days upon listing.

CONVENING OF GENERAL AND CLASS MEETINGS

Please refer to the section headed “Appendix V — Summary of the Articles of Association” in this prospectus for details of the circumstances under which general meetings and class meetings of the Company are required.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our financial information included in the Accountants' Report in Appendix I to this prospectus, together with the accompanying notes. The financial information has been prepared in accordance with IFRS.

The following discussion and analysis and other parts of this prospectus contain certain forward-looking statements that reflect our current views with respect to future events and our financial performance that involve risks, uncertainties and changes in circumstances. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. For further details of these risks and uncertainties, please refer to the sections headed "Forward-looking Statements" and "Risk Factors" in this prospectus.

OVERVIEW

We were the first rural microfinance company in Yangzhou City authorized by Jiangsu Finance Office to conduct micro and small loan business across Yangzhou City according to Yangzhou Small Loan Industry Association. We were also the second largest licensed microfinance company in Yangzhou City in 2015 in terms of registered capital according to the Ipsos Report. We are dedicated to serving SMEs, microenterprises and individual proprietors in Yangzhou City, by offering flexible, accessible and efficient micro and small loan services aiming to best match our customers' interim business financing needs.

We have a relatively broad customer base comprising primarily SMEs, microenterprises and individual proprietors who are engaged in a variety of industries, a majority of which are also under the PBOC classification of AFR (三農). During the Track Record Period, we generally granted loans to our customers in principal amounts ranging from RMB12,000 to RMB3,000,000, which were either backed by corporate and/or personal guarantees and/or secured with collaterals, with maturity generally within 12 months. Repayment terms of our loans are generally structured with monthly interest payments and repayment of principal upon maturity of the loans, and occasionally we may accept repayments by monthly installments of part principal plus interest. We consider our relatively small individual loan size coupled with the diversity of industries and businesses of our customers serve to alleviate our risk of concentration and position us to better withstand periodic business and economic cycles of different industries.

During the Track Record Period, our income comprised principally interest income generated from our business of provision of micro and small loans, where loans receivable from our customers represented a substantial component of our total assets. Our net interest income was approximately RMB96.7 million, RMB94.5 million and RMB73.9 million for the years ended 31 December 2014, 2015 and 2016, respectively. Our profit after tax and total comprehensive income was approximately RMB67.5 million, RMB61.4 million and RMB40.5 million for the years ended 31 December 2014, 2015 and 2016, respectively. Our net loans receivable, being our total loans receivable less allowance for impairment losses, were approximately RMB504.3 million, RMB597.1 million and RMB580.5 million as at 31 December 2014, 2015 and 2016, respectively. During the Track Record Period, we financed our business mainly through our own registered capital, internally generated funds, bank borrowings and, from time to time, short-term borrowings from other institutions.

FINANCIAL INFORMATION

SUMMARY HISTORICAL FINANCIAL INFORMATION

The summary financial information from our statement of profit or loss and other comprehensive income and statement of cash flows for the years ended 31 December 2014, 2015 and 2016, and our statement of financial position as at 31 December 2014, 2015 and 2016 set forth below, are derived from the Accountants' Report in Appendix I to this prospectus and should be read in conjunction with the Accountants' Report and with the paragraph headed "Management's Discussion and Analysis of Results of Operation" in this section.

Summary Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	98,107	95,947	74,495
Interest expense	<u>(1,433)</u>	<u>(1,442)</u>	<u>(596)</u>
Net interest income	96,674	94,505	73,899
Reversal of provision for impairment losses	1,555	849	2,374
Reversal of provisions for guarantee losses	74	—	—
Administrative expenses	(20,802)	(17,647)	(22,593)
Net other income/(expense)	<u>(249)</u>	<u>361</u>	<u>453</u>
Profit before tax	77,252	78,068	54,133
Income tax expense	<u>(9,759)</u>	<u>(16,666)</u>	<u>(13,653)</u>
Profit after tax and total comprehensive income for the year	<u><u>67,493</u></u>	<u><u>61,402</u></u>	<u><u>40,480</u></u>

FINANCIAL INFORMATION

Summary Statement of Financial Position

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Cash and cash equivalents	22,018	418	3,553
Loans receivable	504,255	597,092	580,544
Property and equipment	3,501	2,869	1,484
Deferred tax assets	3,089	5,602	4,709
Other assets	<u>3,812</u>	<u>4,678</u>	<u>7,661</u>
Total assets	<u><u>536,675</u></u>	<u><u>610,659</u></u>	<u><u>597,951</u></u>
Liabilities			
Interest-bearing borrowings	—	8,000	—
Income tax payable	3,677	7,161	5,670
Other liabilities	<u>9,098</u>	<u>10,196</u>	<u>11,498</u>
Total liabilities	<u>12,775</u>	<u>25,357</u>	<u>17,168</u>
Net assets	<u><u>523,900</u></u>	<u><u>585,302</u></u>	<u><u>580,783</u></u>

Summary Statement of Cash Flows

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from/(used in) operating activities	140,433	(26,487)	60,009
Net cash flows used in investing activities	(992)	(839)	(30)
Net cash flows from/(used in) financing activities	(138,420)	5,726	(56,844)
Net increase/(decrease) in cash and cash equivalents	1,021	(21,600)	3,135
Cash and cash equivalents at beginning of the year	20,997	22,018	418
Cash and cash equivalents at the end of the year	22,018	418	3,553

BASIS OF PREPARATION

Our financial information has been prepared in accordance with IFRS and includes applicable disclosures required by the GEM Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Our financial information has been prepared under the historical cost convention. Our financial information is presented in Renminbi and our financial year ends on 31 December of each year.

FINANCIAL INFORMATION

Our Company was established as a company with limited liability on 12 November 2008 in China and converted into a joint stock company with limited liability in China on 10 August 2012. Other than the conversion of our Company into a joint stock limited liability company, our Company did not undergo any reorganization for the purpose of the Listing. Our statement of profit or loss and other comprehensive income includes the results of operations of our Company for the Track Record Period. Our statement of financial position has been prepared to present the assets and liabilities of our Company as at 31 December 2014, 2015 and 2016.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected and, we expect, will continue to affect our business, financial condition, results of operations and prospects.

Macroeconomic and market conditions in China and the development of the SME and microenterprise sector, in particular, in Yangzhou City, Jiangsu Province

We focus on serving the business financing needs of SMEs, microenterprises and individual proprietors in Yangzhou City. Therefore, our financial condition and results of operations are directly linked to this geographic region, which is largely affected by general economic and market conditions in China.

We believe general economic and market conditions that would be favorable to the SME and microenterprise sector include, but are not limited to:

- high GDP growth;
- reasonable levels of inflation;
- increasing domestic consumption and personal wealth;
- liquid and efficient financial markets;
- stable geopolitical conditions; and
- continued government support for SMEs and microenterprises.

Unfavorable or uncertain economic and market conditions include, but are not limited to:

- declines in economic growth, business activities or investor confidence;
- decreases in the availability of, or increases in the cost of, credit and capital;
- significant inflation and increases in interest rates;

FINANCIAL INFORMATION

- reduced government support for SMEs and microenterprises; and
- natural disasters or pandemics.

In recent years, China in general and Yangzhou City have experienced a significant economic growth, and the PRC Government has actively supported the development of SMEs and microenterprises, resulting in increases in the number of SMEs and microenterprises and their financing needs. According to the Ipsos Report, the total number of SMEs and microenterprises in China increased from 49.9 million in 2011 to 74.9 million in 2015, and the total number of SMEs and microenterprises in Yangzhou City increased from 0.2 million in 2011 to 0.3 million in 2015. Sustained economic growth and favorable government policies towards SMEs and microenterprises are likely to increase the demand for funds. Unfavorable economic and market conditions or adverse policy changes could negatively impact the demand for our micro and small loan services and result in a greater credit risk.

Government regulation and policies

We are subject to extensive government laws, rules, regulations, policies and measures at the national, provincial and local levels, with regard to our business, capital structure, interest rates and provisioning policy, an overview of which is set forth in the section headed “Regulatory Overview” in this prospectus.

These laws, rules, regulations, policies and measures are issued by different national, provincial and local government authorities. In addition, the local competent authorities have broad discretion in interpretation, implementation and enforcement of the relevant rules, regulations, policies and measures. As a result of the complexity, uncertainties and constant changes in these laws, rules, regulations, policies and measures, including changes in their interpretation, implementation and enforcement, we may have to adjust our business practice, capital structure and/or product offering from time to time, which would in turn affect our business, financial condition and results of operations. Government regulations and policies that have a significant impact on our customers, particularly SMEs, microenterprises and individual proprietors, may also affect our business, financial condition and results of operations.

On the other hand, our ability to continue our operations or expand our business into other cities or regions in which we do not currently operate depends on our ability to obtain or maintain the relevant operating licenses and/or approvals from government authorities at the local, municipal, provincial and national levels. If we are unable to obtain or maintain the licenses or approvals required for business expansion in a timely manner or at all as a result of any changes in laws and regulations or in any interpretation, implementation or enforcement of laws and regulations that are unfavorable to us, this may prevent us from conducting or expanding our business as planned. For details, please refer to the section headed “Risk Factors — Risks relating to our Business and Industry — Our business is heavily regulated and supervised by national, provincial, municipal and local government authorities. If we fail to respond to the changes in applicable regulatory requirements in a timely manner or at all, or if we fail to renew our business license, our business operations may be adversely affected or even be terminated” in this prospectus.

FINANCIAL INFORMATION

Interest rate environment

Our results of operations are affected by the prevailing interest rates in China, as they influence the interest rate we charge our customers and our financing cost. For details, please refer to the section headed “Risk Factors — Risks relating to our Business and Industry — Any change in interest rates may have a negative impact on our income and operating results” in this prospectus. Interest rates in China are regulated by the PBOC. Since 2014, PBOC has reduced the PBOC Benchmark Interest Rate many times. The PBOC Benchmark Interest Rate for short-term loans was lowered from 6.00% at the beginning of 2014 to 4.35% as at 24 October 2015, and remained unchanged thereafter. We expect further changes in the interest rate environment, in particular, changes in PBOC Benchmark Interest Rates, to continue to significantly affect our results of operations.

Notwithstanding the aforesaid, the PBOC Benchmark Interest Rate has remained unchanged since 24 October 2015 up to the Latest Practicable Date, after a round of continuous decrease from the second half of 2011. Having considered the recent PRC and global macroeconomic and foreign exchange developments, our Directors consider that another wave of continuous decrease in the PBOC Benchmark Interest Rate in the way similar to the trend exhibited since the second half of 2011 up to late 2015 would be relatively unlikely in the near term unless there are material changes in the PRC and global macroeconomic and foreign exchange environment, or a significant and/or sustained reversal of the trend of capital flow in the PRC. Regardless, our weighted average interest rate per annum for the year ended 31 December 2016 was approximately 13.4%, which was approximately 4.0% lower than the current maximum interest rate charge of approximately 17.4% allowable for microfinance companies, providing us with a reasonable buffer from further reducing our interest rate charge on our loans against any further downward adjustment to the PBOC Benchmark Interest Rate in the foreseeable near term.

Capital base and ability to obtain financing

The expansion of our business requires substantial capital. According to relevant regulations in Jiangsu Province, a rural microfinance company may only obtain financing from commercial banks, shareholders and other institutions, including Jinnong Company and other microfinance companies, subject to an upper limit. Currently, the maximum amount of financing that we could obtain shall not exceed 100% of our net capital, among which financing from banks and other institutions shall not exceed 50% and 40% of our net capital, respectively. As a result, the scale of our business heavily depends on our capital base. As at 31 December 2016, our registered capital was RMB450.0 million and our total equity (i.e. our net asset value) was RMB580.8 million.

The following table sets forth our total equity, principal amount of our outstanding borrowings and loan/equity ratio as at the dates indicated:

	As at 31 December		
	2014	2015	2016
Total equity (<i>RMB'000</i>)	523,900	585,302	580,783
Principal amount of outstanding borrowings (<i>RMB'000</i>)	—	8,000	—
Loan/equity ratio ⁽¹⁾	—	1.4%	—

FINANCIAL INFORMATION

Note:

(1) This ratio represents the principal amount of our outstanding borrowings divided by our total equity.

The expansion of our business also depends on our ability to obtain financing at a reasonable cost, whether from banks or other institutions. As at 31 December 2015, our total outstanding borrowings amounted to RMB8.0 million, all of which were obtained from other institutions.

Risk management capabilities

As a microfinance company dedicated to serving the interim business financing needs of SMEs, microenterprises and individual proprietors, credit risk is the most significant risk inherent to our business. We have put in place a risk management system encompassing pre-loan due diligence, loan application review and approval, and post-loan monitoring, with the aim of addressing the credit risks specific to our business and operational environment as a local microfinance company. In 2014, we have launched an OA system that was customized to our operations, and since March 2015 have implemented multiple risk management functionality upgrades to our OA system to facilitate continuous on-line monitoring of our loan application and approval process, compliance status with key regulatory benchmarks and post-loan monitoring. We adhere to the policy of “separation of due diligence and approval (審貸分離)” to safeguard the effectiveness of our risk management and risk control efforts. In addition, we conduct post-loan monitoring to monitor our customers’ repayment ability on a regular basis, so that we can take proactive corrective actions and determine the appropriate level of allowance for impairment losses. We strive to achieve an optimal balance between an acceptable and manageable credit risk level and an efficient use of available funds to improve returns for our Shareholders. We believe our risk management system has enabled us to achieve a relatively low impaired loan ratio of approximately 3.4%, 2.1% and 1.7% as at 31 December 2014, 2015 and 2016, respectively.

A comprehensive and effective risk management system helps mitigate our risk exposures and control our impaired loan ratio. Any significant ineffectiveness or deficiency in the risk management system may cause failure in identifying or controlling risks, failure to effectively manage our loan portfolios, failure to collect repayment or realize collateral, or increase in loan impairment and customer defaults. For details, please refer to the section headed “Risk Factors — Risks relating to our Business and Industry — Our risk management structure, policies, procedures and internal control may not be adequate to protect us against the risks which our business operations may be subject to” in this prospectus.

Provisioning policy

We review our outstanding loans receivable periodically to determine whether there is objective evidence of impairment, such as significant financial difficulty of our customers, a default or delinquency in interest or principal payments and significant changes in the market, economic or legal environment that have an adverse effect on our customers. We prepare our financial statement in accordance with IFRS and assess impairment on our loans to customers on individual and collective basis.

FINANCIAL INFORMATION

We adopt a loan classification approach by reference to the “Five-Tier Principle” set forth in the Guideline for Loan Credit Risk Classification (貸款風險分類指引) issued by the CBRC. According to the “Five-Tier Principle”, our loans are categorized as “normal”, “special-mention”, “substandard”, “doubtful” and “loss”, and we made provision for the anticipated level of loan loss. For “normal” and “special-mention” loans, given that they are not impaired, we make collective assessment based primarily on factors including prevailing general market and industry conditions and historical impaired ratio. For “substandard”, “doubtful” and “loss” loans, the impairment losses are assessed individually by evaluating the loss expected to be incurred on the balance sheet date. Allowance for impairment losses amounted to approximately RMB24.3 million, RMB22.4 million and RMB18.8 million as at 31 December 2014, 2015 and 2016, respectively, representing approximately 4.6%, 3.6% and 3.1% of our total loans receivable as at the corresponding dates.

As our estimate of required allowance under IFRS requires significant judgments and estimates, our allowance for impairment losses may not always be adequate to cover credit losses in our business operations. Our allowance may prove to be inadequate if adverse changes occur in the PRC or local economy or if there are other events adversely affecting our customers, or the industries or markets in which our customers’ businesses operate. Under such circumstances, we may need to make additional allowance for impairment losses on our loans receivable, which could reduce our profit and may adversely affect our business, financial condition and results of operations.

Competition

Since 2008, with the legalization of small loan service providers and introduction of various suggestive approaches on managing them, the microfinance industry in China has seen rapid expansion. During the Track Record Period, we served customers in Yangzhou City, Jiangsu Province. According to the Ipsos Report, there were 629 microfinance companies in Jiangsu Province as at 31 December 2016, among which there were 59 microfinance companies in Yangzhou City. According to the Ipsos Report, we were the second largest licensed microfinance company in Yangzhou City in terms of registered capital in 2015.

We operate in a highly competitive industry. While we compete directly with over 50 local licensed microfinance companies in Yangzhou City, to varying degree we are also competing with Peer-to-Peer (P2P) lending platforms, rural banks, wealthy individuals and other unlicensed microfinance institutions that lend to SMEs, microenterprises and individual proprietors with financing need. We compete primarily on the basis of our reputation and experienced management team, quality and accessibility of our services, efficiency of our loan application review and approval process, our capital scale and our risk management and risk control capabilities. Leveraging our competitive strengths, intense competition in the industry did not have material adverse impact on our operational and financial performance during the Track Record Period.

To effectively compete with our competitors and maintain or increase our market share, we need to continue enhancing our competitive strengths, including, in particular, our ability to offer flexible, accessible and efficient micro and small loan services to our customers. If we fail to maintain our competitive strengths, we may lose market share and our revenue may decrease. In addition, some of our competitors may be able to extend loans to our potential customers charging lower interest rates. To compete with these competitors, we may be forced to reduce our interest rates chargeable to our

FINANCIAL INFORMATION

customers in order to maintain our market share or position. For details, please refer to the section headed “Risk Factors — Risks relating to our Business and Industry — Intense competition in the industry in which we operate could cause us to lose market share and revenue in the future” in this prospectus.

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. The preparation of our financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Our Directors believe that there was no material deviation between our management’s estimates and actual results and we did not change these estimates during the Track Record Period. Our management does not expect any material changes in these estimates in the foreseeable future.

Our significant accounting policies and accounting judgments and estimates are set forth in Notes 3 and 4 to our financial statements included in the Accountants’ Report in Appendix I to this prospectus. We set forth below the accounting policies, judgments and estimates that we believe are the most critical to our financial information or that involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to our Company and when the revenue can be measured reliably. Interest income on loans is measured on an accrual basis using the effective interest method. When a loan has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash receipts for the purpose of measuring the impairment loss, i.e. the original effective interest rate.

Loans and receivables

Initial recognition and measurement

When loans and receivables are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the loans and receivables.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently

FINANCIAL INFORMATION

measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in profit or loss. The loss arising from impairment is recognized in profit or loss in net change of impairment allowance on loans receivable.

Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost, we first assess whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other income and gains in profit or loss.

We determine periodically whether there is any objective evidence that impairment losses have occurred on loans receivable. If any such evidence exists, we assess the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgment on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows. For further details, please refer to the section headed "Business — Provisioning Policies and Asset Quality" in this prospectus.

FINANCIAL INFORMATION

Deferred tax assets and liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. We make provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. For further details, please refer to Note 16 to our financial statements included in the Accountants' Report in Appendix I to this prospectus.

RESULTS OF OPERATIONS

The following table sets forth our selected statement of profit or loss and other comprehensive income data for the years indicated:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	98,107	95,947	74,495
Interest expense	<u>(1,433)</u>	<u>(1,442)</u>	<u>(596)</u>
Net interest income	96,674	94,505	73,899
Reversal of provision for impairment losses	1,555	849	2,374
Reversal of provisions for guarantee losses	74	—	—
Administrative expenses	(20,802)	(17,647)	(22,593)
Net other income/(expense)	<u>(249)</u>	<u>361</u>	<u>453</u>
Profit before tax	77,252	78,068	54,133
Income tax expense	<u>(9,759)</u>	<u>(16,666)</u>	<u>(13,653)</u>
Profit after tax and total comprehensive income for the year	<u><u>67,493</u></u>	<u><u>61,402</u></u>	<u><u>40,480</u></u>

FINANCIAL INFORMATION

COMPONENTS OF OUR STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Net interest income

We generate interest income from the interest on loans we grant to our customers and on cash we deposit at banks and a third party. We incur interest expense on borrowings from banks, related parties and other institutions. The following table sets forth the breakdown of our interest income and interest expenses for the years indicated:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on:			
Loans receivable ⁽¹⁾	97,495	95,732	74,401
Cash at banks	37	20	8
Cash at a third party	<u>575</u>	<u>195</u>	<u>86</u>
<i>Subtotal</i>	98,107	95,947	74,495
Interest expense on:			
Borrowing from banks	960	—	—
Borrowing from related parties	35	—	—
Borrowing from other institutions	<u>438</u>	<u>1,442</u>	<u>596</u>
<i>Subtotal</i>	<u>1,433</u>	<u>1,442</u>	<u>596</u>
Net interest income	<u><u>96,674</u></u>	<u><u>94,505</u></u>	<u><u>73,899</u></u>

Note:

- (1) Interest income on loans receivable includes interest income on impaired loans, which amounted to approximately RMB1.4 million, RMB1.0 million and RMB1.2 million for the years ended 31 December 2014, 2015 and 2016, respectively.

FINANCIAL INFORMATION

The following table sets forth the average daily balance of our loans receivable and corresponding effective interest rate per annum for the years indicated:

	Year ended 31 December		
	2014	2015	2016
Average daily balance of our loans receivable (RMB'000)	511,455	580,859	584,541
Effective interest rate per annum ⁽¹⁾	17.9%	16.5%	12.7%

Note:

- (1) Calculated by dividing the interest income derived from our loans (not including any default interest) by the average daily balance of our loans receivable for the year indicated.

Interest income

Our interest income on loans receivable is mainly affected by two factors: the daily balance of our loans receivable and the effective interest rates that we charge on loans to our customers. Our average daily balance of loans receivable increased from approximately RMB511.5 million for the year ended 31 December 2014 to approximately RMB580.9 million for the year ended 31 December 2015, and remained relatively stable with approximately RMB584.5 million for the year ended 31 December 2016. The size of our average daily balance of loans receivable is highly dependent on the availability and source of fundings, which in turn is affected by the size of our capital base.

Currently, pursuant to the applicable regulatory rules, regulations and guidance, the interest rate we charge shall not exceed four times of the PBOC Benchmark Interest Rate. We generally adopt an initial standard rate which is benchmarked to such statutory and guiding interest rate ceilings. Depending on factors such as the background, credit history and financial status of the loan applicant, whether any securities are provided, the value of collateral, the quality of the guarantee, and the intended purpose and term of the loan, and upon request from and negotiations with a loan applicant, we may agree to offer an interest rate lower than that of our standard rate on a case-by-case basis. For the years ended 31 December 2014, 2015 and 2016, our effective interest rate per annum was 17.9%, 16.5% and 12.7%, respectively. The decline in our effective interest rate during the Track Record Period was primarily due to the decrease of the PBOC Benchmark Interest Rate for short-term loans from 6.00% at the beginning of 2014 to 4.35% as at 31 December 2016, and the competitive pricing we offered to selective customers in response to the Yangzhou government's recent policy direction towards alleviating the burdensome funding costs faced by SMEs, and further promoting accessibility of funding by SMEs, as well as addressing the competitive environment of our industry. The decline in our effective interest rate for the year ended 31 December 2016 was also partly attributable to the impact of the imposition of VAT on our reported interest income in lieu of business tax effective from 1 May 2016, which resulted in a lower reported interest income as our interest income has since been recognized net of applicable VAT.

FINANCIAL INFORMATION

Our loans can be granted under one of the two formats, namely (i) term loan, and (ii) loans under credit facility. The following table sets forth our interest income on loans receivable by loan format:

	Year ended 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Interest income from:						
Term loans	46,722	47.9	58,851	61.5	52,581	70.7
Loans under credit facility	<u>50,773</u>	<u>52.1</u>	<u>36,881</u>	<u>38.5</u>	<u>21,820</u>	<u>29.3</u>
Total	<u>97,495</u>	<u>100</u>	<u>95,732</u>	<u>100</u>	<u>74,401</u>	<u>100</u>

Interest expense

Our interest expenses, comprising interest on borrowings from banks, one of our Controlling Shareholders and other institutions, were approximately RMB1.4 million, RMB1.4 million and RMB0.6 million for the years ended 31 December 2014, 2015 and 2016, respectively. Interest expenses during the Track Record Period were primarily affected by the balance of our borrowings and the interest rate charged on our borrowings. Our interest-bearing borrowings amounted to nil, RMB8.0 million and nil as at 31 December 2014, 2015 and 2016, respectively.

The following table sets forth the average daily balance of our borrowings and effective interest rate per annum for the years indicated:

	Year ended 31 December		
	2014	2015	2016
Average daily balance of our borrowings (<i>RMB'000</i>)	17,660	12,521	5,046
Effective interest rate per annum ⁽¹⁾	8.1%	11.5%	11.8%

Note:

- (1) Calculated by dividing interest expenses of all our borrowings by the average daily balance of our borrowings for the year indicated.

As a result of the foregoing, our net interest income for the years ended 31 December 2014, 2015 and 2016 was approximately RMB96.7 million, RMB94.5 million and RMB73.9 million, respectively.

Reversal of provision for impairment losses

We review our loan portfolio periodically (at intervals of no longer than six months) to assess whether there is any evidence of impairment and if so, the appropriate amount to be made. Our management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss. For details, please refer to the section headed “Business — Provisioning Policies and Asset Quality” in this prospectus.

FINANCIAL INFORMATION

We reported reversal of provision for impairment losses for the years ended 31 December 2014, 2015 and 2016 in the amount of approximately RMB1.6 million, RMB0.8 million and RMB2.4 million, respectively. Reversal of provision for impairment losses was mainly due to the overall improvement of our loan quality during the Track Record Period. For more details, please refer to the paragraph headed “Selected Items of the Statement of Financial Position — Loans receivable — Allowance for impairment losses” in this section.

Reversal of provisions for guarantee losses

Prior to the Track Record Period, we had provided financing guarantee services on an occasional basis, upon our customers’ request and at our sole discretion. We ceased undertaking any new financing guarantee services since the second half of 2013 and as at 31 December 2014, we had no outstanding financing guarantee obligation. Accordingly, the provisions for guarantee losses provided for our financing guarantee outstanding as at 31 December 2013 was reversed in 2014.

Administrative expenses

Our administrative expenses included staff costs, business tax and surcharges, depreciation, leasing expense, auditor’s remuneration, office expenses, entertainment expenses, listing expenses and others. The following table sets forth a breakdown of our administrative expenses for the years indicated:

	Year ended 31 December		
	2014	2015	2016
	RMB’000	RMB’000	RMB’000
Staff costs	2,866	3,932	3,660
Business tax and surcharges	3,464	3,282	1,025
Depreciation	1,728	1,471	1,415
Leasing expense	569	593	577
Auditor’s remuneration	1,493	1,464	2,424
Office expenses	413	474	119
Entertainment expenses	911	1,431	1,483
Listing expenses	7,680	2,420	8,274
Others	<u>1,678</u>	<u>2,580</u>	<u>3,616</u>
Total	<u>20,802</u>	<u>17,647</u>	<u>22,593</u>

Staff costs accounted for approximately 13.8%, 22.3% and 16.2% of our administrative expenses for the years ended 31 December 2014, 2015 and 2016, respectively. Our business tax and surcharges during the Track Record Period mainly represented business tax, city construction and maintenance tax and education tax. Our business tax and surcharges were approximately RMB3.5 million, RMB3.3 million and RMB1.0 million, accounting for approximately 16.7%, 18.6% and 4.5% of our total administrative expenses for the years ended 31 December 2014, 2015 and 2016, respectively. Our interest income had been subject to a preferential business tax rate of 3% throughout the period from 1 January 2014 up to 30 April 2016, after which, our Company has been subject to VAT on our interest income in lieu of business tax with effect from 1 May 2016. In preparation for the Listing, we engaged

FINANCIAL INFORMATION

certain professional parties during the year ended 31 December 2014 and incurred listing expenses of approximately RMB7.7 million. Our other administrative expenses during the Track Record Period mainly comprised professional fees, travelling expenses, automobile expenses, marketing expenses, utilities charges and system maintenance expenses.

Net other income/(expense)

Our net other income/(expense) primarily comprise government grants, fee and commission expense, charitable contributions and loss on disposal of fixed assets/repossessed assets. The following table sets forth the details of our net other income/(expense) for the years indicated:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other income:			
Government grants	—	393	476
Others	—	1	—
<i>Subtotal</i>	—	394	476
Other expense:			
Fee and commission expense	(15)	(10)	(23)
Charitable contributions	(10)	(10)	—
Loss on disposal of fixed assets/repossessed assets	(224)	(13)	—
<i>Subtotal</i>	(249)	(33)	(23)
Net other income/(expense)	<u>(249)</u>	<u>361</u>	<u>453</u>

For the year ended 31 December 2014, we recorded a loss on disposal of fixed assets/repossessed assets of approximately RMB0.2 million mainly due to our disposal of a vehicle. As part of the government's incentive to promote the development of microfinance companies in Yangzhou City, we received government grants of approximately RMB0.4 million and RMB0.5 million for the years ended 31 December 2015 and 2016, respectively. Fee and commission expenses incurred during the Track Record Period were mainly bank charges and handling fees.

Income tax expense

During the Track Record Period, we were subject to a statutory income tax rate of 25% save that for the year ended 31 December 2014, where we were entitled to a 50% reduction in income tax based on The Guidance on the Sound and Rapid Development of Microfinance Companies in Rural Areas (省政府辦公廳關於推進農村小額貸款公司又好又快發展的意見) issued by the Jiangsu Municipal Office in November 2009. Our income tax expense for the years ended 31 December 2014, 2015 and 2016 was approximately RMB9.8 million, RMB16.7 million and RMB13.7 million, respectively, and our effective tax rate, calculated as income tax expense divided by profit before tax for the same periods was approximately 12.6%, 21.3% and 25.2%, respectively.

FINANCIAL INFORMATION

Our Directors confirmed that we have paid all relevant taxes and are not subject to any dispute or unsolved tax issues with the relevant tax authorities in China.

Profit and total comprehensive income for the year

As a result of the foregoing, we had profit for the year of approximately RMB67.5 million, RMB61.4 million and RMB40.5 million for the years ended 31 December 2014, 2015 and 2016, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

Year ended 31 December 2016 compared to the year ended 31 December 2015

Interest income

Our interest income decreased by approximately 22.4% from approximately RMB95.9 million for the year ended 31 December 2015 to approximately RMB74.5 million for the year ended 31 December 2016. This decrease was primarily attributable to (i) a decrease in the effective interest rate per annum we charged on our loans, from 16.5% for the year ended 31 December 2015 to 12.7% for the year ended 31 December 2016; and (ii) imposition of VAT on our interest income in lieu of business tax with effect from 1 May 2016, as a result of which our interest income has been recognized net of applicable VAT starting from 1 May 2016, partially offset by an increase in our average daily balance of our loans receivable by approximately 0.6% from approximately RMB580.9 million for the year ended 31 December 2015 to approximately RMB584.5 million for the year ended 31 December 2016. The decrease in our effective interest rate per annum we charged on our loans was mainly due to (i) the decreases of PBOC Benchmark Interest Rate for short-term loans from 5.60% at the beginning of 2015 to 5.35% in March 2015, and after several rounds of interest rate cut, further to 4.35% in October 2015; (ii) our offering of more competitive and favorable pricing to selective customers in response to the Yangzhou government's recent policy direction towards alleviating the burdensome funding costs faced by SMEs and further promoting accessibility of funding by SMEs, as well as addressing the competitive environment of our industry; and (iii) to a less significant extent the impact of the imposition of VAT on our interest income in lieu of business tax with effect from 1 May 2016, which resulted in a lower reported interest income as our interest income has since been recognized net of applicable VAT.

Interest expense

Our interest expense decreased from approximately RMB1.4 million for the year ended 31 December 2015 to approximately RMB0.6 million for the year ended 31 December 2016, primarily due to the decrease in our average daily balance of borrowings from approximately RMB12.5 million for the year ended 31 December 2015 to approximately RMB5.0 million for the year ended 31 December 2016.

Reversal of provision for impairment losses

We had reversal of provision for impairment losses of approximately RMB0.8 million and RMB2.4 million for the years ended 31 December 2015 and 2016, respectively, primarily as a result of overall improvement of our loan quality.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses increased by approximately 28.0% from approximately RMB17.6 million for the year ended 31 December 2015 to approximately RMB22.6 million for the year ended 31 December 2016. This was primarily due to an increase in expenses incurred relating to the Listing of approximately RMB5.9 million and an increase in other administrative expenses of approximately RMB1.0 million, mainly attributable to an increase in our professional fees, partially offset by a decrease in business tax and surcharges of approximately RMB2.3 million due to the imposition of VAT, which substituted the business tax, with effect from 1 May 2016.

Income tax expense

Income tax expense decreased by approximately 18.1% from approximately RMB16.7 million for the year ended 31 December 2015 to approximately RMB13.7 million for the year ended 31 December 2016. Such decrease was mainly attributable to a decrease in current income tax of approximately RMB6.4 million due to decrease in our profit before tax. The decrease was offset by a reduction of deferred income tax of approximately RMB3.4 million arising from an increase in our deferred tax assets in 2015 (mainly relating to our allowance for loan impairments) as a result of the increase in our applicable income tax rate from 12.5% in 2014 to 25% in 2015, as we no longer enjoyed a 50% reduction in income tax rate and began to be subjected to the statutory income tax rate of 25% since 1 January 2015. Our effective income tax rate was 21.3% and 25.2% for the years ended 31 December 2015 and 2016, respectively.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income for the year decreased by approximately 34.1% from approximately RMB61.4 million for the year ended 31 December 2015 to approximately RMB40.5 million for the year ended 31 December 2016.

Year ended 31 December 2015 compared to year ended 31 December 2014

Interest income

Our interest income decreased by approximately 2.2% from approximately RMB98.1 million for the year ended 31 December 2014 to approximately RMB95.9 million for the year ended 31 December 2015. This decrease was primarily attributable to a decrease in the effective interest rate per annum we charged on our loans from 17.9% in 2014 to 16.5% in 2015, partially offset by an increase in our average daily balance of our loans receivable by approximately 13.6% from approximately RMB511.5 million for the year ended 31 December 2014 to approximately RMB580.9 million for the year ended 31 December 2015. The decrease in our effective interest rate per annum we charged on our loans was mainly due to the decreases of PBOC Benchmark Interest Rate for short-term loans from 6.0% at the beginning of 2014 to 5.6% in November 2014, and after several rounds of interest rate cut, further to 4.35% in October 2015.

Interest expense

Our interest expense remained relatively stable at approximately RMB1.4 million for both of the years ended 31 December 2014 and 2015, primarily due to the combined effect of a decrease in our

FINANCIAL INFORMATION

average daily balance of borrowings from approximately RMB17.7 million for the year ended 31 December 2014 to approximately RMB12.5 million for the year ended 31 December 2015, and an increase in the effective interest rate per annum on our borrowings from 8.1% for the year ended 31 December 2014 to 11.5% for the year ended 31 December 2015.

Reversal of provision for impairment losses

We reversed the provision for impairment losses of approximately RMB1.6 million for the year ended 31 December 2014 and approximately RMB0.8 million for the year ended 31 December 2015, as a result of overall improvement of our loan quality.

Reversal of provisions for guarantee losses

For details of the reversal of provision for guarantee losses for the year ended 31 December 2014, please refer to the paragraph headed “Components of our Statement of Profit or Loss and other Comprehensive Income — Reversal of provisions for guarantee losses” in this section.

Administrative expenses

Our administrative expenses decreased by approximately 15.2% from approximately RMB20.8 million for the year ended 31 December 2014 to approximately RMB17.6 million for the year ended 31 December 2015, primarily due to a decrease in expenses incurred relating to the Listing of approximately RMB5.3 million, partially offset by an increase in our staff costs of approximately RMB1.1 million and an increase in other administrative expenses of approximately RMB0.9 million. The increase in our staff costs was mainly attributable to an increase in our performance-based compensation paid to our employees as a result of certain adjustments made to the performance-based incentive structure under our performance-based compensation scheme in 2015. The increase in other administrative expenses was mainly attributable to an increase in our professional fees.

Net other income/(expense)

We had a net other income of approximately RMB0.4 million for the year ended 31 December 2015 as compared to a net other expense of approximately RMB0.2 million for the year ended 31 December 2014, primarily due to a government grant of RMB0.4 million in 2015 provided by the government of Yangzhou City and the loss from disposal of fixed assets/repossessed assets of approximately RMB0.2 million in 2014.

Income tax expense

Income tax expense increased by approximately 70.8% from approximately RMB9.8 million for the year ended 31 December 2014 to approximately RMB16.7 million for the year ended 31 December 2015, primarily because we no longer enjoyed the 50% reduction in income tax rate and began to be subjected to the statutory income tax rate of 25% since 1 January 2015. Our effective income tax rate was 12.6% and 21.3% in 2014 and 2015, respectively.

FINANCIAL INFORMATION

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income for the year decreased by approximately 9.0% from approximately RMB67.5 million for the year ended 31 December 2014 to approximately RMB61.4 million for the year ended 31 December 2015.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our capital expenditure, working capital and other liquidity requirements from equity contributions from shareholders, shareholders' loans, bank borrowings, borrowings from other institutions including Jinnong Company and other microfinance companies, and cash flow from operations. Our liquidity and capital requirements primarily relate to extending loans to customers and our other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an liquidity that can meet our working capital needs while supporting a healthy level of business scale.

Taking into account the financial resources available to us, including our existing cash and cash equivalents, net proceeds from the Public Offer and cash flows from our operations, our Directors are of the view, and the Sole Sponsor concurs, that we have sufficient working capital for our present requirements and are able to fulfill our obligations under our business for at least the next 12 months from the date of this prospectus.

The following table sets forth a selected summary of our cash flow statements for the years indicated:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Net cash flows from/(used in) operating activities	140,433	(26,487)	60,009
Net cash flows used in investing activities	(992)	(839)	(30)
Net cash flows from/(used in) financing activities	<u>(138,420)</u>	<u>5,726</u>	<u>(56,844)</u>
Net increase/(decrease) in cash and cash equivalents	<u>1,021</u>	<u>(21,600)</u>	<u>3,135</u>
Cash and cash equivalents at beginning of the year	20,997	22,018	418
Cash and cash equivalents at the end of the year	<u>22,018</u>	<u>418</u>	<u>3,553</u>

Net cash flow from/(used in) operating activities

Our business of providing loans to customers is capital-based in nature and involves a substantial amount of operating cash turnover in its ordinary course of business undertakings. During the Track Record Period, we obtained borrowings from one of our Controlling Shareholders, Jinnong Company and/or other microfinance companies, which were recorded as cash inflows from financing activities. These funds were gradually deployed into our micro and small loan business in the form of loans extended to customers and would be classified as cash used in operating activities. As a result, we

FINANCIAL INFORMATION

experienced net cash used in operating activities for the year ended 31 December 2015. Due to the lending-based nature of our business and the accounting treatment that such deployment of cash is accounted for as operating cash outflow, we typically experience net cash outflows from operating activities when we expand our loan business, which is generally in line with the industry norm. Please also refer to the section headed “Risk Factors — Risks relating to our Business and Industry — We reported negative operating cash flows in 2015 and may continue to do so subsequent to the Listing” in this prospectus.

Our cash used in operating activities primarily consists of loans we grant to our customers. Our cash generated from operating activities primarily consists of loan repayments from customers and interest income we receive. Net cash flows from/(used in) operating activities reflect (i) our profit before tax adjusted for non-cash and non-operating items, such as impairment losses, depreciation, reversal of provisions, accrued interest on impaired loans, net loss on disposal of property and equipment and other assets and interest expense; (ii) the effects of changes in working capital, such as changes in loans receivable and other assets and liabilities; and (iii) income tax paid.

Our net cash flows from operating activities for the year ended 31 December 2016 was approximately RMB60.0 million. Our net cash flows from operating activities reflected: (i) our profit before tax of approximately RMB54.1 million, adjusted for non-cash and non-operating items, primarily including reversal of provision for impairment losses of approximately RMB2.4 million, depreciation of approximately RMB1.4 million, accreted interest on impaired loans of approximately RMB1.2 million, and interest expense of approximately RMB0.6 million; (ii) the effect of changes in working capital, primarily including a decrease in loans receivable of approximately RMB20.1 million, an increase in other liabilities of approximately RMB1.3 million and decrease in other assets of approximately RMB0.2 million; and (iii) income tax paid of approximately RMB14.3 million.

Our net cash flows used in operating activities for the year ended 31 December 2015 was approximately RMB26.5 million. Our net cash flows used in operating activities reflected: (i) our profit before tax of approximately RMB78.1 million, adjusted for non-cash and non-operating items, primarily including depreciation of approximately RMB1.5 million, reversal of provision for impairment losses of approximately RMB0.8 million, interest expense of approximately RMB1.4 million and accreted interest on impaired loans of approximately RMB1.0 million; (ii) the effect of changes in working capital, primarily including an increase in loans receivable of approximately RMB91.0 million; and (iii) income tax paid of approximately RMB15.7 million.

Our net cash flows from operating activities for the year ended 31 December 2014 was approximately RMB140.4 million. Our net cash flows from operating activities reflected: (i) our profit before tax of approximately RMB77.3 million, adjusted for non-cash and non-operating items, primarily including depreciation of approximately RMB1.7 million, reversal of provision for impairment losses of approximately RMB1.6 million, interest expense of approximately RMB1.4 million and accreted interest on impaired loans of approximately RMB1.4 million; (ii) the effect of changes in working capital, primarily including a decrease in other assets of approximately RMB48.1 million, a decrease in loans receivable of approximately RMB22.8 million and an increase in other liabilities of approximately RMB2.5 million; and (iii) income tax paid of approximately RMB10.6 million.

Our net cash flows from operating activities in other assets decreased by approximately RMB48.1 million during the year ended 31 December 2014 mainly as a result of (i) a decrease in other receivables from Shareholders of approximately RMB46.3 million; and (ii) a decrease in other

FINANCIAL INFORMATION

receivables of approximately RMB1.2 million which were mainly professional and court fees / prepayments we incurred and/or made for court cases we instigated to recover overdue loans, which we were subsequently awarded judgments to be reimbursed with such fees/prepayments and which we have accordingly recovered from our customers.

The decrease in other receivables from Shareholders mentioned above was principally resulting from our recovery of dividends from Shareholders that we mistakenly distributed in 2013. Pursuant to the applicable accounting principles, upon a PRC company's conversion into a joint stock company, share premium arising from the difference between the par value of shares issued by the joint stock company and the company's net asset value shall be recorded as capital reserve. However, when our Company was converted into a joint stock company in August 2012, we inadvertently credited the difference between our then registered capital and net asset value as retained earnings (the "**Misclassified Amount**") instead of capital reserve, and subsequently in 2013 distributed dividends to our Shareholders based on the retained earnings that inadvertently included the Misclassified Amount. Upon discovery of the misclassification in early 2014 during our financial audit for the year ended 31 December 2013, we corrected such misclassification by crediting back the Misclassified Amount to our capital reserve, and reversed the "excess dividends" paid as other receivables from Shareholders and fully recovered the amount from our Shareholders later in 2014, resulting in our reported decrease in other receivables from Shareholders in our net cash flow from operating activities for the year ended 31 December 2014.

The misclassification above was an isolated incident occurred before our engagement of an international accounting firm as auditors, mainly due to our then lack of familiarity in the appropriate accounting treatment of share premium arising from our conversion into a joint stock company which was not generally encountered in our ordinary course of business. Since the engagement of the said international accounting firm as auditors and having been aware of such misclassification, we have arranged our accounting staff to receive periodic trainings on financial reporting, taxation and change of accounting policies organized by the local government authorities and our auditors, and have sought professional advices from our auditors from time to time to ensure our books and records are prepared in accordance with applicable accounting standards and principles. Going forward, we endeavor to continuously provide professional trainings to our accounting staff, seek periodic advices from our auditors and if necessary, seek advice from our audit committee which is chaired by Mr. Chan So Kuen who has over 14 years of experience in accounting, auditing and finance industry, to keep abreast of any changes to the applicable accounting standards and principles and to avoid occurrence of similar incidents.

Cash flows used in investing activities

Our cash flows used in investing activities is primarily attributable to our purchase of equipment and other long-term assets.

For the year ended 31 December 2016, our net cash flows used in investing activities was approximately RMB29,812, which was mainly attributable to our acquisition of fixed assets including office furniture and equipment used for sales and administrative activities.

For the year ended 31 December 2015, our net cash flows used in investing activities was approximately RMB0.8 million, which was mainly attributable to our acquisition of fixed assets including office furniture and equipment used for sales and administrative activities as well as leasehold improvements for our office.

FINANCIAL INFORMATION

For the year ended 31 December 2014, our net cash flows used in investing activities was approximately RMB1.0 million, which was mainly attributable to our acquisition of fixed assets including office furniture and equipment used for sales and administrative activities as well as leasehold improvements for our office.

Cash flows from/(used in) financing activities

Our cash generated from financing activities consist primarily of proceeds from borrowings. Our cash used in financing activities consist primarily of repayment of borrowings, interest payments, cash paid for professional fees incurred in relation to the Listing which will be capitalized upon Listing and dividends payment to Shareholders.

For the year ended 31 December 2016, our net cash flows used in financing activities was approximately RMB56.8 million. Our net cash flows used in financing activities consisted primarily of (i) dividend payment of RMB45.0 million, (ii) repayment of borrowings of RMB41.0 million, (iii) cash paid for professional fees incurred in relation to the Listing which will be capitalized upon Listing of approximately RMB3.2 million, and (iv) interest paid on borrowings of approximately RMB0.7 million, which were offset by new borrowings of RMB33.0 million.

For the year ended 31 December 2015, our net cash flows from financing activities was approximately RMB5.7 million. Our net cash flows from financing activities consisted of new borrowings of RMB60.0 million, which was offset by (i) repayment of borrowings of RMB52.0 million, (ii) interest paid on borrowings of approximately RMB1.4 million, and (iii) cash paid for professional fees incurred in relation to the Listing which will be capitalized upon Listing of approximately RMB0.9 million.

For the year ended 31 December 2014, our net cash flows used in financing activities was approximately RMB138.4 million. Our net cash flows used in financing activities consisted primarily of (i) dividend payment of approximately RMB105.2 million, (ii) repayment of borrowings of RMB92.5 million, (iii) interest paid on borrowings of approximately RMB1.6 million, and (iv) cash paid for professional fees incurred in relation to the Listing which will be capitalized upon Listing of approximately RMB1.6 million, which were offset by new borrowings of RMB62.5 million.

Cash management

As our business relies primarily on our available cash, we normally set aside a sufficient amount of cash for general working capital needs, such as administrative expenses and payment of interest on external borrowings, and use substantially all of the remainder for effecting loans to our customers. To ensure our cash is maintained at an adequate level for actual working capital needs, it is our policy to closely monitor our cash level, control our cash utilization and budget our cash requirements on a regular basis. In this regard, our general manager is responsible for monitoring our cash level by reviewing daily reports on cash level prepared by our finance department and approved by our financial controller. As the level of our cash fluctuates primarily based on the amount of loans released to and collected from our customers, our finance department is responsible for scheduling the release of loans to our customers based on the status of loan repayment and drawdown requests as reported by account managers on a weekly basis. In addition, our general manager would discuss and confirm our cash utilization budget for every forthcoming month with relevant departments to ensure there is

FINANCIAL INFORMATION

adequate available cash for each department's operational needs. Moreover, we would prepare an annual budget based on our business plan and development strategy for overall assessment of our cash requirements in the forthcoming year. We believe that based on our cash management measures, we are able to optimize the use of available cash to effect loans to our customers.

As at 31 December 2014, 2015 and 2016, our total cash and cash equivalents amounted to approximately RMB22.0 million, RMB0.4 million and RMB3.6 million, respectively, which we consider to be adequate based on our actual working capital needs and our expenditure outlay schedule. Due to our business nature, the level of our cash generally fluctuates based on the schedule of loans released to and collected from our customers. As such, we may have an apparently low level of cash and cash equivalents as at a particular date due to momentary cut-off, and would generally be replenished shortly thereafter as and when loans granted to customers are due and repaid according to the relevant loan repayment schedules.

SELECTED ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Net assets

The following table sets forth a summary of our assets and liabilities as at the dates indicated:

	As at 31 December			As at 28
	2014	2015	2016	February
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
Assets				
Cash and cash equivalents	22,018	418	3,553	7,282
Loans receivable	504,255	597,092	580,544	579,610
Property and equipment	3,501	2,869	1,484	2,364
Deferred tax assets	3,089	5,602	4,709	4,813
Other assets	<u>3,812</u>	<u>4,678</u>	<u>7,661</u>	<u>8,952</u>
Total assets	<u>536,675</u>	<u>610,659</u>	<u>597,951</u>	<u>603,021</u>
Liabilities				
Interest-bearing borrowings	—	8,000	—	—
Income tax payable	3,677	7,161	5,670	2,968
Other liabilities	<u>9,098</u>	<u>10,196</u>	<u>11,498</u>	<u>13,510</u>
Total liabilities	<u>12,775</u>	<u>25,357</u>	<u>17,168</u>	<u>16,478</u>
Net assets	<u>523,900</u>	<u>585,302</u>	<u>580,783</u>	<u>586,543</u>

FINANCIAL INFORMATION

Our net assets increased from approximately RMB523.9 million as at 31 December 2014 to approximately RMB585.3 million as at 31 December 2015. Such increase was primarily attributable to an increase in our loans receivable of approximately RMB92.8 million as a result of our business expansion, partially offset by a decrease in our cash and cash equivalents of approximately RMB21.6 million, an increase in borrowings of RMB8.0 million and an increase in income tax payable of approximately RMB3.5 million.

Our net assets decreased slightly to approximately RMB580.8 million as at 31 December 2016, primarily attributable to a decrease in loans receivable of approximately RMB16.5 million mainly as a result of our overall reduced level of free cash during the period after payment of dividends of RMB45.0 million to our Shareholders in February 2016 and repayment in full of all our borrowings by 31 May 2016, partially offset by (i) an increase in cash and cash equivalents of approximately RMB3.1 million; (ii) an increase in other assets of approximately RMB3.0 million; and (iii) a decrease of borrowings of approximately RMB8.0 million outstanding as at 31 December 2015, which were subsequently repaid in full.

Our net assets increased slightly to approximately RMB586.5 million as at 28 February 2017, primarily attributable to (i) an increase in cash and cash equivalents of approximately RMB3.7 million; (ii) an increase in other assets of approximately RMB1.3 million; and (iii) a decrease in income tax payable of approximately RMB2.7 million, partially offset by an increase in other liabilities of approximately RMB2.0 million.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of our cash on hand, cash at a third party (i.e. Jinnong Company) and cash at banks. The following table sets forth our cash and cash equivalents as at the dates indicated:

	As at 31 December		
	2014	2015	2016
Cash on hand	1,520	115	—
Cash at a third party	1,509,101	689	14,553
Cash at banks	<u>20,507,355</u>	<u>416,715</u>	<u>3,538,274</u>
Cash and cash equivalents	<u>22,017,976</u>	<u>417,519</u>	<u>3,552,827</u>

Our cash and cash equivalents was at a relatively high level of approximately RMB22.0 million as at 31 December 2014 as compared to that as at 31 December 2015 primarily because some repayments we received from our customers shortly before the year end of 2014 remained unutilized as at the year end. Our cash and cash equivalents increased from approximately RMB0.4 million as at 31 December 2015 to approximately RMB3.6 million as at 31 December 2016.

Loans receivable

We primarily focus on offering micro and small loans to SMEs, microenterprises and individual proprietors. Loans receivable reflect the outstanding balance of our loan portfolio as at the relevant year end.

FINANCIAL INFORMATION

The following table sets forth our loans portfolio by security as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Guaranteed loans	360,933	68.3	495,231	79.9	518,850	86.6
Collateralized loans	167,618	31.7	124,270	20.1	80,531	13.4
<i>included: Guaranteed and collateralized loans</i>	<u>128,110</u>	<u>24.2</u>	<u>101,171</u>	<u>16.3</u>	<u>77,466</u>	<u>12.9</u>
Total	<u>528,551</u>	<u>100</u>	<u>619,501</u>	<u>100</u>	<u>599,381</u>	<u>100</u>

Our loans receivable increased by approximately 17.2% from approximately RMB528.6 million as at 31 December 2014 to approximately RMB619.5 million as at 31 December 2015 as a result of our business expansion. Our loans receivable decreased by approximately 3.2% from approximately RMB619.5 million as at 31 December 2015 to approximately RMB599.4 million as at 31 December 2016, primarily as a result of our overall reduced level of free cash during the period after payment of dividends of RMB45.0 million to our Shareholders in February 2016 and repayment in full of all our borrowings by 31 May 2016. During the Track Record Period, all loans extended to our customers were backed by guarantee(s) and/or secured by collateral(s), among which a substantial portion were guaranteed loans. Our guaranteed loans accounted for approximately 68.3%, 79.9% and 86.6% of our total loans as at 31 December 2014, 2015 and 2016, respectively.

Maturity profile

We focus on providing short-term loans to minimize our risk exposure, which generally had maturity profiles of up to one year. Loans with term of more than one year were principally loans that we granted extension upon customers' request before their initial maturity date. The following table sets forth our outstanding loans by term as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Loans with term of three months or less	2,009	0.4	—	—	—	—
Loans with term of more than three months and of six months or less	5,673	1.1	9,182	1.5	18,917	3.2
Loans with term of more than six months and of one year or less	459,321	86.9	577,228	93.2	573,978	95.7
Loans with term of more than one year	<u>61,548</u>	<u>11.6</u>	<u>33,091</u>	<u>5.3</u>	<u>6,486</u>	<u>1.1</u>
Total	<u>528,551</u>	<u>100</u>	<u>619,501</u>	<u>100</u>	<u>599,381</u>	<u>100</u>

FINANCIAL INFORMATION

For a detailed description of our loan portfolio, please refer to the section headed “Business — Our Loan Portfolio” in this prospectus.

Overdue analysis

The following table sets forth the overdue loans and analysis by overdue period as at the dates indicated:

	As at 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Overdue within three months (inclusive)	1,343	9.4	1,625	3.5	87	0.9
Overdue more than three months to one year (inclusive)	10,192	71.5	40,027	85.5	963	9.5
Overdue more than one year to three years (inclusive)	2,723	19.1	4,354	9.3	6,504	64.6
Overdue more than three years	—	—	779	1.7	2,515	25.0
Overdue loans	<u>14,258</u>	<u>100</u>	<u>46,785</u>	<u>100</u>	<u>10,069</u>	<u>100</u>
Total loans	528,551		619,501		599,381	
Overdue loan ratio⁽¹⁾	2.7%		7.6%		1.7%	

Note:

(1) The overdue loan ratio is calculated by dividing the total amount of overdue loans outstanding as at the dates indicated by the total amount of loans outstanding as at the dates indicated.

Overdue loans represent loans of which whole or part of the principal and/or interest were overdue for one day or more. We had overdue loans of approximately RMB14.3 million, RMB46.8 million and RMB10.1 million as at 31 December 2014, 2015 and 2016, respectively, accounting for approximately 2.7%, 7.6% and 1.7% of total amount of loans outstanding as at the same dates. The higher balance of overdue loans as at 31 December 2015 was primarily a result of certain collateralized overdue loans made to three borrowers who are related to each other, and which were under repayment plans, where certain real properties were being arranged for disposal to settle the overdue loans. The principal of the overdue loans, together with interests accrued thereon, owed by these three borrowers were fully repaid as at 31 December 2016.

Allowance for impairment losses

We review our loan portfolio periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any evidence of impairment. We assess impairment either

FINANCIAL INFORMATION

collectively or individually as appropriate. For details, please refer to the paragraph headed “Significant Accounting Policies, Judgments and Estimates — Impairment of financial assets carried at amortized cost” in this section and Notes 4 and 28 to our financial statements included in the Accountants’ Report in Appendix I to this prospectus.

The following table sets forth our loans receivable and allowance for impairment losses as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loans receivable	528,551	619,501	599,381
Less: Allowance for impairment losses			
- <i>individually assessed</i>	(6,726)	(6,113)	(6,158)
- <i>collectively assessed</i>	(17,570)	(16,296)	(12,679)
Total allowance for impairment losses	<u>(24,296)</u>	<u>(22,409)</u>	<u>(18,837)</u>
 Net loans receivable	 <u>504,255</u>	 <u>597,092</u>	 <u>580,544</u>

The following table sets forth the movement in allowance for impairment losses on loans receivable during the Track Record Period:

	Individually assessed	Collectively assessed	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2014	7,506	19,773	27,279
Charges/(reversals) for the year	648	(2,203)	(1,555)
Accreted interest on impaired loans	<u>(1,428)</u>	<u>—</u>	<u>(1,428)</u>
 As at 31 December 2014	 6,726	 17,570	 24,296
Charges/(reversals) for the year	425	(1,274)	(849)
Accreted interest on impaired loans	<u>(1,038)</u>	<u>—</u>	<u>(1,038)</u>
 As at 31 December 2015	 6,113	 16,296	 22,409
Charges/(reversals) for the year	1,243	(3,617)	(2,374)
Accreted interest on impaired loans	<u>(1,198)</u>	<u>—</u>	<u>(1,198)</u>
 At 31 December 2016	 <u>6,158</u>	 <u>12,679</u>	 <u>18,837</u>

FINANCIAL INFORMATION

We adopt a “Five-Tier Principle” of loan classification approach to manage our loan portfolio, under which we categorize our loans as “normal”, “special-mention”, “substandard”, “doubtful” or “loss” according to their levels of risk. For details, please refer to the section headed “Business — Provisioning Policies and Asset Quality” in this prospectus.

The following table sets forth the balance of our loans receivable and allowance for impairment losses by category as at the dates indicated:

	As at 31 December								
	2014			2015			2016		
	<i>Loans receivable</i>	<i>Allowance</i>	<i>Provision rate (%)</i>	<i>Loans receivable</i>	<i>Allowance</i>	<i>Provision rate (%)</i>	<i>Loans receivable</i>	<i>Allowance</i>	<i>Provision rate (%)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>rate (%)</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>rate (%)</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>rate (%)</i>
Normal	442,365	10,340	2.3	570,454	12,555	2.2	588,991	12,636	2.1
Special-mention	68,302	7,230	10.6	35,749	3,741	10.5	409	43	10.5
Substandard	14,156	4,567	32.3	9,322	3,451	37.0	5,092	1,960	38.5
Doubtful	3,728	2,159	57.9	3,197	1,883	58.9	1,790	1,099	61.4
Loss	—	—	—	779	779	100.0	3,099	3,099	100.0
Total	<u>528,551</u>	<u>24,296</u>		<u>619,501</u>	<u>22,409</u>		<u>599,381</u>	<u>18,837</u>	

For “normal” and “special-mention” loans, given that they are not impaired, we make collective assessment based primarily on factors including prevailing general market and industry conditions and historical impaired ratio. For “substandard”, “doubtful” and “loss” loans, the impairment losses are assessed individually and determined on a case-by-case basis by an evaluation of the loss incurred on the balance sheet date.

Other assets

Our other assets primarily comprised prepaid expenses, professional fees relating to the Listing and other receivables. The following table sets forth a breakdown of our other assets as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepaid expenses ⁽¹⁾	56	—	—
Listing service fees	2,454	3,311	6,535
Other receivables ⁽²⁾	<u>1,302</u>	<u>1,367</u>	<u>1,126</u>
	<u>3,812</u>	<u>4,678</u>	<u>7,661</u>

Notes:

(1) Prepaid expenses mainly represented prepaid rent.

(2) Other receivables mainly consisted of advances to employees for business expenses.

FINANCIAL INFORMATION

As at 31 December 2014, 2015 and 2016, our other assets were approximately RMB3.8 million, RMB4.7 million and RMB7.7 million, respectively. The increase in our other assets was mainly due to an increase in professional fees incurred in relation to the Listing from approximately RMB2.5 million as at 31 December 2014 to approximately RMB3.3 million as at 31 December 2015, and further to approximately RMB6.5 million as at 31 December 2016, all of which will be capitalized upon Listing.

Income tax payable

Our income tax payable, which represents our current income tax liabilities, was approximately RMB3.7 million, RMB7.2 million and RMB5.7 million as at 31 December 2014, 2015 and 2016, respectively.

Other liabilities

Other liabilities primarily comprised of payroll payable, other payables and professional fee payables relating to the Listing. The following table sets forth a breakdown of our other liabilities as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Payroll payable	414	716	581
Other payables	5,463	5,242	5,378
Listing service fee payable	<u>3,221</u>	<u>4,238</u>	<u>5,539</u>
	<u>9,098</u>	<u>10,196</u>	<u>11,498</u>

Our payroll payable related to payments recognized but which have not been made as at the end of the year. Other payables include interests payables, other operating expenses payables and business tax and surcharges payables. Our other liabilities increased from approximately RMB9.1 million as at 31 December 2014 to approximately RMB10.2 million as at 31 December 2015, primarily due to an increase in professional fee payables in relation to the Listing of approximately RMB1.0 million. Our other liabilities further increased from approximately RMB10.2 million as at 31 December 2015 to approximately RMB11.5 million as at 31 December 2016, mainly due to an increase in Listing related professional fee payables of approximately RMB1.3 million.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Interest-bearing borrowings

During the Track Record Period, we financed our business mainly through our own registered capital, internally generated funds, bank borrowings and, from time to time, short-term borrowings from other institutions, including Jinnong Company and other microfinance companies. In 2014, we repaid all outstanding bank borrowings obtained by us before the Track Record Period, and did not

FINANCIAL INFORMATION

obtain any bank borrowings during the Track Record Period and up to the Latest Practicable Date. In addition, in 2014, we obtained shareholder's loans in the aggregate principal sum of RMB7.5 million from Botai Group, our controlling Shareholder, which had been fully repaid as at 31 December 2014.

For the years ended 31 December 2014, 2015 and 2016, we had obtained fundings from the fund pool managed by Jinnong Company in the aggregate principal amount of approximately RMB45.0 million, RMB40.0 million and RMB20.0 million, respectively. For the years ended 31 December 2014, 2015 and 2016, we paid approximately RMB0.3 million, RMB0.7 million and RMB0.1 million to Jinnong Company, respectively, as our costs of funding from the fund pool. In addition, we had obtained short-term loans from other microfinance companies in aggregate principal amount of approximately RMB10.0 million, RMB20.0 million and RMB13.0 million for the years ended 31 December 2014, 2015 and 2016, respectively. Our interest payment to other microfinance companies amounted to approximately RMB0.1 million, RMB0.7 million and RMB0.6 million for the years ended 31 December 2014, 2015 and 2016, respectively.

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

	As at 31 December			As at 28
	2014	2015	2016	February
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
				(unaudited)
Outstanding borrowings	<u>—</u>	<u>8,000</u>	<u>—</u>	<u>—</u>

As at 31 December 2015, our total outstanding borrowings amounted to RMB8.0 million, which was repayable within one year, obtained from other microfinance companies and were guaranteed by Botai Group, our controlling Shareholder, and other related parties. Such borrowings were repaid in full and the relevant guarantees were released as at the Latest Practicable Date. As at 28 February 2017, being the latest practicable date of our indebtedness statement, except as otherwise disclosed in this prospectus, we did not have any outstanding borrowings, mortgages, charges, debentures, other issued debt capital, bank overdrafts, liabilities under acceptance or other similar indebtedness. We did not obtain any credit facilities from any bank as at 28 February 2017.

During the period from 1 March 2017 up to the Latest Practicable Date, we did not obtain any new interest-bearing borrowings or any credit facilities from banks or other financial institutions. Our Directors confirmed that there has not been any material change in our indebtedness since 28 February 2017 and up to the Latest Practicable Date.

Our Directors confirmed that during the Track Record Period, we did not have any material default in payment with regard to our borrowings nor did we breach any material covenants. Our Directors also confirmed that as at the Latest Practicable Date, we did not have any plan for material external debt financing.

Contingent liabilities

As at the Latest Practicable Date, we did not have any material contingent liabilities.

FINANCIAL INFORMATION

FINANCIAL RATIOS

The following table sets forth our key financial ratios as at the dates indicated:

	Year ended or as at 31 December		
	2014	2015	2016
Return on equity ⁽¹⁾	12.4%	11.1%	6.9%
Return on assets ⁽²⁾	11.8%	10.7%	6.7%
Total outstanding loans receivable less allowance for impairment losses to total assets ⁽³⁾	94.0%	97.8%	97.1%
Gearing ratio ⁽⁴⁾	—	1.3%	—

Notes:

- (1) Return on equity is calculated by dividing profit and total comprehensive income by the average balance of total equity as at the beginning and end of a year multiplied by 100%.
- (2) Return on assets is calculated by dividing profit and total comprehensive income by the average balance of total assets as at the beginning and end of a year multiplied by 100%.
- (3) The ratio of total outstanding loans receivable less allowance for impairment losses to total assets equals the total outstanding loans receivable less allowance for impairment losses as at the indicated date divided by the total assets as at the same date and multiplied by 100%.
- (4) Gearing ratio equals the net debt as at the indicated date divided by the aggregate of total capital and net debt as at the same date and multiplied by 100%.

Return on equity

Our return on equity decreased from 12.4% for the year ended 31 December 2014 to 11.1% for the year ended 31 December 2015, and further to 6.9% for the year ended 31 December 2016, primarily attributable to the decrease in our profit and total comprehensive income, which in turn was impacted by (i) increase in our income tax expense since 2015 as we no longer enjoyed the 50% reduction in income tax rate and began to be subjected to the statutory income tax rate of 25% since 1 January 2015; and (ii) the decrease in our effective interest rate during the Track Record Period primarily attributable to the decreases of PBOC Benchmark Interest Rate, and to a lesser extent our offering of more competitive and favorable interest charge to selected customers in response to Yangzhou government's recent policy direction.

Return on assets

Our return on assets decreased from 11.8% for the year ended 31 December 2014 to 10.7% for the year ended 31 December 2015, and further to 6.7% for the year ended 31 December 2016, primarily attributable to the same reasons affecting our return on equity as explained above.

FINANCIAL INFORMATION

Total outstanding loans receivable less allowance for impairment losses to total assets ratio

The ratio of our total outstanding loans receivable less allowance for impairment losses to total assets remained at a high level, which was approximately 94.0%, 97.8% and 97.1% as at 31 December 2014, 2015 and 2016, respectively, reflecting our high capital utilization ratio.

Gearing ratio

Our gearing ratio as at 31 December 2014, 2015 and 2016 was nil, 1.3% and nil, respectively. Our gearing ratios remained relatively minimal during the Track Record Period.

COMMITMENTS

Operating Lease Commitments

We lease our office premises under various non-cancellable operating leases. The following table sets forth our total minimum lease payments under non-cancellable operating leases of properties as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Operating lease commitments			
Within one year (including one year)	519	575	603
One to two years (including two years)	600	601	51
Two to three years (including three years)	607	50	51
Over three years	—	61	154
Total:	<u>1,726</u>	<u>1,287</u>	<u>859</u>

Capital commitments

As at the Latest Practicable Date, we did not have any capital commitment.

CAPITAL EXPENDITURE

Our capital expenditure, consisting primarily of purchases for fixture and furnitures and leasehold improvements, which was approximately RMB1.1 million, RMB0.8 million and RMB29,812 for the years ended 31 December 2014, 2015 and 2016, respectively. We intend to fund our capital expenditures with cash generated from our operating activities.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any off-balance sheet arrangements.

FINANCIAL INFORMATION

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, we are exposed to various types of financial risks, including credit risk, liquidity risk and interest rate risk. Please refer to Note 28 to our financial statements included in the Accountants' Report in Appendix I to this prospectus for details.

Credit Risk

Our financial assets primarily include cash at banks and at a third party, loans receivable and other receivables. We are exposed to credit risk, which is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. As loans receivable from our customers represent a substantial component of our total assets, our credit exposure primarily arises from outstanding loans we provide to SMEs, microenterprises and individual proprietors. We continuously monitor these risk exposures. For details, please refer to the section headed "Risk Management — Credit Risk Management" in this prospectus.

The principal features of our credit risk management function include:

- centralized credit management procedures; and
- risk management rules and procedures that focus on risk control throughout our business process, including pre-loan due diligence, loan application review and approval, granting of loan and post-loan monitoring.

We adopt a "Five-Tier Principle" of loan classification approach to manage loan portfolio risk. We categorize our loans as "normal", "special-mention", "substandard", "doubtful" or "loss" according to their levels of risk. The core definitions of the five categories of loans receivable are set out below:

- Normal: Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
- Special-mention: Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
- Substandard: Borrower's ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay the principal and interest. Losses may ensue even when collateral or guarantees are invoked.
- Doubtful: Borrowers cannot repay the principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.
- Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

FINANCIAL INFORMATION

We review overdue loans receivable regularly and continue to monitor customers' repayment abilities after drawdown of loans to minimize credit risk. The table below shows the credit quality of our loans receivable:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	507,174	572,717	589,312
Past due but not impaired	3,493	33,486	88
Individually impaired	<u>17,884</u>	<u>13,298</u>	<u>9,981</u>
Total	<u><u>528,551</u></u>	<u><u>619,501</u></u>	<u><u>599,381</u></u>

Loans receivable neither past due nor impaired are related to various diversified customers with no recent default history. Loans receivable past due but not impaired are related to the customers with good credit records or adequate collaterals. According to past experience, we do not recognize individually assessed allowances for these loans receivable since there is no significant change in credit quality and the amount can be recovered in full. Loans receivable are identified as impaired loans receivable if there are objective evidences indicating that the loans' estimated future cash flows are influenced by one or several factors and the impact can be estimated reliably. During the Track Record Period, the impaired loans identified by us included overdue loans with objective evidence of impairment. Meanwhile, overdue loans related to customers considered to have good credit records or adequate collaterals were not classified as impaired.

Impairment assessment

Our main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, or breach of the original terms of the contract. We assess impairment loss either individually or collectively as appropriate. All loans receivable are individually reviewed for objective evidence of impairment and classified based on the "Five-Tier Principle" of loan classification approach. Loans that are classified as "substandard", "doubtful" or "loss" are assessed individually for impairment.

Depending on, among other things, the size of the loan and the risk profile of a borrower, we may require a loan to be secured by collateral. We have guidelines on the acceptability of specific classes of collateral from customers. The principal collateral types for loans to customers are:

- real estates, including residential and commercial properties; and
- machinery, equipment and motor vehicles.

We also focus on ascertaining legal ownership, condition and valuation of collaterals. A collateral backed loan is granted on the basis of the fair value of the collateral. We continue to monitor the value of the collateral throughout the loan period.

FINANCIAL INFORMATION

As our business operations are subject to geographical restrictions of our operating license, we are exposed to the credit risk of geographic concentration. Notwithstanding that our customers are concentrated in Yangzhou City, we provide loans to a wide variety of customers that operate in different industries. We consider our relatively small individual loan size coupled with the diversity of industries and businesses of our customers serve to alleviate our risk of concentration.

Liquidity Risk

Liquidity risk refers to risks in our operations when we have inadequate funds to fulfill our obligations related to financial debts. We seek to manage our liquidity risk by circulating liquidity facilities, considering the maturity date of financial instruments and estimated cash flows from operation.

The following tables summarize the maturity profiles of our financial assets and financial liabilities based on undiscounted contractual cash flows:

	As at 31 December 2014					Total RMB'000
	On demand RMB'000	Past due RMB'000	Less than three months RMB'000	Three to 12 months RMB'000	One to five years RMB'000	
Financial Assets						
Cash at banks and a third party	22,016	—	—	—	—	22,016
Loans receivable	—	14,258	104,499	454,466	—	573,223
Other assets	1,302	—	—	—	—	1,302
Subtotal	<u>23,318</u>	<u>14,258</u>	<u>104,499</u>	<u>454,466</u>	<u>—</u>	<u>596,541</u>
Financial Liabilities						
Other liabilities	—	—	—	3,396	25	3,421
Subtotal	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,396</u>	<u>25</u>	<u>3,421</u>
Net	<u>23,318</u>	<u>14,258</u>	<u>104,499</u>	<u>451,070</u>	<u>(25)</u>	<u>593,120</u>

FINANCIAL INFORMATION

	As at 31 December 2015					Total RMB'000
	On demand RMB'000	Past due RMB'000	Less than three months RMB'000	Three to 12 months RMB'000	One to five years RMB'000	
Financial Assets						
Cash at banks and a third party	417	—	—	—	—	417
Loans receivable	—	46,785	92,953	525,683	—	665,421
Other assets	1,367	—	—	—	—	1,367
Subtotal	<u>1,784</u>	<u>46,785</u>	<u>92,953</u>	<u>525,683</u>	<u>—</u>	<u>667,205</u>
Financial Liabilities						
Interest-bearing borrowings	—	—	8,261	—	—	8,261
Other liabilities	—	—	37	4,588	25	4,650
Subtotal	<u>—</u>	<u>—</u>	<u>8,298</u>	<u>4,588</u>	<u>25</u>	<u>12,911</u>
Net	<u>1,784</u>	<u>46,785</u>	<u>84,655</u>	<u>521,095</u>	<u>(25)</u>	<u>654,294</u>

	As at 31 December 2016					Total RMB'000
	On demand RMB'000	Past due RMB'000	Less than three months RMB'000	Three to 12 months RMB'000	One to five years RMB'000	
Financial Assets						
Cash at banks and a third party	3,553	—	—	—	—	3,553
Loans receivable	—	10,069	157,327	472,821	—	640,217
Other assets	1,126	—	—	—	—	1,126
Subtotal	<u>4,679</u>	<u>10,069</u>	<u>157,327</u>	<u>472,821</u>	<u>—</u>	<u>644,896</u>
Financial Liabilities						
Other liabilities	—	—	—	6,012	10	6,022
Subtotal	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,012</u>	<u>10</u>	<u>6,022</u>
Net	<u>4,679</u>	<u>10,069</u>	<u>157,327</u>	<u>466,809</u>	<u>(10)</u>	<u>638,874</u>

FINANCIAL INFORMATION

Interest rate risk

Our exposure to risk of changes in interest rates relates primarily to our cash at banks and a third party, loans receivable and interest-bearing borrowings. All of our loans receivable bear interest at fixed rate. They are much more influenced by mismatch of repricing days of interest-generating assets and interest-bearing liabilities. We do not use derivative financial instruments to manage our interest rate risk.

The following table demonstrates the sensitivity as at the end of each of the years ended 31 December 2014, 2015 and 2016 to a reasonably possible change in interest rates, with all other variables held constant, of our profit before tax (through the impact on floating rate of cash at banks and a third party). Our equity is not affected, other than the consequential effect on retained earnings (a component of our equity) by changes in profit before tax.

	Year ended 31 December		
	2014	2015	2016
Changes in variables - RMB interest rate	Impact on profit before tax <i>(RMB)</i>	Impact on profit before tax <i>(RMB)</i>	Impact on profit before tax <i>(RMB)</i>
+ 50 basis points	110,082	2,087	17,764
- 50 basis points	<u>(110,082)</u>	<u>(2,087)</u>	<u>(17,764)</u>

Our Directors considered that the sensitivity for the variable-interest-rate financial assets is minimal.

Capital management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize shareholders' value. We manage our capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new Shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014, 2015 and 2016.

FINANCIAL INFORMATION

We monitor capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing borrowings, less cash and cash equivalents. Management regards total equity which includes share capital, reserves and retained earnings as capital. The gearing ratios as at 31 December 2014, 2015 and 2016 were as follows:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing borrowings	—	8,000	—
Less: cash and cash equivalents	<u>22,018</u>	<u>418</u>	<u>3,553</u>
Net debt	(22,018)	7,582	(3,553)
Share capital	450,000	450,000	450,000
Reserves	64,622	71,445	75,493
Retained earnings	<u>9,278</u>	<u>63,857</u>	<u>55,290</u>
Capital	<u>523,900</u>	<u>585,302</u>	<u>580,783</u>
Capital and net debt	<u>501,882</u>	<u>592,884</u>	<u>577,230</u>
Gearing ratio	<u>N/A⁽¹⁾</u>	<u>1.3%</u>	<u>N/A⁽¹⁾</u>

Note:

(1) Gearing ratio is not applicable as there is no interest-bearing borrowings outstanding as at 31 December 2014 and 2016.

DIVIDEND POLICY

For the years ended 31 December 2014, 2015 and 2016, we declared and paid dividends in the amount of approximately RMB105.2 million, nil and RMB45.0 million, respectively. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

We may distribute dividends by way of cash or other means that we consider appropriate. Any proposed distribution of dividends shall be determined by our Board and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flow, financial conditions, future prospects and other factors that our Directors may consider important.

According to PRC laws, rules and regulations and our Articles of Association, we will pay dividends out of our profit after tax only after we have made the following allocations: (i) recovery of accumulated losses, if any; (ii) allocations to the statutory common reserve fund equivalent to 10% of our after-tax profit; (iii) allocations to the general reserve fund that we are required to set aside; and (iv) allocations that are approved by the Shareholders at the Shareholders' meeting, if any, to any common reserve fund.

FINANCIAL INFORMATION

The minimum allocations to statutory common reserve funds are 10% of our profit after tax, as determined under the Company Law. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory common reserve fund will be required.

In accordance with our Articles of Association, after Listing, dividends may be made only out of distributable profits as determined under PRC GAAP or IFRSs, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

We currently intend to adopt a general annual dividend policy of declaring and paying dividends to Shareholders of not less than 30% of our profit available for distribution after Listing, subject to, in each case, our Board's decision after a comprehensive review of our financial performance, future expectations and other factors deemed relevant by our Board, and our Shareholders' approval. There is, however, no assurance that dividends of such amount or any amount will be declared or distributed in any year subsequent to the Listing.

DISTRIBUTABLE RESERVES

As at 31 December 2014, 2015 and 2016, we had distributable retained earnings of approximately RMB9.3 million, RMB63.9 million and RMB55.3 million, respectively.

LISTING EXPENSES

We expect to incur total listing expenses (including professional fees, underwriting commissions and other fees) of approximately HK\$50.2 million (based on the mid-point of the indicative Offer Price range), of which approximately HK\$32.0 million has been or is expected to be recognized in our statement of profit or loss and other comprehensive income and approximately HK\$18.2 million is expected to be capitalized upon Listing. Listing expenses of approximately HK\$26.0 million were reflected in our statement of profit or loss and other comprehensive income for the Track Record Period and an additional amount of approximately HK\$6.0 million is expected to be recognized in our statement of profit or loss and other comprehensive income subsequent to the Track Record Period for the year ending 31 December 2017. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from the estimate. Our Directors expect that our financial results for the year ending 31 December 2017 will be negatively affected by the non-recurring listing expenses to be charged to our statement of profit or loss and other comprehensive income.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed "Listing Expenses" in this section, our Directors confirmed that there has been no material adverse change in our financial or trading position or prospects since 31 December 2016 (being the date to which our latest audited financial statements were prepared) and up to the date of this prospectus, and there is no event since 31 December 2016 and up to the date of this prospectus which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in Note 23 to our financial statements included in the Accountants' Report in Appendix I to this prospectus was conducted in the ordinary course of business and on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

We had granted a loan in the principal amount of RMB900,000 at interest rate of 18% per annum to a close associate of our executive Director in 2014. Such loan was repaid in full in 2014. In addition, for the year ended 31 December 2014, loans to customers in aggregate principal amount of approximately RMB11.0 million were guaranteed by our related parties. All such loans had been repaid in full by our customers in 2014, and there were no outstanding balances of loans to customers guaranteed by related party as at 31 December 2014, 2015 and 2016.

Moreover, in 2014, we obtained shareholder's loans in the aggregate principal sum of RMB7.5 million from Botai Group, our controlling Shareholder, at interest rate of 9% per annum. The shareholder's loans were fully repaid in the same year. As at 31 December 2015, our total outstanding borrowings of RMB8.0 million were guaranteed by Botai Group, our controlling Shareholder, and other related parties. Such borrowings were repaid in full and the relevant guarantees were released as at the Latest Practicable Date.

DISCLOSURE UNDER RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

Our Directors confirmed that as at the Latest Practicable Date, there was no circumstance which would give rise to a disclosure requirement under Rule 17.15 to 17.21 of the GEM Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative pro forma statement of adjusted net tangible assets of our Company attributable to the owners of our Company, which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Public Offer as if it has taken place on 31 December 2016.

FINANCIAL INFORMATION

This pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of our Company attributable to the owners of our Company as at 31 December 2016 or at any future dates following the Public Offer.

	Net tangible assets attributable to equity holders of our Company as at 31 December 2016 (RMB'000)⁽¹⁾	Estimated net proceeds from the Public Offer (RMB'000)⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company (RMB'000)⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share (RMB)⁽⁴⁾ (HK\$)⁽⁴⁾	
Based on an Offer Price of HK\$1.20 per H Share	580,783	115,396	696,179	1.16	1.31
Based on an Offer Price of HK\$1.34 per H Share	580,783	133,112	713,895	1.19	1.34

Notes:

- (1) As at 31 December 2016, our net tangible assets attributable to equity holders of our Company was equal to our net assets attributable to equity holders of our Company less the intangible assets, which was nil as at 31 December 2016.
- (2) The estimated net proceeds from the Public Offer are based on the indicative Offer Prices of HK\$1.20 and HK\$1.34 per H Share, respectively, after deduction of underwriting fees and other related estimated expenses in connection with the Public Offer.
- (3) No adjustment has been made to reflect any trading results or other transactions of our Company entered into subsequent to 31 December 2016.
- (4) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 600,000,000 Shares expected to be in issue immediately following completion of the Public Offer. The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at the rate of RMB1.00 to HK\$1.1289.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVE

Our goal is to become a leading regional microfinance company focusing on meeting the interim business financing needs of SMEs, microenterprises and individual proprietors.

BUSINESS STRATEGIES

Please refer to the section headed “Business — Our Business Strategies” in this prospectus for a detailed description of our business strategies. In order to implement our business strategies, set forth below are our implementation plans. The implementation plans are formulated based on certain bases and assumptions as set out in the paragraph headed “Bases and Assumptions” in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out under the section headed “Risk Factors” in this prospectus. Therefore, there is no assurance that our business plans will materialize in accordance with the estimated time frame or that our future plans will be accomplished at all.

IMPLEMENTATION PLAN

The following table sets out the intended application of the net proceeds against the estimated time frame:

	From the Listing Date to 30 June 2017 <i>(HK\$ million)</i>	For the six months ending 31 December 2017 <i>(HK\$ million)</i>	For the six months ending 30 June 2018 <i>(HK\$ million)</i>	For the six months ending 31 December 2018 <i>(HK\$ million)</i>	For the six months ending 30 June 2019 <i>(HK\$ million)</i>	For the six months ending 31 December 2019 <i>(HK\$ million)</i>	Total <i>(HK\$ million)</i>	Approximate percentage of net proceeds <i>(%)</i>
Expand our loan portfolio in the following markets								
- Hanjiang District and Guangling District	5.7	47.5	19.1	—	—	—	72.3	51.5
- Jiangdu District	—	9.1	—	—	—	—	9.1	6.5
- Yizheng (county-level city)	—	18.1	—	—	—	—	18.1	12.9
- Gaoyou (county-level city)	—	6.6	6.0	—	—	—	12.6	9.0
- Baoying (county-level city)	5.4	3.0	5.8	—	—	—	14.2	10.1
Sub-total	11.1	84.3	30.9	—	—	—	126.3	90.0
Working capital and other general corporate purposes	0.8	2.7	2.7	2.7	2.6	2.5	14.0	10.0
Total	11.9	87.0	33.6	2.7	2.6	2.5	140.3	100

FUTURE PLANS AND USE OF PROCEEDS

Along with the above implementation plan to expand our loan portfolio, in terms of our existing markets of Hanjiang District and Guangling District, we intend to strengthen sales and marketing effort by paying more door-to-door visits to former and existing customers in existing markets to explore new business opportunities, particularly to broaden our customer base through referrals from our customers to enhance our market penetration. In terms of our geographical coverage to other new markets, we plan to take a prudent approach through pre-entry market intelligence gathering and recruitment of local talents before fully engaging in a new market. More specifically, we intend to enhance our understanding of the local business environment through regular communications with relevant local authorities and recruitment of local staff, and gradually adapt to the credit and regulatory environments in the new markets. Moreover, we may establish branch office(s) to render our services to be more accessible to customers in the new markets, as and when appropriate. All in all we plan to replicate our existing business model and extend our established risk management system in managing our targeted new markets. We believe our standardized and centralized risk management system will continue to serve us well in mitigating our credit risks and control our business risks as we continue to grow our business according to our business strategies.

Based on our understanding of the local financing environments of our targeted new markets, we have a relatively comparable and competitive effective interest rate with those new markets, and we currently do not envisage a significant downward pressure on our effective interest rate as a result of expanding our loan business in these new markets. With our enhanced capital base and additional equity funding from the Listing coupled with such business expansion plan, we expect our loan portfolio will grow in tandem with our planned business expansion and contribute positively to our profitability in the longer run.

BASES AND ASSUMPTIONS

The implementation plans for our business strategies are formulated based on the following principal bases and assumptions:

- there will be no material changes in legislations or regulations whether in China or elsewhere materially affecting the business carried on by us;
- there will be no material changes in the existing political, legal, fiscal, social or economic conditions or interest rate environment in China or in any other regions in which we carry on our business or will carry on our business;
- there will be no material changes in the local economy or the implementation of local policies unfavorable to SMEs, microenterprises or individual proprietors in general which may result in a decrease in demand for micro and small loans;
- we will be able to obtain or maintain all necessary operating licenses and approvals from government authorities in the regions which we are and intend to operate our business;
- we will be able to continue to adopt, implement and modify our risk management and internal control systems to accommodate our business expansion;
- we will be able to replicate our business model and expand into, and grow our business in the new geographical markets in accordance with our business strategies;

FUTURE PLANS AND USE OF PROCEEDS

- we will be able to recruit additional qualified local staff to support our intended geographical expansion, when required;
- we will be able to continue our operations in substantially the same manner as we had been operating during the Track Record Period and we will also be able to carry out our implementation plans without disruptions; and
- we will not be materially affected by the risk factors as set out under the section headed “Risk Factors” in this prospectus.

REASONS FOR THE PUBLIC OFFER AND USE OF PROCEEDS

Reasons for the Public Offer

Due to the capital intensive nature of the microfinance business, our operations are largely driven by our capital base. Consequently, our ability to sustain our operations and expand our business depends, to a significant extent, on our continued access to funding and our ability to expand our capital base. In view of shift in bank lending policies towards microfinance companies since 2014, we had not obtained any new bank borrowings during the Track Record Period and up to the Latest Practicable Date after we repaid all outstanding bank borrowings that were obtained by us in 2013. As alternative sources of financing, we obtained short-term borrowings from other institutions, including Jinnong Company and other microfinance companies, from time to time during the Track Record Period. In the case of private companies, these institutions usually request guarantee(s) from a borrower’s controlling shareholder(s) or other related party(ies) when granting loans, and accordingly we have repaid all our outstanding borrowings from such institutions by 31 May 2016 and have not, since then and up to the Latest Practicable Date, obtained any new borrowings from such institutions with a view to better demonstrate our ability to operate independently without reliance on our Controlling Shareholders. While we may consider approaching banks and other institutions to obtain financing in the future following the Listing as and when we consider appropriate for our business expansion and/or to enhance our return on equity and return on assets, we believe a listing status of an internationally recognized stock exchange would provide us with added leverage to obtain better borrowing rate(s), and may enable us to acquire debt financing without reliance on our Controlling Shareholders for any financial assistance in the form of guarantees.

We believe that through the Listing, not only will we be able to raise net proceeds from the Public Offer to further strengthen our financial position and obtain additional capital and funding to expand our loan portfolio, but we will enjoy more flexibility and gain access to a variety of fund raising avenues, including (without limitation) debt and/or equity financing in the capital markets, to fund our further business expansion and long-term development as and when necessary. We also consider that the Listing will enhance our corporate profile and assist us in reinforcing our brand awareness and market reputation. A public listing status may offer our Company a broader shareholder base which could potentially lead to a more liquid market in the trading of our H Shares.

To enhance shareholder value and recognize the continual support of the Shareholders, we strive to strike the right balance between distribution of returns to the Shareholders and preserving assets for business expansion. For the years ended 31 December 2014, 2015 and 2016, we declared and paid dividends in the amount of approximately RMB105.2 million, nil and RMB45.0 million, respectively.

FUTURE PLANS AND USE OF PROCEEDS

Going forward, we intend to continue our strategy of striking a balance between sharing our financial returns with our Shareholders and supporting a healthy business growth. In this regard, we intend to adopt a general annual dividend policy of declaring and paying dividends to the Shareholders of not less than 30% of our profit available for distribution after Listing, subject to, in each case, our Board's decision after a comprehensive review of our financial performance, future expectations and other factors deemed relevant by our Board, and our Shareholders' approval.

Listing on GEM

Our application for listing on GEM was initially filed in August 2016 with a track record period of the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016. At the relevant time, due to our historical non-compliance on the guiding interest rate ceiling (please refer to the section headed "Business — Approval, Compliance and Legal Proceedings — Historical non-compliance with relevant guidelines specific to microfinance companies" in this prospectus), we would not have been able to satisfy the minimum profit requirement under the relevant Main Board Listing Rules for a trading record period of the three years ended 31 December 2013, 2014 and 2015 should all interest income generated from our non-compliant loans for the two years ended 31 December 2014 were excluded. We subsequently updated our trading record period to the three years ended 31 December 2014, 2015 and 2016, as a result of which we are able to meet the minimum profit requirement for listing on the Main Board of the Stock Exchange. However, given the approval from CSRC for the listing of our H Shares on GEM was already granted in November 2016, a subsequent change of listing venue from GEM to the Main Board of the Stock Exchange would have significantly affected our listing timetable and resulted in significant additional professional fees and listing expenses. After careful deliberation on our business development needs to stay competitive, particularly on the back of a listing platform on the Stock Exchange as soon as circumstances permit, our Directors consider that it would be in the best interests of our Company and Shareholders (including the public investors) as a whole to continue seeking a listing on GEM.

Use of Proceeds

Assuming an Offer Price of HK\$1.27 per H Share (being the mid-point of the indicative Offer Price range), our Directors estimate that the net proceeds to us from the Public Offer will be about HK\$140.3 million, after deducting the underwriting commissions and other estimated expenses in relation to the Public Offer. Our Directors presently intend to use the net proceeds of the Public Offer for the following purposes:

- approximately 90%, or HK\$126.3 million, will be used to expand our loan portfolio for our micro and small loan business; and
- the remaining amount of approximately 10%, or HK\$14.0 million, will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the indicative Offer price range.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is set at the high-end of the indicative Offer Price range, the net proceeds of the Public Offer will increase by approximately HK\$10.0 million. If the Offer Price is set at the low-end of the indicative Offer Price range, the net proceeds of the Public Offer will decrease by approximately HK\$10.0 million. In such event, we intend to adjust the allocation of the net proceeds on a pro-rata basis.

To the extent that the net proceeds of the Public Offer are not immediately required for the above purposes, we presently intend that such proceeds will be placed on short-term deposits with licensed banks or financial institutions.

We will issue an announcement in Hong Kong in the event that there is any material change in the use of proceeds described above.

UNDERWRITING

UNDERWRITERS

Joint Lead Managers

China Galaxy International Securities (Hong Kong) Co., Limited
President Securities (Hong Kong) Limited

Co-lead Managers

Head & Shoulders Securities Limited
Changjiang Securities Brokerage (HK) Limited
Halcyon Securities Limited
Mason Securities Limited
Long Asia Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company is conditionally offering for subscription by the public in Hong Kong of the Offer Shares at the Offer Price under the Public Offer, on and subject to the terms and conditions set out in this prospectus and the Application Forms. Subject to, among other conditions, (i) the Listing Division of the Stock Exchange granting the listing of and permission to deal in the H Shares to be issued as mentioned in this prospectus on GEM, (ii) the Price Determination Agreement being entered into on or before the Price Determination Date, and (iii) certain other conditions set out in the Underwriting Agreement being fulfilled, the Underwriters have severally agreed to subscribe for or purchase or procure subscribers for or purchase their respective applicable proportions of the Offer Shares on the terms and conditions under the Underwriting Agreement and in this prospectus.

Grounds for termination

The obligations of the Underwriters under the Underwriting Agreement are subject to the termination by China Galaxy International (for itself and on behalf of the Underwriters) by notice given to our Company prior to 8:00 a.m. (Hong Kong time) on the Listing Date if any of the following events shall occur prior to such time:

- (a) there shall develop, occur or come into force:
 - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC or any other jurisdiction(s) relevant to our Company or any other similar event which in the sole and absolute opinion of China Galaxy International (for itself and on behalf of the Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Company or which may be expected to adversely affect the business or financial condition or prospects of our Company in a material way; or

UNDERWRITING

- (ii) any change (whether or not permanent) in national, regional, international, financial, military, industrial or economic conditions or prospects, stock market, fiscal or political conditions, regulatory or market conditions and matters and/or disasters in Hong Kong, the PRC or any other jurisdiction(s) relevant to our Company or any other similar event which in the reasonable opinion of China Galaxy International (for itself and on behalf of the Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Company or which may be expected to adversely affect the business or financial condition or prospects of our Company in a material way; or
- (iii) without prejudice to sub-paragraph (i) or (ii) above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (iv) any event, or series of events, beyond the control of the Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) which in the sole and absolute opinion of China Galaxy International (for itself and on behalf of the Underwriters) would or might have a material adverse effect on our Company or its present or prospective shareholders in their capacity as such; or
- (v) any change or development occurs involving a prospective change in taxation or in exchange control in Hong Kong, the PRC or any other jurisdictions to which our Company is subject or the implementation of any exchange controls which in the reasonable opinion of China Galaxy International (for itself and on behalf of the Underwriters) would or might have a material adverse effect our Company or its present or prospective shareholders in their capacity as such in a material way; or
- (vi) any litigation or claim of material importance to the business, financial or operations of our Company being threatened or instituted against our Company; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, in Hong Kong, the PRC or other jurisdiction(s) relevant to our Company; or
- (viii) any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-government regulatory authority, or any court, tribunal or arbitrator, whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign, or a political body or organization in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against our Company or any Director; or
- (ix) order or petition for the winding up of our Company or any composition or arrangement made by our Company with its creditors or a scheme of arrangement entered into by our Company or any resolution for the winding up of our Company or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of our Company or anything analogous thereto occurring in respect of our Company; or

UNDERWRITING

- (x) any such event, which, individually, or in the aggregate, in the sole and absolute opinion of China Galaxy International (for itself and on behalf of the Underwriters), (a) has or may have a material adverse effect on the success of the Public Offer, or the level of applications under the Public Offer; or (b) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, trading or financial position of our Company as a whole; or (c) makes it inadvisable or impracticable to proceed with the Public Offer; or (d) has or will or may have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Public Offer or pursuant to the underwriting thereof;

- (b) there comes to the notice of China Galaxy International (for itself and on behalf of the Underwriters) any matter or event showing any of the representations and warranties contained in the Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by China Galaxy International (for itself and on behalf of the Underwriters) in its reasonable opinion to be material or showing any of the obligations or undertakings expressed to be assumed by or imposed on our Company or the covenants under the Underwriting Agreement not to have been complied with in any respect considered by China Galaxy International (for itself and on behalf of the Underwriters) in its reasonable opinion to be material; or

- (c) there comes to the notice of China Galaxy International (for itself and on behalf of the Underwriters) any breach on the part of our Company or any of the covenants of any provisions of the Underwriting Agreement in any respect which is considered by China Galaxy International (for itself and on behalf of the Underwriters) in its reasonable opinion to be material; or

- (d) any statement contained in this prospectus, application proof prospectus, post hearing information pack, notices, advertisements, announcements, the submissions, documents or information provided to China Galaxy International (for itself and on behalf of the Underwriters), the Stock Exchange, the legal advisers to the Sole Sponsor and the Underwriters and any other parties involved in the Public Offer which in the reasonable opinion of China Galaxy International (for itself and on behalf of the Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or

- (e) matters have arisen or have been discovered which would, if this prospectus, notices, advertisements, announcements, application proof prospectus and post hearing information pack was to be issued at that time, constitute, in the reasonable opinion of China Galaxy International (for itself and on behalf of the Underwriters), a material omission of such information; or

- (f) there is any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of our Company which in the reasonable opinion of China Galaxy International (for itself and on behalf of the Underwriters) is material in the overall context of the Public Offer; or

UNDERWRITING

- (g) the approval of the Stock Exchange of the listing of, and permission to deal in, the Offer Shares to be issued under the Public Offer is refused or not granted, other than subject to customary conditions, on or before 8:00 a.m. on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (h) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or advices and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or
- (i) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Public Offer) or the Public Offer; or
- (j) there comes to the notice of the Sole Sponsor, the Joint Lead Managers or any of the Underwriters any information, matter or event which in the reasonable opinion of China Galaxy International (for itself and on behalf of the Underwriters):
 - (i) is inconsistent in any respect with any information contained in the Declaration and Undertaking (Form H) given by each of the Directors pursuant to the Public Offer; or
 - (ii) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Company.

Undertakings to the Stock Exchange

Undertaking by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that except pursuant to the Public Offer, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

Undertaking by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders undertakes to the Stock Exchange and to our Company that except pursuant to the Public Offer:

- (a) during the period commencing on the date by reference to which disclosure of his/her/its interests in our Company is made in this prospectus and ending on the date falling six months from the Listing Date (the “**First Six-month Period**”), he/she/it shall not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which he/she/it is shown by this prospectus to be the beneficial owners; or
- (b) in the six-month period commencing on the expiry of the First Six-month Period set out in paragraph (a) above (the “**Second Six-month Period**”), he/she/it shall not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or

UNDERWRITING

encumbrances in respect of, any of the securities mentioned in paragraph (a) if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders, collectively, would cease to be a controlling shareholder of our Company for the purposes of the GEM Listing Rules.

Further pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders undertakes to the Stock Exchange and to the Company that:

- (a) in the First Six-month Period, (i) the Shareholders constituting the group of Controlling Shareholders must not change (i.e. no addition or departure of Shareholders); (ii) there must be no material changes in the voting interests held by each Shareholder constituting the group of Controlling Shareholders in our Company (or among the shareholders of Liantai Guangchang and Botai Group as the case may be); and (iii) such group of Controlling Shareholders must maintain the same aggregate voting interests in our Company; and
- (b) in the Second Six-month Period, (i) the Shareholders constituting the group of Controlling Shareholders must not change (i.e. no addition or departure of Shareholders); (ii) there must be no material changes in the voting interests held by each Shareholder constituting the group of Controlling Shareholders in our Company (or by each shareholder of Liantai Guangchang and Botai Group as the case may be); and (iii) such group of Controlling Shareholders must maintain an aggregate voting interests of at least 30% in our Company.

Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his/her/its shareholdings is made in this prospectus and to the date which is 12 months from the Listing Date, they will:

- (a) when they pledge or charge any securities of our Company or interests therein beneficially owned by them in favor of any authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Rule 13.18(1) of the GEM Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when they receive indications, either verbal or written, from the pledgee or chargee that any of the securities of our Company pledged or charged will be disposed of, immediately inform our Company of such indications.

Undertakings pursuant to the Underwriting Agreement

Each of our Controlling Shareholders jointly and severally undertakes to each of our Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters that unless in compliance with the requirements of the GEM Listing Rules, none of our Controlling Shareholders will, and will procure that none of its associates will:

- (i) during the period commencing on the date of the Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six Month Period**”), (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or

UNDERWRITING

purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable) (the foregoing restriction is expressly agreed to include our Controlling Shareholders from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such Shares would be disposed of by someone other than our Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or derives any significant part of its value from such Shares), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of any subsidiaries of our Company, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period); and

- (ii) during the period of six months commencing on the date on which the First Six Month Period expires and including, the date that is six months after the end of the First Six Month Period (the “**Second Six Month Period**”), enter into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he, she or it will cease to be a “controlling shareholder” (as the term is defined in the GEM Listing Rules) of our Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, in any of the companies controlled by him, her or it and/or any of his, her or its associate which owns such Shares or interests as aforesaid.

Until the expiry of the Second Six Month Period, each of our Controlling Shareholders jointly and severally undertakes to and covenants with China Galaxy International (for itself and on behalf of the Underwriters) that he, she or it shall inform China Galaxy International (for itself and on behalf of the Underwriters) in writing prior to entering into any of the transactions specified in (a), (b) or (c) under paragraph (i) above.

UNDERWRITING

Except pursuant to the Public Offer, during the First Six Month Period, our Company undertakes to each of the Sole Sponsor, the Joint Lead Managers and the Underwriters not to, and to procure any subsidiary of our Company, if any, not to, without the prior written consent of China Galaxy International (for itself and on behalf of the Underwriters) and unless in compliance with the requirements of the GEM Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of any subsidiaries of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of any subsidiaries of our Company, as applicable); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of any subsidiaries of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of any subsidiaries of our Company, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of any subsidiaries of our Company, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the Second Six Month Period, our Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of our Company, our Controlling Shareholders and executive Directors undertakes to each of the Sole Sponsor, China Galaxy International and the Underwriters to procure our Company to comply with the undertakings in this paragraph.

UNDERWRITING

Each of our Company, our Controlling Shareholders and our executive Directors undertakes to and covenants with the Sole Sponsor, the Joint Lead Managers and the Underwriters that save with the prior written consent of China Galaxy International (for itself and on behalf of the Underwriters), none of our Company and its subsidiaries, if applicable, will during the First Six Month Period purchase any securities of our Company.

Without prejudice to the above, each of our Controlling Shareholders undertakes and covenants with our Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters that:

- (a) save with the prior written consent of China Galaxy International (for itself and on behalf of the Underwriters) (such consent shall not be unreasonably withheld) and unless in compliance with the requirements of the GEM Listing Rules, during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is 12 months from the Listing Date, he, she or it shall not and shall procure that none of his, her or its associates shall pledge or charge or create any other rights or encumbrances in any Shares or any interest therein owned by him, her or it or any of their associates or in which he, she or it or any of their associates is, directly or indirectly, interested immediately following completion of the Public Offer (or any other Shares or interest in the Shares arising or deriving therefrom as a result of capitalization issue or scrip dividend or otherwise) or any share or interest in any company controlled by him, her or it or any of their associates which is the beneficial owner (directly or indirectly) of such Shares or interest therein as aforesaid (or any other Shares or interest in our Shares arising or deriving therefrom as a result of capitalization issue or scrip dividend or otherwise); and
- (b) in the event that consent is granted by China Galaxy International (for itself and on behalf of the Underwriters), when he, she or it or any of their associates shall pledge, charge or create any encumbrance or other right or any of our Shares or interests referred to in paragraph (a) above, he, she or it shall give prior written notice of not less than two business days to the Stock Exchange, our Company and China Galaxy International (for itself and on behalf of the Underwriters) giving details of the number of Shares, shares in our Company which is the beneficial owner of such Shares, or the interests as aforesaid, the identities of the pledgee or person (the “**Mortgagee**”) in favor of whom the pledge, charge, encumbrance or interest is created and further if he, she or it or any of their associate is aware of or receives indications or notice, either verbal or written, from the Mortgagee that the Mortgagee will dispose of or transfer any of our Shares or interests referred to in paragraph (a) above, he, she or it will immediately notify the Stock Exchange, our Company and China Galaxy International (for itself and on behalf of the Underwriters) in writing of such indications and provide details of such disposal or transfer to the Stock Exchange, our Company and China Galaxy International (for itself and on behalf of the Underwriters) as they may require.

Our Company undertakes and covenants with the Sole Sponsor, the Joint Lead Managers and the Underwriters that our Company shall forthwith inform China Galaxy International (for itself and on behalf of the Underwriters) and the Stock Exchange in writing immediately after it has been informed of the matters referred to in paragraph (b) above and our Company shall, if so required by the Stock Exchange or the GEM Listing Rules, disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

UNDERWRITING

Commission

The Underwriters will receive a commission of 3.5% of the aggregate Offer Price of all the Offer Shares according to the arrangements of the Underwriting Agreement. In addition, we may, in our discretion, pay any or all of the Underwriters an incentive fee of up to 1.0% of the aggregate Offer Price of the Offer Shares from the Public Offer. The Underwriters will pay any sub-underwriting commissions out of the underwriting commissions received.

The Sole Sponsor will in addition receive financial advisory, sponsorship and documentation fees. The aggregate commission, financial advisory and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Public Offer, assuming an Offer Price of HK\$1.27 (being the mid-point of indicative Offer Price range between HK\$1.20 per Offer Share and HK\$1.34 per Offer Share), are estimated to amount to approximately HK\$50.2 million in total.

Sole Sponsor's, Joint Lead Managers' and Underwriters' interests in our Company

Save for their interests and obligations under the Underwriting Agreement, and for financial advisory, sponsorship and documentation fee paid and to be paid to the Sole Sponsor in connection with the Listing and as our compliance adviser with effect from the Listing Date, none of the Sole Sponsor, the Joint Lead Managers and the Underwriters is interested beneficially or otherwise in any class of securities of our Company or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any class of securities of our Company.

Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set forth in Rule 6A.07 of the GEM Listing Rules.

Compliance Adviser Agreement

We have entered into a compliance adviser agreement with China Galaxy International pursuant to which China Galaxy International will be appointed as the compliance adviser of our Company for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our Company's financial results for its second full (not part of) financial year since the Listing Date, and subject to the terms and conditions to be agreed by the parties.

Minimum public float

Our Directors will ensure that there will be a minimum of 25% of the issued share capital of our Company in public hands in accordance with Rule 11.23 of the GEM Listing Rules after completion of the Public Offer.

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

THE PUBLIC OFFER

This prospectus is published in connection with the Public Offer. The Listing is sponsored by the Sole Sponsor. The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the H Shares to be issued as mentioned in this prospectus.

150,000,000 Offer Shares will be made available under the Public Offer.

The Offer Shares will represent 25% of the enlarged issued share capital of our Company immediately following completion of the Public Offer.

References in this prospectus to applications, Application Forms, application monies or the procedures for application relate solely to the Public Offer.

Number of Offer Shares offered

We are offering 150,000,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 100% of the total number of Offer Shares available under the Public Offer.

The Public Offer is open to members of the public in Hong Kong as well as to professional, institutional and other investors in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions set out in the paragraph headed “Conditions of the Public Offer” below in this section.

Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Offer Shares, and those applicants who are not successful in the ballot may not receive any Offer Shares.

The total number of Offer Shares available for subscription under the Public Offer is to be divided into two pools for allocation purposes: pool A and pool B. The Offer Shares in pool A will consist of 75,000,000 Offer Shares (being 50% of the total number of Offer Shares available under the Public Offer) and will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate subscription price of HK\$5.0 million or less (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). The Offer Shares in pool B will consist of 75,000,000 Offer Shares (being 50% of the total number of Offer Shares available under the Public Offer) and will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate subscription price of more than HK\$5.0 million and up to HK\$100.5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “subscription price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools, applications for Offer Shares not in accordance with one of the numbers set out in the table in the **WHITE** or **YELLOW** Application Forms, and any application for more than 75,000,000 Offer Shares, are liable to be rejected.

Applications

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may require any investor who has made an application under the Public Offer to provide sufficient information to the Joint Lead Managers so as to allow them to identify the relevant applications under the Public Offer.

OFFER PRICE RANGE

The Offer Price will be not more than HK\$1.34 per Offer Share and is expected to be not less than HK\$1.20 per Offer Share. Subscribers, when subscribing for the Offer Shares, shall pay the maximum Offer Price plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. The final Offer Price, the level of applications in the Public Offer and the basis of allocation of the Offer Shares will be announced on the website of the Stock Exchange at www.hkexnews.hk and our Company’s website at www.gltaihe.com on or before Friday, 5 May 2017.

DETERMINING THE OFFER PRICE

Price payable on application

Applicants for Offer Shares under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$1.34 for each Offer Share (plus the brokerage, Stock Exchange trading fee and SFC transaction levy payable on each Offer Share), amounting to a total of HK\$2,707.00 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$1.34 per Offer Share, appropriate refund payments (including the related brokerage, Stock Exchange trading fee and SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

If, for any reason, our Company and China Galaxy International (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price on the Price Determination Date, which is expected to be on or about Thursday, 27 April 2017 or such later date as may be agreed between our Company and China Galaxy International (for itself and on behalf of the other Underwriters), the Public Offer will not proceed and will lapse.

Further details are set out in the section headed “How to Apply for the Offer Shares” in this prospectus.

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

Reduction in Offer Price range

China Galaxy International (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of applications in the Public Offer, and with the consent of our Company, reduce the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause there to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.gltaihe.com notices of reduction in the indicative Offer Price range. Upon issue of such a notice, the Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Public Offer statistics, and any other financial information in this prospectus which may change as a result of any such reduction.

Before submitting applications for the Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. Applicants who have submitted their applications for Offer Shares before such an announcement is made may subsequently withdraw their applications in the event that such an announcement is subsequently made. In the absence of any notice being published in relation to a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon by China Galaxy International (for itself and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

Announcement of the Offer Price and the basis of allocations

Announcement of the final Offer Price, together with the level of applications in the Public Offer and the basis of allocation of the Offer Shares are expected to be published on Friday, 5 May 2017 on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.gltaihe.com website.

CONDITIONS OF THE PUBLIC OFFER

The Public Offer is conditional upon, among others:

- (a) the Listing Division of the Stock Exchange granting listing of and permission to deal in the H Shares to be issued as described in this prospectus on GEM;

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

- (b) the Price Determination Agreement between our Company and China Galaxy International (for itself and on behalf of the Underwriters) being entered into on or before the Price Determination Date; and
- (c) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including if relevant, as a result of the waiver of any condition(s) by China Galaxy International (for itself and on behalf of the Underwriters)), and not having been terminated in accordance with the terms of the Underwriting Agreement,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If these conditions are not fulfilled or (where applicable) waived by China Galaxy International (for itself and on behalf of the Underwriters) on or before the times and dates specified, the Public Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Public Offer will be caused to be published by our Company on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.gltaihe.com on the next business day immediately following such lapse.

The Offer Shares are fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement and subject to our Company and China Galaxy International (for itself and on behalf of the Underwriters) agreeing on the Offer Price. For further details about the Underwriters and the Underwriting Agreement, please refer to the section headed "Underwriting" in this prospectus.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for the Listing of and permission to deal in the H Shares to be issued as mentioned in the prospectus. Subject to the approval of the listing of, and permission to deal in, the H Shares on GEM and the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second trading day after the trade date. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements that will affect their rights, interests and liabilities.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares on GEM are expected to commence on Monday, 8 May 2017. The H Shares will be traded in board lots of 2,000 H Shares each and are freely transferable. The stock code for the H Shares is 8252.

HOW TO APPLY FOR THE OFFER SHARES

1. HOW TO APPLY

To apply for the Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for the Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with the corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Sponsor and the Joint Lead Managers may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Offer Shares.

HOW TO APPLY FOR THE OFFER SHARES

Unless permitted by the GEM Listing Rules, you cannot apply for any Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are a connected person or a core connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person or a core connected person of our Company immediately upon completion of the Public Offer; and
- are an associate or a close associate (as defined in the GEM Listing Rules) of any of the above.

3. APPLYING FOR OFFER SHARES

Which application channel to use

For Offer Shares to be issued in your own name, either (i) use a **WHITE** Application Form; or (ii) apply online through the designated website of the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** under the **HK eIPO White Form** service.

For Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, either (i) complete and sign the **YELLOW** Application Form; or (ii) give **electronic application instructions** to HKSCC via CCASS.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 24 April 2017 to 12:00 noon on Thursday, 27 April 2017 from:

- (i) the following office of the Underwriters:

China Galaxy International Securities (Hong Kong) Co., Limited
Units 3501-7, 3513-14
35/F Cosco Tower
183 Queen's Road Central
Hong Kong

President Securities (Hong Kong) Limited
Units 2603-06
26/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

HOW TO APPLY FOR THE OFFER SHARES

Head & Shoulders Securities Limited
Room 2511
25/F, Cosco Tower
183 Queen's Road Central
Hong Kong

Changjiang Securities Brokerage (HK) Limited
Suite 1908
19/F, Cosco Tower
183 Queen's Road Central
Hong Kong

Halcyon Securities Limited
11/F, 8 Wyndham Street
Central
Hong Kong

Mason Securities Limited
Portion 1, 12/F, The Center
99 Queen's Road Central
Hong Kong

Long Asia Securities Limited
Unit A, 23/F, The Wellington
198 Wellington Street
Sheung Wan
Hong Kong

- (ii) any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch, the receiving bank for the Public Offer:

District	Branch Name	Address
Hong Kong Island	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
Kowloon	Tsim Sha Tsui Sub-Branch	Shop Nos. 1-3 on G/F., CFC Tower, 22-28 Mody Road, Tsim Sha Tsui
	Wong Tai Sin Sub-Branch	Shop N118, 1/F., Temple Mall North, 136 Lung Cheung Road, Wong Tai Sin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 24 April 2017 until 12:00 noon on Thursday, 27 April 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR THE OFFER SHARES

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd.—Taihe Micro-finance Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Monday, 24 April 2017 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 25 April 2017 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 26 April 2017 — 9:00 a.m. to 5:00 p.m.
- Thursday, 27 April 2017 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 27 April 2017, the last application day or such later time as described in the paragraph headed "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorize our Company, the Sole Sponsor and/or the Joint Lead Managers (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Company Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Public Offer in this prospectus;

HOW TO APPLY FOR THE OFFER SHARES

- (vi) agree that none of our Company, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Public Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) agree to disclose to our Company, our H Share Registrar, the receiving bank, the Sole Sponsor, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (viii) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (ix) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (x) agree that your application will be governed by the laws of Hong Kong;
- (xi) represent, warrant and undertake that (i) you understand that the Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xii) warrant that the information you have provided is true and accurate;
- (xiii) agree to accept the Offer Shares applied for, or any lesser number allocated to you under the application;
- (xiv) authorize our Company to place your name(s) or the name of HKSCC Nominees, on our Company's register of members as the holder(s) of any Offer Shares allocated to you, and our Company and/or its agents to deposit any H Share certificate(s) into CCASS and/or to send any H Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the H Share certificate(s) and/or refund cheque(s) in person;
- (xv) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvi) understand that our Company, the Directors, the Sole Sponsor and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Offer Shares to you and that you may be prosecuted for making a false declaration;

HOW TO APPLY FOR THE OFFER SHARES

- (xvii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xiii) (if you are making the application as an agent for the benefit of another person) warrant that
- (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed “2. Who can apply” under this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for submitting applications under the HK eIPO White Form

You may submit your application online to the **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 24 April 2017 until 11:30 a.m. on Thursday, 27 April 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 27 April 2017 or such later time under the paragraph headed “10. Effect of Bad Weather on the Opening of Applications Lists” in this section.

No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

HOW TO APPLY FOR THE OFFER SHARES

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Lead Managers and our H Share Registrar.

HOW TO APPLY FOR THE OFFER SHARES

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Offer Shares applied for or any lesser number allocated;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;
 - confirm that you understand that our Company, the Directors, the Sole Sponsor and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Offer Shares allocated to you and to send H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
 - agree that none of our Company, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Public Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

HOW TO APPLY FOR THE OFFER SHARES

- agree to disclose your personal data to our Company, our H Share Registrar, the receiving bank, the Sole Sponsor, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for the Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each Shareholder, with each CCASS Participant giving electronic application instruction) to observe and comply with the Company Law, Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance, the Special Regulations and the Articles of Association of the Company;
- agree with the Company, for itself and for the benefit of each Shareholder and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each Shareholder and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving electronic application instructions):

HOW TO APPLY FOR THE OFFER SHARES

- (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with the Company (for the Company itself and for the benefit of each Shareholder) that H Shares in the Company are freely transferable by their holders;
 - authorise the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company; and
 - agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Offer Shares. Instructions for more than 2,000 Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR THE OFFER SHARES

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Monday, 24 April 2017 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, 25 April 2017 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, 26 April 2017 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, 27 April 2017 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 24 April 2017 until 12:00 noon on Thursday, 27 April 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 27 April 2017, the last application day or such later time as described in the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit.

Any **electronic application instructions** to make an application for the Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR THE OFFER SHARES

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the H Share Registrar, the receiving banker, the Sole Sponsor, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective advisers and agents and the **HK eIPO White Form** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 27 April 2017.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

HOW TO APPLY FOR THE OFFER SHARES

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the GEM Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

HOW TO APPLY FOR THE OFFER SHARES

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 27 April 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 27 April 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of applications in the Public Offer and the basis of allocation of the Public Offer on Friday, 5 May 2017 on our Company’s website at www.gltaihe.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers (where appropriate) of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.gltaihe.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Friday, 5 May 2017;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, 5 May 2017 to 12:00 midnight on Thursday, 11 May 2017;
- by telephone enquiry line by calling 852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 5 May 2017 to Wednesday, 10 May 2017 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 5 May 2017 to Monday, 8 May 2017 at all the receiving bank’s designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Offer Shares if the conditions of the Public Offer are satisfied and the Public Offer is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Public Offer” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR THE OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If our Company or its agents exercise their discretion to reject your application:**

The Company, the Sole Sponsor, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of Offer Shares is void:**

The allotment of Offer Shares will be void if the Listing Division of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR THE OFFER SHARES

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreement does not become unconditional or is terminated;
- our Company, the Sole Sponsor or the Joint Lead Managers believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.34 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure and Conditions of the Public Offer — Conditions of the Public Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 5 May 2017.

14. DISPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

HOW TO APPLY FOR THE OFFER SHARES

- H Share certificate(s) for all the Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the final Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or around Friday, 5 May 2017. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s). H Share certificates will only become valid at 8:00 a.m. on Monday, 8 May 2017 provided that the Public Offer has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from the H Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 5 May 2017 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or H Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Offer Shares, your refund cheque(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on Friday, 5 May 2017, by ordinary post and at your own risk.

HOW TO APPLY FOR THE OFFER SHARES

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Friday, 5 May 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, 5 May 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Offer Shares credited to your designated CCASS Participant's stock account (other than a CCASS Investor Participant), you can check the number of Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 5 May 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from the H Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 5 May 2017, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of H Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Friday, 5 May 2017 by ordinary post at your own risk.

HOW TO APPLY FOR THE OFFER SHARES

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) *If you apply via electronic application instructions to HKSCC*

Allocation of Offer Shares

For the purposes of allocating Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of H Share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 5 May 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocation of the Public Offer in the manner specified in the paragraph headed "11. Publication of Results" above on Friday, 5 May 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 5 May 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 5 May 2017. Immediately following the credit of the Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR THE OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the final Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 5 May 2017.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights, interests and liabilities.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

24 April 2017

The Directors

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited
China Galaxy International Securities (Hong Kong) Co., Limited

Dear Sirs,

We set out below our report on the financial information of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the “Company”), comprising the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Company for each of the years ended 31 December 2014, 2015 and 2016, and the statements of financial position of the Company as at 31 December 2014, 2015 and 2016, together with the notes thereto (the “Financial Information”), prepared on the basis of preparation set out in note 2 of Section II below, for inclusion in the prospectus of the Company dated 24 April 2017 (the “Prospectus”) in connection with the listing of the shares of the Company on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was established as a company with limited liability on 12 November 2008 in the People’s Republic of China (the “PRC”) and converted into a joint stock company with limited liability on 10 August 2012.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the financial statements of the Company (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (the “IFRSs”), which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended 31 December 2014, 2015 and 2016 were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “IAASB”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of preparation set out in note 2 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Company as at 31 December 2014, 2015 and 2016, and of the results and cash flows of the Company for each of the relevant financial years.

I. FINANCIAL INFORMATION

(Amounts expressed in RMB unless otherwise stated)

1. Statement of profit or loss and other comprehensive income

	<i>Section II</i>	Year ended		
	<i>Notes</i>	31 December		
		2014	2015	2016
Interest income	5	98,106,624	95,946,699	74,494,708
Interest expense	5	<u>(1,433,392)</u>	<u>(1,441,724)</u>	<u>(595,772)</u>
Interest income, net	5	96,673,232	94,504,975	73,898,936
Reversal of provision for impairment losses	14	1,554,822	849,254	2,373,700
Reversal of provisions for guarantee losses	19	74,368	—	—
Administrative expenses	6	(20,802,023)	(17,647,340)	(22,592,609)
Other income/(expense), net	7	<u>(248,680)</u>	<u>361,493</u>	<u>453,284</u>
PROFIT BEFORE TAX		77,251,719	78,068,382	54,133,311
Income tax expense	10	<u>(9,759,166)</u>	<u>(16,666,299)</u>	<u>(13,652,623)</u>
PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>67,492,553</u>	<u>61,402,083</u>	<u>40,480,688</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12			
Basic		<u>0.15</u>	<u>0.14</u>	<u>0.09</u>
Diluted		<u>0.15</u>	<u>0.14</u>	<u>0.09</u>

2. Statement of financial position

	<i>Section II</i>	31 December		
	<i>Notes</i>	2014	2015	2016
ASSETS				
Cash and cash equivalents	13	22,017,976	417,519	3,552,827
Loans receivable	14	504,254,678	597,091,619	580,544,326
Property and equipment	15	3,501,413	2,869,283	1,483,786
Deferred tax assets	16	3,088,731	5,602,308	4,709,204
Other assets	17	<u>3,811,748</u>	<u>4,678,164</u>	<u>7,660,783</u>
TOTAL ASSETS		<u><u>536,674,546</u></u>	<u><u>610,658,893</u></u>	<u><u>597,950,926</u></u>
LIABILITIES				
Interest-bearing borrowings	18	—	8,000,000	—
Income tax payable		3,676,787	7,161,309	5,669,546
Other liabilities	20	<u>9,097,610</u>	<u>10,195,352</u>	<u>11,498,460</u>
TOTAL LIABILITIES		<u><u>12,774,397</u></u>	<u><u>25,356,661</u></u>	<u><u>17,168,006</u></u>
EQUITY				
Share capital	21	450,000,000	450,000,000	450,000,000
Reserves	22	64,622,170	71,444,907	75,492,976
Retained earnings		<u>9,277,979</u>	<u>63,857,325</u>	<u>55,289,944</u>
TOTAL EQUITY		<u><u>523,900,149</u></u>	<u><u>585,302,232</u></u>	<u><u>580,782,920</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>536,674,546</u></u>	<u><u>610,658,893</u></u>	<u><u>597,950,926</u></u>

3. Statement of changes in equity

	Paid-in capital	Capital reserve	Reserves Surplus reserve	General reserve	Retained earnings	Total
Balance as at 1 January 2014	450,000,000	40,477,627	11,882,808	5,512,480	53,733,649	561,606,564
Profit for the year and total comprehensive income	—	—	—	—	67,492,553	67,492,553
Appropriation to surplus reserve	—	—	6,749,255	—	(6,749,255)	—
Dividends paid (Note II.11)	—	—	—	—	(105,198,968)	(105,198,968)
Balance as at 31 December 2014	450,000,000	40,477,627	18,632,063	5,512,480	9,277,979	523,900,149
Profit for the year and total comprehensive income	—	—	—	—	61,402,083	61,402,083
Appropriation to surplus reserve	—	—	6,140,208	—	(6,140,208)	—
Appropriation to general reserve	—	—	—	682,529	(682,529)	—
Balance as at 31 December 2015	450,000,000	40,477,627	24,772,271	6,195,009	63,857,325	585,302,232
Profit for the year and total comprehensive income	—	—	—	—	40,480,688	40,480,688
Appropriation to surplus reserve	—	—	4,048,069	—	(4,048,069)	—
Dividends paid (Note II.11)	—	—	—	—	(45,000,000)	(45,000,000)
Balance as at 31 December 2016	<u>450,000,000</u>	<u>40,477,627</u>	<u>28,820,340</u>	<u>6,195,009</u>	<u>55,289,944</u>	<u>580,782,920</u>

4. Statement of cash flows

	<i>Section II</i>	Year ended 31 December		
	<i>Notes</i>	2014	2015	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		77,251,719	78,068,382	54,133,311
Adjustments for:				
Depreciation and amortisation	15	1,727,588	1,471,384	1,415,309
Reversal of provision for impairment losses	14	(1,554,822)	(849,254)	(2,373,700)
Reversal of provisions for guarantee losses	19	(74,368)	—	—
Accreted interest on impaired loans	5	(1,428,490)	(1,037,684)	(1,198,719)
Net loss on disposal of property and equipment and other assets		223,830	—	—
Interest expense	5	1,433,392	1,441,724	595,772
		<u>77,578,849</u>	<u>79,094,552</u>	<u>52,571,973</u>
Decrease/(increase) in loans receivable		22,828,190	(90,950,003)	20,119,712
Decrease in other assets		48,125,517	722,018	241,236
Increase in other liabilities		<u>2,532,244</u>	<u>341,491</u>	<u>1,327,815</u>
Net cash flows from/(used in) operating activities before tax		151,064,800	(10,791,942)	74,260,736
Income tax paid		<u>(10,631,325)</u>	<u>(15,695,354)</u>	<u>(14,251,282)</u>
Net cash flows from/(used in) operating activities		<u>140,433,475</u>	<u>(26,487,296)</u>	<u>60,009,454</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment and other long-term assets		(1,067,308)	(839,254)	(29,812)
Proceeds from disposal of property and equipment		<u>75,040</u>	<u>—</u>	<u>—</u>
Net cash flows used in investing activities		<u>(992,268)</u>	<u>(839,254)</u>	<u>(29,812)</u>

	<i>Section II</i>	Year ended 31 December		
	<i>Notes</i>	2014	2015	2016
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings		62,500,000	60,000,000	33,000,000
Repayment of borrowings		(92,500,000)	(52,000,000)	(41,000,000)
Interest paid on borrowings		(1,583,392)	(1,382,494)	(655,002)
Dividends paid		(105,198,968)	—	(45,000,000)
Cash paid for other financing activities		<u>(1,638,113)</u>	<u>(891,413)</u>	<u>(3,189,332)</u>
Net cash flows from/(used in) financing activities		<u>(138,420,473)</u>	<u>5,726,093</u>	<u>(56,844,334)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		1,020,734	(21,600,457)	3,135,308
Cash and cash equivalents at beginning of the year		<u>20,997,242</u>	<u>22,017,976</u>	<u>417,519</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	13	<u><u>22,017,976</u></u>	<u><u>417,519</u></u>	<u><u>3,552,827</u></u>

II NOTES TO THE FINANCIAL INFORMATION
(Amounts expressed in RMB unless otherwise stated)**1. CORPORATE INFORMATION**

Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (“Taihe Micro-credit” or the “Company”) was established as a limited liability company in the People’s Republic of China (the “PRC”) on 12 November 2008 based on “Su Jin Rong Ban Fa [2008] No 47” issued by the Pilot Leading Group Office for Rural Micro-finance Organisations of Jiangsu province.

According to the resolution of the shareholders’ meeting on 8 August 2012 and “Yang Fu Jin [2012] No 77” approved by the Yangzhou Municipal Government Financial Office, the Company was converted from a limited liability company to a joint stock company on 10 August 2012. Upon its conversion, the Company issued 260 million shares at a par value of RMB1 each to its shareholders, based on the asset appraisal result of RMB300.48 million in respect of its net assets in the financial statements as at 31 July 2012.

The Company obtained its business licence with Unified Social Credit No. 91330200711192037M. The legal representative of the Company is Bo Wanlin. Its registered office is located at Beizhou Road, Lidian Village, Guangling District, Yangzhou City.

The principal activities of the Company are the granting of loans to “Agriculture, Rural Areas and Farmers”, provision of financial guarantees, acting as a financial institution agent and other financial businesses.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which include all standards and interpretations approved by the IASB and International Accounting Standards (the “IASs”) and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. All IFRSs effective for the accounting period commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted by the Company in the preparation of the Financial Information throughout the relevant financial years.

The Financial information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi (“RMB”).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

3.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements:

IFRS 2 Amendments	<i>Classification and Measurement of Share-based Payment Transactions²</i>
IFRS 4 Amendments	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts²</i>
IFRS 9	<i>Financial Instruments²</i>
IFRS 10, IFRS 12 and IAS 28 Amendments	<i>Investment Entities: Applying the Consolidation Exception⁴</i>
IFRS 15	<i>Revenue from Contracts with Customers²</i>
IFRS 15 Amendments	<i>Revenue from Contracts with Customers (Clarifications to IFRS 15)²</i>
IFRS 16	<i>Leases³</i>
IAS 7 Amendments	<i>Disclosure Initiative¹</i>
IAS 12 Amendments	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>
IAS 40 Amendments	<i>Transfers of Investment Property²</i>
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration²</i>
Annual Improvements Project	<i>Annual Improvements to IFRS Standards 2014-2016 Cycle</i>

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

The Company is in the process of making an assessment of the impact of these new and revised IFRSs and IASs upon initial application.

In July 2014, the IASB issued the final version of IFRS 9 bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Company expects to adopt IFRS 9 from 1 January 2018. During 2016, the Company performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based

on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

- All recognised financial assets that are within the scope of IAS 39 are subsequently measured at amortised cost or fair value under IFRS 9. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (“FVOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognised in profit or loss. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. Financial assets under the expected credit loss model will require a loss allowance equals to twelve-month expected credit losses at initial recognition and a lifetime expected credit losses when there is a significant increase in credit risk subsequent to initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Lifetime expected credit losses represent all credit losses over the remaining life of a financial asset on a probability-weighted basis and twelve-month expected credit losses represent the losses expected to arise from default events within the next twelve months after the reporting date. In principle, the adoption of expected credit loss model will accelerate the recognition of the loss allowance as it requires a loss allowance equals to twelve-month expected credit losses at initial recognition of financial assets as compared with loss allowance recognised only when there exists observable evidence of impairment under the current standard.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. Based on the current situation, i.e. the Company currently does not enter into any hedging activities, it is expected that this new requirement will not have any significant impact on the Company's financial position or performance.

Based on the nature and classification of financial assets and financial liabilities of the Company recorded on the statement of financial position as at 31 December 2016, it is expected that the above new requirements for classification and measurement for financial assets and financial liabilities under IFRS 9 will not have significant impact on the Company's financial position or performance. The assessment of impairment loss of financial assets under IFRS 9 requires an expected credit loss model which the company needs to collect and analyse historical data, incorporate forward looking information, and to build such expected credit loss model for quantifying the overall financial impact on impairment loss. The Company is now in the process of collecting and analysing data and information to quantify the impact on the Company's operating results and financial position arising from the adoption of IFRS 9. The new requirements for impairment loss of financial assets under IFRS 9 may affect negatively on the Company's financial position and operating results. However, as the Company's financial assets mainly include short-term small loans receivable which generally had maturity profiles of up to one year, it is expected that the impact will not be material.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Company expects to adopt IFRS 15 on 1 January 2018. During 2016, the Company performed a preliminary assessment on the impact of the adoption of IFRS 15. The Company's principal revenue is the interest from the granted loans to customers. The expected impact arising from the adoption of IFRS 15 on the Company is immaterial.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following basis:

Interest income

Interest income on loans is measured on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the

financial instrument to the net carrying amount of the financial asset. When a loan has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash receipts for the purpose of measuring the impairment loss, i.e. the original effective interest rate.

Guarantee fee income

Guarantee fee income is recognised when guarantee contracts have been entered into and the related guarantee obligation has been accepted, the economic benefits associated with the guarantee contracts will probably flow to the Company, and the amount of revenue associated with guarantee contracts can be measured reliably. Guarantee income is determined based on the total agreed fee in the guarantee contracts and is recognised in profit or loss over the period of the guarantee.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Where the Company receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the relevant financial years, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the relevant financial years between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each relevant financial years and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each relevant financial years and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the relevant financial years.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The estimated useful lives, residual rates and annual depreciation rates used for this purpose are as follows:

Categories	Estimated useful life	Estimated residual rate	Annual depreciation rate
Motor vehicles	4 to 10 years	0%	10% - 25%
Fixture and furniture	5 to 10 years	0%	10% - 20%
Leasehold improvements	Over the shorter period of the lease terms and the useful life of the assets		

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

Leases where substantially all the rewards and risks of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Loans and receivables and other financial assets

Initial recognition and measurement

The Company's financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss. The loss arising from impairment is recognised in profit or loss in net change of impairment allowance on loans receivable.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

The Company assesses at the end of each relevant financial years whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other income and gains in profit or loss.

Financial liabilities***Initial recognition and measurement***

The Company's financial liabilities are classified, at initial recognition, as loans and borrowings or payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include interest-bearing borrowings and other liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest expense in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the relevant financial years; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each relevant financial years as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used

to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

Provisions

A provision is recognised when a present (legal or constructive) obligation has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each relevant financial years of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in interest expense in profit or loss.

Employee benefits

Employee retirement scheme

The employees of the Company which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute a certain percentage of payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. The provision and contributions have been included in profit or loss upon incurrence. The Company has no obligation for the payment of pension benefits beyond the contributions described above.

Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the shareholders and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Company. Dividend for the year/period that is approved after the end of the relevant financial years is disclosed as an event after the relevant financial years.

Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Company are members of the same company;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Company are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future periods.

Impairment losses of loans receivable

The Company determines periodically whether there is any objective evidence that impairment losses have occurred on loans receivable. If any such evidence exists, the Company assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgment on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Deferred tax assets and liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Company makes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and different interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretations may arise on a wide variety of issues depending on the prevailing conditions affecting the Company.

5. INTEREST INCOME, NET

	Year ended 31 December		
	2014	2015	2016
Interest income on:			
Loans receivable	97,494,641	95,731,380	74,401,083
Cash at banks	37,137	20,067	7,666
Cash at a third party	<u>574,846</u>	<u>195,252</u>	<u>85,959</u>
Subtotal	<u>98,106,624</u>	<u>95,946,699</u>	<u>74,494,708</u>
Interest expense on:			
Borrowing from banks	960,000	—	—
Borrowing from related parties (Note 23(c))	34,545	—	—
Borrowing from other institutions	<u>438,847</u>	<u>1,441,724</u>	<u>595,772</u>
Subtotal	<u>1,433,392</u>	<u>1,441,724</u>	<u>595,772</u>
Interest income, net	<u>96,673,232</u>	<u>94,504,975</u>	<u>73,898,936</u>
Included: Interest income on impaired loans (Note 14)	<u>1,428,490</u>	<u>1,037,684</u>	<u>1,198,719</u>

6. ADMINISTRATIVE EXPENSES

	Year ended 31 December		
	2014	2015	2016
Staff costs	2,865,824	3,932,068	3,660,037
Business tax and surcharges (i)	3,463,913	3,281,998	1,025,216
Depreciation (Note 15)	1,727,588	1,471,384	1,415,309
Leasing expense	568,552	593,483	576,355
Auditor's remuneration	1,493,250	1,464,063	2,424,098
Office expenses	412,594	474,350	118,912
Entertainment expenses	910,655	1,431,471	1,482,478
Listing expenses	7,680,003	2,420,186	8,273,940
Others	<u>1,679,644</u>	<u>2,578,337</u>	<u>3,616,264</u>
Total	<u>20,802,023</u>	<u>17,647,340</u>	<u>22,592,609</u>

- (i) The Company conducts all of its business in Mainland China. The statutory Business tax rate is generally 5% in Mainland China; however, the Company is entitled to a lower business tax rate of 3% for the relevant financial years, based on the <The Guidance issued by the Jiangsu Municipal Office on the sound and rapid development of micro-finance companies in rural areas> (Su Zheng Ban Fa [2009] No. 132) issued by the Jiangsu Province in November 2009.

The Company is entitled of paying VAT instead of Business tax started from 1 May 2016 based on the <Notice on All-out Launch of Pilot Program of Levying Value-add in lieu of Business Tax> (Cai Shui [2016] No. 36).

7. OTHER INCOME/(EXPENSE), NET

	Year ended 31 December		
	2014	2015	2016
Other income:			
Government grants	—	393,100	476,200
Others	—	<u>1,200</u>	—
Subtotal	—	<u>394,300</u>	<u>476,200</u>
Other expense:			
Fee and commission expense	(14,850)	(10,040)	(22,916)
Charitable contributions	(10,000)	(10,000)	—
Loss on disposal of fixed assets/repossessed assets	<u>(223,830)</u>	<u>(12,767)</u>	—
Subtotal	<u>(248,680)</u>	<u>(32,807)</u>	<u>(22,916)</u>
Other income/(expense), net	<u>(248,680)</u>	<u>361,493</u>	<u>453,284</u>

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the directors' and chief executive's remuneration for the relevant financial years, disclosed pursuant to the Listing Rules and Section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Name	Position	Fees	Year ended 31 December 2014			Total
			Salaries allowances and benefits in kind	Pension scheme contributions		
Mr. Bo Wanlin	Executive director	—	500,002	—	500,002	
Ms. Bai Li	Executive director and chief executive	—	102,000	15,325	117,325	
Ms. Zhou Yinqing ¹	Non-executive director/Executive director	—	72,000	12,382	84,382	
Mr. Bo Nianbin	Non-executive director	—	—	—	—	
Mr. Zuo Yuchao	Non-executive director	—	—	—	—	
Mr. Yang Jun	Non-executive director	—	55,636	10,391	66,027	
Mr. Wei Peng	Non-executive director	—	47,084	10,422	57,506	
Ms. Li Yunzhen	Supervisor	—	—	—	—	
Mr. Zhang Yi	Supervisor	—	52,711	10,386	63,097	
Ms. Gao Wei	Supervisor	—	47,777	10,117	57,894	
		—	877,210	69,023	946,233	

¹ Appointed as executive director in March 2014.

Name	Position	Fees	Year ended 31 December 2015		
			Salaries allowances and benefits in kind	Pension scheme contributions	Total
Mr. Bo Wanlin	Executive director	—	500,000	—	500,000
Ms. Bai Li	Executive director and chief executive	—	150,000	56,996	206,996
Ms. Zhou Yinqing	Executive director	—	120,000	47,154	167,154
Mr. Bo Nianbin	Non-executive director	—	—	—	—
Mr. Zuo Yuchao	Non-executive director	—	—	—	—
Mr. Chan So Kuen ¹	Non-executive director	—	—	—	—
Mr. Bian Zhicun ¹	Non-executive director	—	—	—	—
Mr. Wu Xiankun ¹	Non-executive director	—	—	—	—
Mr. Yang Jun ²	Non-executive director	—	6,855	1,643	8,498
Mr. Wei Peng ²	Non-executive director	—	5,743	1,745	7,488
Mr. Zhang Yi	Supervisor	—	102,385	39,161	141,546
Ms. Wang Chunhong ³	Supervisor	—	—	—	—
Ms. Li Guoyan ³	Supervisor	—	—	—	—
Ms. Li Yunzhen ⁴	Supervisor	—	—	—	—
Ms. Gao Wei ⁴	Supervisor	—	5,376	1,604	6,980
		—	<u>890,359</u>	<u>148,303</u>	<u>1,038,662</u>

¹ Appointed as non-executive director in January 2015

² Resigned as non-executive director in January 2015

³ Appointed as supervisor in January 2015

⁴ Resigned as supervisor in January 2015

Name	Position	Fees	Year ended 31 December 2016			Total
			Salaries allowances and benefits in kind	Pension scheme contributions		
Mr. Bo Wanlin	Executive director	—	500,000	—	500,000	
Ms. Bai Li	Executive director and chief executive	—	150,000	61,314	211,314	
Ms. Zhou Yinqing	Executive director	—	120,000	49,128	169,128	
Mr. Bo Nianbin	Non-executive director	—	—	—	—	
Mr. Zuo Yuchao	Non-executive director	—	—	—	—	
Mr. Chan So Kuen	Non-executive director	—	—	—	—	
Mr. Wu Xiankun	Non-executive director	—	—	—	—	
Mr. Bao Zhenqiang ¹	Non-executive director	—	—	—	—	
Mr. Bian Zhicun ²	Non-executive director	—	—	—	—	
Mr. Zhang Yi	Supervisor	—	111,889	26,175	138,064	
Ms. Wang Chunhong	Supervisor	—	—	—	—	
Ms. Li Guoyan	Supervisor	—	—	—	—	
		—	<u>881,889</u>	<u>136,617</u>	<u>1,018,506</u>	

¹ Appointed as non-executive director in May 2016.

² Resigned as non-executive director in May 2016.

9. FIVE HIGHEST PAID INDIVIDUALS

Three directors (one was also the chief executive) were amongst the five highest paid individuals for the years ended 31 December 2014 and 2016, two directors (one was also the chief executive) were amongst the five highest paid individuals for the year ended 31 December 2015, details of whose remuneration are set out in Note 8 above. Details of the remuneration the remaining two highest paid employees for the years ended 31 December 2014 and 2016, and three highest paid employees for the year ended 31 December 2015 who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December		
	2014	2015	2016
Salaries, allowances and benefits in kind	<u>175,800</u>	<u>552,204</u>	<u>245,577</u>

The number of non-director and non-chief executive highest paid employees, whose remuneration fell within the following band, is as follows:

	Year ended 31 December		
	2014	2015	2016
Nil — RMB1,000,000	<u>2</u>	<u>3</u>	<u>2</u>

10. INCOME TAX EXPENSE

	Year ended 31 December		
	2014	2015	2016
Current income tax	9,407,899	19,179,876	12,759,519
Deferred income tax (Note 16)	<u>351,267</u>	<u>(2,513,577)</u>	<u>893,104</u>
	<u>9,759,166</u>	<u>16,666,299</u>	<u>13,652,623</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company is domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December		
	2014	2015	2016
Profit before tax	<u>77,251,719</u>	<u>78,068,382</u>	<u>54,133,311</u>
Tax at the applicable tax rate (i)	9,656,465	19,517,096	13,533,328
Income not subject to tax	—	—	(119,050)
Adjustments in respect of current income tax of previous years	—	—	(98,275)
Expenses not deductible for tax	102,701	237,934	336,620
Effect on opening deferred tax due to increase in tax rate	<u>—</u>	<u>(3,088,731)</u>	<u>—</u>
Total tax expense for the year at the Company's effective tax rate	<u>9,759,166</u>	<u>16,666,299</u>	<u>13,652,623</u>

- (i) The Company conducts all of its business in Mainland China. The statutory income tax rate is generally 25% in Mainland China; however, the Company is entitled to a 50% reduction in income tax for the year ended 31 December 2014, based on the <The Guidance issued by the Jiangsu Municipal Office on the sound and rapid development of micro-finance companies in rural areas> (Su Zheng Ban Fa [2009] No.132) issued by the Jiangsu Province in November 2009. The applicable income tax rate was 25% from the beginning of 1 January 2015.

11. DIVIDENDS

	Year ended 31 December		
	2014	2015	2016
Declared and paid dividends	<u>105,198,968</u>	<u>—</u>	<u>45,000,000</u>

Dividends were declared and paid in cash pursuant to the respective resolutions of the shareholders' meeting during the relevant financial years.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares in issue for the relevant financial years as follows:

	Year ended 31 December		
	2014	2015	2016
Earnings			
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	<u>67,492,553</u>	<u>61,402,083</u>	<u>40,480,688</u>
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (i)	<u>450,000,000</u>	<u>450,000,000</u>	<u>450,000,000</u>
Basic earnings per share	<u>0.15</u>	<u>0.14</u>	<u>0.09</u>

(i) Weighted average number of ordinary shares

	Year ended 31 December		
	2014	2015	2016
Issued ordinary shares at the beginning of the year	450,000,000	450,000,000	450,000,000
Weighted average number of ordinary shares at the end of the year	<u>450,000,000</u>	<u>450,000,000</u>	<u>450,000,000</u>

There were no dilutive potential ordinary shares during the relevant financial years, and therefore, diluted earnings per share were the same as the basic earnings per share.

13. CASH AND CASH EQUIVALENTS

	31 December		
	2014	2015	2016
Cash on hand	1,520	115	—
Cash at third party	1,509,101	689	14,553
Cash at banks	<u>20,507,355</u>	<u>416,715</u>	<u>3,538,274</u>
	<u>22,017,976</u>	<u>417,519</u>	<u>3,552,827</u>

The cash and cash equivalents of the Company were denominated in RMB.

14. LOANS RECEIVABLE

	31 December		
	2014	2015	2016
Loans receivable	528,550,849	619,500,852	599,381,140
Less: Allowance for impairment losses	<u>(24,296,171)</u>	<u>(22,409,233)</u>	<u>(18,836,814)</u>
	<u>504,254,678</u>	<u>597,091,619</u>	<u>580,544,326</u>

The types of loans receivable are as follow:

	2014	31 December 2015	2016
Guaranteed loans	360,933,345	495,231,418	518,850,072
Loans secured by mortgages	<u>167,617,504</u>	<u>124,269,434</u>	<u>80,531,068</u>
	528,550,849	619,500,852	599,381,140
Less: Allowance for impairment	<u>(24,296,171)</u>	<u>(22,409,233)</u>	<u>(18,836,814)</u>
	<u>504,254,678</u>	<u>597,091,619</u>	<u>580,544,326</u>

Movements of allowance for impairment losses during the relevant financial years are as follows:

	Individually assessed	Collectively assessed	Total
As at 1 January 2014	7,505,973	19,773,510	27,279,483
Charges/(reversals) for the year	649,015	(2,203,837)	(1,554,822)
Accreted interest on impaired loans (Note 5)	<u>(1,428,490)</u>	<u>—</u>	<u>(1,428,490)</u>
As at 31 December 2014	6,726,498	17,569,673	24,296,171
Charges/(reversals) for the year	424,148	(1,273,402)	(849,254)
Accreted interest on impaired loans (Note 5)	<u>(1,037,684)</u>	<u>—</u>	<u>(1,037,684)</u>
As at 31 December 2015	6,112,962	16,296,271	22,409,233
Charges/(reversals) for the year	1,244,141	(3,617,841)	(2,373,700)
Accreted interest on impaired loans (Note 5)	<u>(1,198,719)</u>	<u>—</u>	<u>(1,198,719)</u>
At 31 December 2016	<u>6,158,384</u>	<u>12,678,430</u>	<u>18,836,814</u>

15. PROPERTY AND EQUIPMENT

	Motor vehicles	Fixture and furniture	Leasehold improvements	Total
Cost:				
At 1 January 2014	1,048,563	381,770	5,866,951	7,297,284
Additions	—	280,227	787,081	1,067,308
Disposals	(442,780)	—	—	(442,780)
At 31 December 2014	605,783	661,997	6,654,032	7,921,812
Additions	—	202,654	636,600	839,254
Disposals	—	(33,895)	—	(33,895)
At 31 December 2015	605,783	830,756	7,290,632	8,727,171
Additions	—	29,812	—	29,812
At 31 December 2016	<u>605,783</u>	<u>860,568</u>	<u>7,290,632</u>	<u>8,756,983</u>
Accumulated depreciation:				
At 1 January 2014	281,227	82,342	2,473,152	2,836,721
Depreciation charge for the year	141,204	86,544	1,499,840	1,727,588
Disposals	(143,910)	—	—	(143,910)
At 31 December 2014	278,521	168,886	3,972,992	4,420,399
Depreciation charge for the year	96,924	123,353	1,251,107	1,471,384
Disposals	—	(33,895)	—	(33,895)
At 31 December 2015	375,445	258,344	5,224,099	5,857,888
Depreciation charge for the year	96,924	138,859	1,179,526	1,415,309
At 31 December 2016	<u>472,369</u>	<u>397,203</u>	<u>6,403,625</u>	<u>7,273,197</u>
Net carrying amount:				
At 31 December 2014	<u>327,262</u>	<u>493,111</u>	<u>2,681,040</u>	<u>3,501,413</u>
At 31 December 2015	<u>230,338</u>	<u>572,412</u>	<u>2,066,533</u>	<u>2,869,283</u>
At 31 December 2016	<u>133,414</u>	<u>463,365</u>	<u>887,007</u>	<u>1,483,786</u>

16. DEFERRED TAX ASSETS

(a) Analysed by nature

	2014		31 December 2015		2016	
	Deductible/ temporary differences	Deferred income tax assets	Deductible/ temporary differences	Deferred income tax assets	Deductible/ temporary differences	Deferred income tax assets
Impairment allowance on loans	24,296,171	3,037,021	22,409,233	5,602,308	18,836,814	4,709,204
Payroll payable, accrued but unpaid	<u>413,678</u>	<u>51,710</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Deferred income tax	<u>24,709,849</u>	<u>3,088,731</u>	<u>22,409,233</u>	<u>5,602,308</u>	<u>18,836,814</u>	<u>4,709,204</u>

(b) Movements of deferred income tax

	Impairment allowance on loans	Liabilities from guarantees	Payroll payable, accrued but unpaid	Total
At 1 January 2014	3,409,936	9,296	20,766	3,439,998
Recognised in profit or loss (Note 10)	<u>(372,915)</u>	<u>(9,296)</u>	<u>30,944</u>	<u>(351,267)</u>
At 31 December 2014	3,037,021	—	51,710	3,088,731
Recognised in profit or loss (Note 10)	<u>2,565,287</u>	<u>—</u>	<u>(51,710)</u>	<u>2,513,577</u>
At 31 December 2015	5,602,308	—	—	5,602,308
Recognised in profit or loss (Note 10)	<u>(893,104)</u>	<u>—</u>	<u>—</u>	<u>(893,104)</u>
At 31 December 2016	<u>4,709,204</u>	<u>—</u>	<u>—</u>	<u>4,709,204</u>

17. OTHER ASSETS

	31 December		
	2014	2015	2016
Prepaid expenses	56,250	—	—
Listing service fees	2,454,200	3,311,220	6,535,076
Other receivables	<u>1,301,298</u>	<u>1,366,944</u>	<u>1,125,707</u>
	<u>3,811,748</u>	<u>4,678,164</u>	<u>7,660,783</u>

18. INTEREST-BEARING BORROWINGS

	31 December		
	2014	2015	2016
Guaranteed borrowings repayable within one year	<u>—</u>	<u>8,000,000</u>	<u>—</u>

The interest-bearing borrowings at 31 December 2015 bore interest from 13.0% to 13.5% per annum.

The interest-bearing borrowings at 31 December 2015 were guaranteed by related parties. Please refer to Note 23 (e) for more details.

19. LIABILITIES FROM GUARANTEES

Liabilities from guarantees are provisions made for guarantees. Movements of liabilities from guarantees during each of the years ended 31 December 2014, 2015 and 2016 are as follows:

	31 December		
	2014	2015	2016
Opening balance	74,368	—	—
Reversal of provisions	<u>(74,368)</u>	<u>—</u>	<u>—</u>
Ending balance	<u>—</u>	<u>—</u>	<u>—</u>

20. OTHER LIABILITIES

	31 December		
	2014	2015	2016
Payrolls payable	413,678	715,599	581,333
Other payables	5,463,464	5,242,097	5,378,112
Listing service fee payable	<u>3,220,468</u>	<u>4,237,656</u>	<u>5,539,015</u>
	<u>9,097,610</u>	<u>10,195,352</u>	<u>11,498,460</u>

21. SHARE CAPITAL

	31 December		
	2014	2015	2016
Authorised and fully paid:	<u>450,000,000</u>	<u>450,000,000</u>	<u>450,000,000</u>

22. RESERVES

The amounts of the Company's reserve and the movements therein for the relevant financial years are presented in the statement of changes in equity.

Capital reserve

The capital reserve represents share premium arising from the difference between the par value of the shares issued by the Company and the net asset value in the financial statements as at 31 July 2012 during the conversion of the Company into a joint stock company.

Surplus reserve

Surplus reserve represents statutory surplus reserve.

The Company is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles of Association of the Company to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Company, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

General reserve

According to the <Financial regulations of micro-finance rural companies in Jiangsu (Trial)> (Su Cai Gui [2009] No. 1), the Company is required to set aside a general reserve which not less than 1% of the ending balance of loans receivable through equity.

For the years ended 31 December 2014, 2015 and 2016, the Company made appropriation to the general reserve amounting to nil, RMB682,529 and nil respectively.

23. RELATED PARTY DISCLOSURES**(a) Granting of loans to related parties**

	Year ended 31 December		
	2014	2015	2016
Interest income			
Close members of the family of key management personnel	<u>142,650</u>	<u>—</u>	<u>—</u>

In year 2014, the Company granted loans to a close member of the family of key management personnel amounting to RMB900,000 at interest rate of 18% per annum. There were no outstanding balances of loans granted to related parties as at 31 December 2014, 31 December 2015 and 31 December 2016.

(b) Other receivables from related parties

	31 December		
	2014	2015	2016
Key management personnel	<u>—</u>	<u>120,000</u>	<u>—</u>

Other receivables from related parties are interest-free and repayable on demand.

(c) Borrowings from a related party

	Year ended 31 December		
	2014	2015	2016
Interest expenses			
The holding company	<u>34,545</u>	<u>—</u>	<u>—</u>

In year 2014, the Company obtained short-term borrowings amounting to RMB7,500,000 from the holding company. The borrowings bore interest 9% per annum. There were no outstanding balances of borrowings as at 31 December 2014, 31 December 2015 and 31 December 2016.

(d) Leasing

	Year ended 31 December		
	2014	2015	2016
Leasing expense	<u>474,805</u>	<u>500,000</u>	<u>525,000</u>

Leasing expense was paid to an entity with significant influence over the Company in respect of the Company's office. In November 2014, the Company renewed the lease agreement, the leasing period is from 1 January 2015 to 31 December 2017. The leasing expenses of year 2015 and year 2016 were RMB500,000 and RMB525,000 respectively, with yearly increment of 5%.

(e) **Borrowings guaranteed by related parties**

	31 December		
	2014	2015	2016
The holding company and key management personnel	<u>—</u>	<u>8,000,000</u>	<u>—</u>

(f) **Loans to customers guaranteed by related parties**

The principal amounts of granted loans to customers guaranteed by related parties are as follows:

	Year ended 31 December		
	2014	2015	2016
Entities significantly influenced by the Company's key management personnel or their close family members	10,480,000	—	—
Key management personnel	<u>480,000</u>	<u>—</u>	<u>—</u>
Total	<u>10,960,000</u>	<u>—</u>	<u>—</u>

There were no outstanding balances of loans to customers guaranteed by related parties as at 31 December 2014, 31 December 2015 and 31 December 2016.

(g) **Key management personnel remuneration**

	Year ended 31 December		
	2014	2015	2016
Key management personnel remuneration	<u>1,018,574</u>	<u>1,205,816</u>	<u>1,187,634</u>

Remuneration for key management personnel includes amounts paid to certain directors and the chief executive of the Company as disclosed in Note 8.

24. SEGMENT INFORMATION

Almost all of the Company's revenue was generated from the provision of loans to small and medium sized and micro enterprises (SMEs) located at Yangzhou, Jiangsu Province in Mainland China during the relevant financial years. There is no other main segment except the loan business.

25. CONTINGENT LIABILITIES

As at 31 December 2014, 2015 and 2016, there were no significant legal proceedings outstanding against the Company.

26. OPERATING LEASES

The Company leases office premises under various operating lease agreements as the lessee. Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December		
	2014	2015	2016
Within 1 year (including 1 year)	518,750	574,643	602,585
In the second year, inclusive	600,000	600,893	51,335
In the third year, inclusive	607,500	49,643	51,335
After 3 years	—	62,054	154,005
	<u>1,726,250</u>	<u>1,287,233</u>	<u>859,260</u>

27. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each relevant financial years are as follows:

	31 December		
	2014	2015	2016
Financial assets			
Loans and receivables			
- Cash at banks and a third party	22,016,456	417,404	3,552,827
- Loans receivable	504,254,678	597,091,619	580,544,326
- Other receivables	1,301,298	1,366,944	1,125,707
	<u>527,572,432</u>	<u>598,875,967</u>	<u>585,222,860</u>

	2014	31 December 2015	2016
Financial liabilities			
Other financial liabilities			
- Interest-bearing borrowings	—	8,000,000	—
- Other liabilities	<u>3,420,933</u>	<u>4,650,084</u>	<u>6,021,925</u>
	<u>3,420,933</u>	<u>12,650,084</u>	<u>6,021,925</u>

28. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The main risks arising from the Company's financial instruments include credit risk, interest rate risk and liquidity risk. The Company has no significant exposures to other financial risks except as disclosed below. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. The Company manages the loans granted to SMEs, microenterprises and individual proprietors with the same rules and procedures.

The principal features of the Company's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit assessment, granting of credit limit, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;

A loan classification approach has been adopted to manage loan portfolio risk. The loans are categorised as "normal", "special-mention", "substandard", "doubtful" or "loss" according to their levels of risk. The core definitions of the five categories of loans receivable are set out below:

- Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
- Special-mention: borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
- Substandard: borrowers' ability to service their loans is in question and cannot rely entirely on normal business revenues to repay the principal and interest. Losses may ensue even when collateral or guarantees are invoked.

- Doubtful: borrowers cannot repay the principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
- Loss: principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

To enhance the credit risk management practices, the Company also launches training programs periodically for credit officers at different levels.

The Company's financial assets include cash at banks, loans receivable and other receivables. The credit risk of these assets mainly arose from the counterparties' failure to discharge their contractual obligations, with major exposure equals the carrying amount.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, or infringement of the original terms of the contract. The Company addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed allowances

All loans receivable are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Loans that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in profit or loss. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensure;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each relevant financial years, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- The adverse changes in arrears of the borrowers; and
- Areas or local economic conditions that correlate with defaults.

Collateral and other credit enhancements

The Company implements guidelines on the acceptability of specific classes of collateral from customers. The principal collateral types for loans to customers are:

- Real estate, including residential and commercial properties; and
- Equipment.

The Company also focuses on ascertaining legal ownership, condition and the valuation of the collaterals. A collateral backed loan is granted on the basis of the fair value of the collateral. The Company continues to monitor the value of the collateral throughout the loan period.

Credit quality of loans receivable

A loan or advance is identified as an impaired loan if there is objective evidence indicating that the loan's estimated future cash flows are influenced by one or several factors and the impact can be estimated reliably.

The table below shows the credit quality for loans receivable. The amounts presented are gross of impairment allowances.

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
31 December 2014	<u>507,173,193</u>	<u>3,493,325</u>	<u>17,884,331</u>	<u>528,550,849</u>
31 December 2015	<u>572,716,335</u>	<u>33,486,078</u>	<u>13,298,439</u>	<u>619,500,852</u>
31 December 2016	<u>589,312,390</u>	<u>87,570</u>	<u>9,981,180</u>	<u>599,381,140</u>

As at the end of each relevant financial years, the ageing analysis of loans receivable which were neither past due nor impaired and past due but not impaired is as below:

	Total	Neither past due nor impaired	Past due but not impaired		
			Less than 3 months	3 to 12 months	More than 1 year
31 December 2014	<u>510,666,518</u>	<u>507,173,193</u>	<u>1,335,075</u>	<u>2,158,250</u>	<u>—</u>
31 December 2015	<u>606,202,413</u>	<u>572,716,335</u>	<u>1,624,798</u>	<u>31,861,280</u>	<u>—</u>
31 December 2016	<u>589,399,960</u>	<u>589,312,390</u>	<u>87,570</u>	<u>—</u>	<u>—</u>

As at 31 December 2014, 2015 and 2016, loans receivable neither past due nor impaired are related to various diversified customers with no recent default history.

As at 31 December 2014, 2015 and 2016, loans receivable past due but not impaired were related to the customers with good credit records or adequate collateral. According to the past experience, the Company does not recognise individually assessed allowances for these loans receivable since there is no significant change in credit quality and the amounts can be recovered in full.

Loans receivable are identified as impaired loans receivable if there is objective evidences indicating that the estimated future cash flows of the loans are influenced by one or several factors and the impact can be estimated reliably.

Analysis of risk concentration

The Company manages its exposure to the concentration of credit risk by customer, geographic region and industry. The customers of the Company are located mainly in rural area, and they are concentrated in a geographic region, Yangzhou, but the Company provides loans to wide variety of customers that operate in different industries to mitigate its exposure to such risks. Given the regulatory restriction on the Company's geographical area of operation, there is credit risk arising from geographic concentration.

(b) Interest rate risk

The Company's exposure to the risk of changes in interest rates relates primarily to its cash at banks, cash at a third party, loans receivable and interest-bearing borrowings. All of the Company's loans receivable bear interest at fixed rate. They are much influenced by the mismatch of repricing days of interest-generating assets and interest-bearing liabilities. The Company does not use derivative financial instruments to manage its interest rate risk.

The following table demonstrates the sensitivity as at the end of each relevant financial years to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate of cash at banks and a third party). The Company's equity is not affected, other than the consequential effect on retained earnings (a component of the Company's equity) affected by the changes in profit before tax.

Changes in variables — RMB interest rate	Year ended 31 December		
	2014	2015	2016
	Impact on profit before tax	Impact on profit before tax	Impact on profit before tax
+ 50 basis points	110,082	2,087	17,764
- 50 basis points	<u>(110,082)</u>	<u>(2,087)</u>	<u>(17,764)</u>

(c) **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company seeks to manage its liquidity risk by circulating liquidity facilities, considering the maturity date of financial instruments and estimated cash flows from operation.

The tables below summarize the maturity profiles of the financial assets and financial liabilities of the Company based on undiscounted contractual cash flows:

	31 December 2014					Total
	On demand	Past due	Less than 3 months	3 to 12 months	1 to 5 years	
Financial assets:						
Cash at banks and a third party	22,016,456	—	—	—	—	22,016,456
Loans receivable	—	14,257,656	104,499,242	454,466,390	—	573,223,288
Other assets	<u>1,301,298</u>	—	—	—	—	<u>1,301,298</u>
Subtotal	<u>23,317,754</u>	<u>14,257,656</u>	<u>104,499,242</u>	<u>454,466,390</u>	—	<u>596,541,042</u>
Financial liabilities:						
Other liabilities	—	—	—	3,395,933	25,000	3,420,933
Subtotal	—	—	—	<u>3,395,933</u>	<u>25,000</u>	<u>3,420,933</u>
Net	<u>23,317,754</u>	<u>14,257,656</u>	<u>104,499,242</u>	<u>451,070,457</u>	<u>(25,000)</u>	<u>593,120,109</u>

	31 December 2015					Total
	On demand	Past due	Less than 3 months	3 to 12 months	1 to 5 years	
Financial assets:						
Cash at banks and a third party	417,404	—	—	—	—	417,404
Loans receivable	—	46,784,517	92,952,989	525,682,809	—	665,420,315
Other assets	1,366,944	—	—	—	—	1,366,944
Subtotal	<u>1,784,348</u>	<u>46,784,517</u>	<u>92,952,989</u>	<u>525,682,809</u>	<u>—</u>	<u>667,204,663</u>
Financial liabilities:						
Interest-bearing						
borrowings	—	—	8,261,055	—	—	8,261,055
Other liabilities	—	—	37,233	4,587,851	25,000	4,650,084
Subtotal	<u>—</u>	<u>—</u>	<u>8,298,288</u>	<u>4,587,851</u>	<u>25,000</u>	<u>12,911,139</u>
Net	<u>1,784,348</u>	<u>46,784,517</u>	<u>84,654,701</u>	<u>521,094,958</u>	<u>(25,000)</u>	<u>654,293,524</u>

	31 December 2016					Total
	On demand	Past due	Less than 3 months	3 to 12 months	1 to 5 years	
Financial assets:						
Cash at banks and a third party	3,552,827	—	—	—	—	3,552,827
Loans receivable	—	10,068,750	157,327,051	472,821,339	—	640,217,140
Other assets	1,125,707	—	—	—	—	1,125,707
Subtotal	<u>4,678,534</u>	<u>10,068,750</u>	<u>157,327,051</u>	<u>472,821,339</u>	<u>—</u>	<u>644,895,674</u>
Financial liabilities:						
Other liabilities	—	—	—	6,011,925	10,000	6,021,925
Subtotal	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,011,925</u>	<u>10,000</u>	<u>6,021,925</u>
Net	<u>4,678,534</u>	<u>10,068,750</u>	<u>157,327,051</u>	<u>466,809,414</u>	<u>(10,000)</u>	<u>638,873,749</u>

(d) Capital management

According to the <Opinions on Supporting and Restricting the Rural Micro-Finance Companies in Jiangsu Province (Provisional)> (Su Jin Rong Ban Fa [2013] No. 103), the liabilities of micro-finance rural companies should not exceed 100% of net capital and the contingent liabilities should not exceed 250% of net capital.

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014, 2015 and 2016.

The Company monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing borrowings, less cash and cash equivalents. Management regards total equity which includes share capital, reserves and retained earnings as capital. The gearing ratios as at each end of the relevant financial years were as follows:

	31 December		
	2014	2015	2016
Interest-bearing borrowings	—	8,000,000	—
Less: Cash and cash equivalents	<u>22,017,976</u>	<u>417,519</u>	<u>3,552,827</u>
Net debt	(22,017,976)	7,582,481	(3,552,827)
Share capital	450,000,000	450,000,000	450,000,000
Reserves	64,622,170	71,444,907	75,492,976
Retained earnings	<u>9,277,979</u>	<u>63,857,325</u>	<u>55,289,944</u>
Capital	<u>523,900,149</u>	<u>585,302,232</u>	<u>580,782,920</u>
Capital and net debt	<u>501,882,173</u>	<u>592,884,713</u>	<u>577,230,093</u>
Gearing ratio	<u>N/A</u>	<u>1.28%</u>	<u>N/A</u>

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's financial assets mainly include cash at banks and a third party and loans receivable.

The Company's financial liabilities mainly include interest-bearing borrowings.

Due to the short remaining period or periodical repricing to reflect the market price, the carrying amounts of these financial assets and liabilities approximate their fair values.

30. EVENTS AFTER THE RELEVANT FINANCIAL YEARS

As at the date on which the financial information is approved, there was no subsequent event that needs to be disclosed or adjusted by the Company.

31. OTHER SIGNIFICANT EVENT

As at 31 December 2014, 243,950,000 shares held by certain shareholders of the Company were pledged for bank loans amounting to RMB160,000,000. As at 31 December 2015 and 2016, there were no such transactions.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 December 2016.

Yours faithfully
ERNST & YOUNG
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the sections headed "Financial Information" and "Appendix I — Accountants' Report" in this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative pro forma statement of adjusted net tangible assets of the Company attributable to the owners of the Company, which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Public Offer as if it has taken place on 31 December 2016.

This pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Company attributable to the owners of the Company as at 31 December 2016 or at any future dates following the Public Offer. It is prepared based on the audited net tangible assets of the Company attributable to owners of the Company as at 31 December 2016 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Net tangible assets attributable to equity holders of the Company as at 31 December 2016	Estimated net proceeds from the Public Offer	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 4</i>
Based on an Offer Price of HK\$1.20 per H Share	580,783	115,396	696,179	1.16	1.31
Based on an Offer Price of HK\$1.34 per H Share	580,783	133,112	713,895	1.19	1.34

Note 1 As at 31 December 2016, our net tangible assets attributable to equity holders of our Company was equal to our net assets attributable to equity holders of our Company less the intangible assets, which was nil as at 31 December 2016.

Note 2 The estimated net proceeds from the Public Offer are based on the indicative Offer Prices of HK\$1.20 and HK\$1.34 per H Share, respectively, after deduction of the underwriting fees and other related estimated expenses in connection with the Public Offer.

Note 3 No adjustment has been made to reflect any trading results or other transactions of the Company entered into subsequent to 31 December 2016.

Note 4 The unaudited pro forma adjusted net tangible assets per Share is based on a total of 600,000,000 Shares expected to be in issue immediately following completion of the Public Offer. The unaudited pro forma adjusted net tangible assets per Share is converted to Hong Kong dollars at the rate of RMB1.00 to HK\$1.1289.

**B. INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus, in respect of the Company’s pro forma financial information.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
24 April 2017

To the Directors of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (the “Company”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma net tangible assets as at 31 December 2016 and related notes as set out on pages II-1 of the Prospectus dated 24 April 2017 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II of the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the public offer of H Shares of the Company on the Company’s financial position as at 31 December 2016 as if the transaction had taken place at 31 December 2016. As part of this process, information about the Company’s financial position has been extracted by the Directors from the Company’s financial statements for the period ended 31 December 2016, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the public offer of H Shares of the Company on unadjusted financial information of the Company as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Company, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

ERNST & YOUNG
Certified Public Accountants
Hong Kong

This appendix contains a summary of laws and regulations in respect of taxation and foreign exchange in the PRC and Hong Kong.

TAXATION

A. Taxation in the PRC

Taxation of Dividends

Individual investors

According to the *Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法) (the “IIT Law”), effective on 1 September 2011 and the *Regulations on Implementation of the Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法實施條例), dividends paid by PRC companies to individuals are subject to a PRC individual income tax with the tax rate of 20%.

According to the *Notice of the State Administration of Taxation on Issues Concerning the Levy of Individual Income Tax Following the Abolishment of the Document Numbered Guo Shui Fa [1993] No. 045* (國家稅務總局關於國稅發[1993] 045號文件廢止後有關個人所得稅徵管問題的通知) promulgated by the SAT on 28 June 2011, for a foreign individual shareholder who is not a PRC resident, the receipt of dividends on the H-Shares is subject to a withholding tax ranging from 5% to 20% (usually 10%) depending on the applicable tax treaty between the PRC and the jurisdiction in which the foreign national resides. Under PRC law, dividend income of individual shareholders who are residents of countries that have entered into tax treaties with the PRC stipulating tax rates of higher than 10% but lower than 20% is subject to tax at the applicable treaty rate, while dividend income of individual shareholders who are residents of countries that have not entered into taxation agreements with the PRC is subject to income tax at the rate of 20%. A company that pays dividends is required to withhold at the applicable tax rate (which may be higher than 10% if the company knows the identity of the relevant shareholders).

Enterprise investors

In accordance with the *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法) (the “EIT Law”), and the *Implementation Regulations for the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) (the “Implementation Regulations of EIT Law”), both effective on 1 January 2008, a non-resident enterprise is generally subject to a 10% withholding income tax on PRC-sourced income, if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC.

According to *Notice of the State Administration of Taxation on Issues Related to the Withholding and Remittance of Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Overseas Non-resident Enterprises Which hold H Shares* (國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣繳企業所得稅有關問題的通知), issued by the SAT on 6 November 2008, further clarifies that a PRC-resident enterprise must withhold enterprise income tax at the rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H shares with respect to the dividends distributed out of profit generated after 1 January 2008. The non-resident enterprise shareholders entitled to a reduced tax rate under tax treaties or arrangements may apply to the competent tax authorities for refund of the excess amount withheld.

Pursuant to *Arrangements between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), signed on 21 August 2006, a PRC resident enterprise which distributes dividends to its Hong Kong shareholders shall pay income tax according to PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds not less than 25% equity of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be not more than 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity of the aforesaid enterprise, the tax levied shall be not more than 10% of the distributed dividends.

Taxation of Capital Gains

Individual investors

Under the *Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares* (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the Ministry of Finance and the SAT on 30 March 1998, from 1 January 1997 onwards, income of individuals from the transfer of shares in listed enterprises continues to be exempted from individual income tax. After the latest amendment to the IIT Law on 1 September 2011 and the latest amendments to its implementation rules on 1 September 2011, the SAT has not stated whether it will continue to exempt from individual income tax income derived by individuals from the transfer of listed shares. However, the Ministry of Finance, the SAT and the CSRC jointly issued the *Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation* (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知) on 31 December 2009, which states that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for the shares of certain specified companies under certain situations which are subject to sales limitations. As at the latest practicable date, no legislation has expressly provided that individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, such as our H Shares, and in practice the taxation administrations do not collect individual income tax on such income.

Enterprise investors

In accordance with the EIT Law and the Implementation Regulations of EIT Law, a non-resident enterprise is generally subject to withholding tax at a rate of 10% with respect to PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. As at the Latest Practicable Date, no legislation has expressly provided that withholding tax shall be collected from non-resident enterprises on their income derived by them from sale of the shares in PRC companies listed on overseas stock exchange. However, the possibility cannot be entirely excluded that taxation authorities will seek to collect withholding tax on such income in the future.

Enterprise Income Tax

The EIT Law and the Implementation Regulations of EIT Law, provide that the enterprise income tax (“EIT”) rate applicable to all enterprises, resident or non-resident, shall be 25% generally.

Business Tax

Pursuant to applicable PRC tax regulations, any entity or individual conducting business in the service industry is generally required to pay a business tax at the rate of 5% on the revenues generated from providing such services. Companies in financial and insurance industries shall be subject to business tax at a rate of 5%.

VAT Tax

According to the Temporary Regulations on Value-added Tax (增值稅暫行條例), which was promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and was amended on November 10, 2008, the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則), which came into effect on December 25, 1993, and was last amended on October 28, 2011, and Notice on All-out Launch of Pilot Program of Levying Value-add in lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知), which was promulgated by Ministry of Finance and State Administration of Taxation on March 23, 2016 and implemented on May 1, 2016, a microfinance company shall pay value-added tax with the tax rate of 6%.

B. Taxation in Hong Kong***Tax on Dividends***

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. However, trading gains from the sale of H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trading, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a rate of 15%. Gains from sales of the H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Share is effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. The duty is charged at the ad valorem rate of 0.1 % of the consideration for, or (if greater) the value of, the H Shares transferred to or from each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of H Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required). Where a sale or purchase of the H Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the stamp duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. The State Administration of Foreign Exchange (the “SAFE”), under the authority of the People’s Bank of China (the “PBOC”), administers all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

The principal regulations governing foreign currency exchange in the PRC are the *Regulations on Administration of Foreign Exchange* (外匯管理條例) (the “Foreign Exchange Regulations”), promulgated by the State Council in 1996 and amended in 1997 and 2008. Under the Foreign Exchange Regulations, RMB is freely convertible for current account items, such as trade and service-related foreign exchange transactions and unilateral transfers, on a basis of true and lawful transactions; as for capital account items, such as direct investments, loans, and portfolio investment, the prior approval of, or registration with, SAFE is required.

Pursuant to the *Rules on Administration of Settlement, Sale and Payment of Foreign Exchange Provisions* (結匯、售匯及付匯管理規定), issued by PBOC on 20 June 1996 and effective from 1 July 1996, enterprises in the PRC may purchase foreign currency, subject to a cap approved by SAFE, to settle current account transactions, without the approval from SAFE. Foreign exchange transactions under capital account are still subject to limitations and require approvals from or registrations with SAFE.

The PBOC announced that, beginning from 21 July 2005, the PRC would implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on supply and demand and with reference to a basket of currencies. The RMB exchange rate is no longer pegged to the U.S. dollar. The PBOC will publish the closing price of the RMB against foreign currencies such as the U.S. dollar in the inter-bank foreign exchange market after the closing of the market on each business day, which will be used as the middle price for RMB transactions on the following business day.

Starting from 4 January 2006, the PBOC has authorized China Foreign Exchange Trading Center to publish the middle price for the exchange of RMB to the U.S. dollar, Euro, Japanese Yen and Hong Kong Dollar at 9:15 am on each business day, which will be used as the middle price of exchange rates for transactions in inter-bank spot foreign exchange market (including over the counter and automatic price-matching transactions) and bank counter transactions.

In accordance with the Notice on Relevant Issues of Foreign Exchange Management of Overseas Listing (《關於境外上市外匯管理有關問題的通知》) issued by SAFE and effective on December 26, 2014, a domestic enterprise shall register with the local branch of the SAFE at the place of its incorporation within 15 working days after the completion of its overseas IPO. The proceeds from overseas listing may be remitted to the domestic account or deposited in an overseas account. The proceeds shall be used in accordance with this prospectus and other disclosure documents.

This Appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities law and regulations. It also contains a summary of certain Hong Kong law and regulations, including summaries of certain material differences between the PRC and Hong Kong company law, certain requirements of the GEM Listing Rules and the summary of additional provisions required by the Stock Exchange for inclusion in the articles of association of the PRC issuers (as defined in the GEM Listing Rules).

1. PRC LAWS AND REGULATIONS

The PRC Legal System

The PRC legal system is based on the PRC Constitution (the “Constitution”) and is made up of written laws, administrative regulations, local regulations, autonomy regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for the purposes of judicial reference and guidance.

Pursuant to the Constitution and the Legislation Law of the PRC (“the Legislation Law”), the National People’s Congress (“NPC”) and the standing committee of the NPC (“the Standing Committee”) are empowered to formulate and amend basic laws governing State Organs, civil and criminal or other matters. The Standing Committee enacts and amends laws other than those that shall be formulated by the NPC, and during the period of adjournment of the NPC, the Standing Committee may partially supplement and amend the laws enacted by the NPC, provided such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, subject to the constitution, laws and administrative regulations. The people’s congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of such cities and take the same effect after submitting to the standing committee of the people’s congresses of provinces or autonomous regions for approval. The standing committee of the people’s congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules and regulations of the People’s Government of the province or autonomous region concerned are identified in the examination of local regulations of larger cities by the standing committee of the people’s congresses of provinces or autonomous regions, a decision should be made to deal with the matter.

The ministries, commissions, PBOC, National Audit Office of the State Council and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Matters governed by the departmental rules and regulations should be those for the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and larger cities may formulate rules based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities.

Pursuant to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court is empowered to provide general interpretation on questions involving the specific application of laws and decrees in court trials. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such laws, regulations and rules.

The PRC Judicial System

Pursuant to the Constitution and the Law of Organization of the People's Courts of the PRC ("Law of Organization of the People's Courts"), the judicial system in the PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further organized into civil, criminal, and administrative divisions. The intermediate people's courts are organized into divisions similar to those of the basic people's courts, and are further organized into other special divisions, such as the intellectual property division.

The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The higher level people's courts supervise the basic and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all of the people's courts.

The people's courts adopt the "second instance as final" appellate system. A party may appeal against a judgment or order of the people's court of first instance to the people's court at the next higher level. Second judgments or orders given at the next higher level are final and legally binding. First judgments or orders of the Supreme People's Court are also final. Where the Supreme People's Court or a people's court at a higher level finds an error in a judgment or order which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgment or order, the case may then be retried in accordance with the judicial supervision procedures.

The Civil Procedure Law of the PRC (“the Civil Procedure Law”) which was promulgated on 9 April 1991 and last amended on 31 August 2012 and took effect from 1 January 2013, sets forth the criteria for instituting a civil action, the jurisdiction of the people’s courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract or dispute over property rights may, by an express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff’s or the defendant’s place of residence, the place of execution or implementation of the contract or the object of the action or with substantial connection to a dispute, and provided that the provisions of the Civil Procedure Law regarding jurisdiction by level and exclusive jurisdiction shall not be violated.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. Where a foreign country’s judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. Where any party to a civil action refuses to comply with a judgment or order made by a people’s court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people’s court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two years. Where a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

Where a party applies to a people’s court for enforcing an effective judgment or ruling by a people’s court against a party who’s not located within the territory of the PRC or whose property is not within the PRC, such party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people’s court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or where the judgment or ruling satisfies the court’s examination in accordance with the principle of reciprocity, unless the people’s court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

The Company Law, Special Regulations and Mandatory Provisions

The Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on 29 December 1993 and became effective on 1 July 1994. It was last amended on 28 December 2013 and came into effect on 1 March 2014.

The Special Provisions of the State Council Concerning the Floation and Listing Abroad of Shares by Joint Stock Limited Companies (“the Special Provisions”) were adopted at the 22nd Standing Committee Meeting of the State Council on 4 August 1994. The Special Provisions was formulated according to Article 85 and Article 155 of the Company Law and applies to the overseas share subscription and listing of joint stock limited companies.

The Mandatory Provisions in Articles of Association of Joint Stock Limited Companies to be listed Overseas (“Mandatory Provisions”) were promulgated by the former Securities Commission of the State Council and the State Economic System Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provision have been incorporated into the Articles of Association.

General provisions

A “joint stock limited company” (“a company”) is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A company must conduct its business in accordance with law and professional ethics. A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liabilities associated with the debts of the invested enterprises.

Incorporation

A company may be incorporated by promotion or public subscription. A company may be incorporated by two to 200 promoters, provided that at least half of the promoters must reside in the PRC. A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, unless otherwise provided, the promoters are required to subscribe for not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

The Company Law provides that for companies incorporated by way of promotion, its registered capital shall be the total share capital subscribed by all of its promoters as recorded in the company registration authority. No shares shall be offered to any other person before the shares subscribed by the promoters are paid up. Where otherwise provided for in any other laws, administrative regulations and decisions of the State Council in respect of the actual paid-in registered capital and the minimum registered capital for joint stock limited companies, the provisions thereof shall prevail.

Pursuant to the Securities Law of the PRC (the “Securities Law”), the total capital of a company which proposes to apply for its shares to be listed on a stock exchange shall not be less than RMB30 million.

The promoters shall convene an establishment meeting within 30 days after the issued shares have been completely paid up, and shall give notice to all subscribers or make a public announcement of the date of the establishment meeting 15 days prior to the meeting. The establishment meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the establishment meeting include adopting the draft articles of association proposed by the promoters and electing the board of directors and the Board of Supervisors of the company. Any resolution of the meeting shall be approved by subscribers with more than half of the voting rights of those present at the meeting.

Within 30 days after the conclusion of the establishment meeting, the board of directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established and has the qualification of a legal person once the registration has been approved by the relevant administrative bureau for industry and commerce and a business license has been issued.

The promoters of a company shall individually and jointly be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22 April 1993 (which is only application to the issue and trading of shares in the PRC and relevant activities), if a company is incorporated by means of public subscription, the promoters of the company are required to assume joint liability for the accuracy of the contents of this document and to ensure that this document does not contain any misleading statement or omission of any material information.

Share capital

Where a joint stock limited company is established by way of promotion, the promoters shall fully subscribe in writing for the shares and pay the corresponding capital provided for in its articles of association. In the case of capital contributions made by means other than in cash, the promoters shall go through the relevant procedures for the transfer of property rights in accordance with the law.

There is no limit under the Company Law as to the percentage of shares held by an individual shareholder in a company. If capital contribution is made other than in cash by the promoters of the company, valuation of the properties contributed must be carried out and converted into shares.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency.

Pursuant to the Special Regulations and the Mandatory Provisions, overseas listed shares issued to foreign investors and investors from Hong Kong, Macau and Taiwan are defined as overseas-listed-foreign-invested shares, and those issued to investors within the PRC other than the aforementioned areas are defined as domestic shares. Qualified Foreign Institutional Investors (“QFII”) approved by CSRC may hold domestic listed shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Detailed measures shall be specified by the State Council based on the Special Regulations. According to the Special Regulations, upon the approval

of CSRC, a company may agree, in the underwriting agreement on issuing overseas-listed-foreign-invested shares, to retain not more than 15% of the aggregate amount of underwritten shares. The share offering price may be equal to or in excess of par value, but shall not be less than par value. The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council. The transfer of registered shares by a shareholder must be conducted by means of an endorsement or by other means stipulated by laws or by administrative regulations. Bearer shares are transferred by delivery of the H share certificates to the transferee.

No modification registration shall be made to the registrar of shareholders within twenty (20) days prior to the shareholders' meeting being held or within five (5) days prior to the benchmark date set for the purpose of distribution of dividends.

Increase in capital

Pursuant to the Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders at the general meeting. Except for above-mentioned conditions of obtaining approval at the general meeting required by the Company Law, the Securities Law requires the following conditions for a company to offer new shares to the public: (i) a complete and well-operated organization; (ii) capability of making profits continuously and a healthy financial status; (iii) no false records or significant irregularities in its financial statements over the last three years; (iv) fulfill any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council.

The public offer requires the approval of the securities administration authority of the State Council. After payment in full for the new shares issued, a company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

Reduction of share capital

Subject to the minimum registered capital requirement, a company may reduce its registered capital in accordance with the following procedures stipulated by the Company Law:

- the company shall prepare a balance sheet and an inventory of assets;
- the reduction of registered capital must be approved by shareholders in the general meeting;
- the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in newspapers within 30 days once the resolution approving the reduction in capital being passed;

- creditors of the company may require the company to clear its debts or provide guarantees covering the debts within the statutory time limit; and
- the company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of shares

A company may not purchase its own shares other than for one of the following purposes:

- to reduce its registered capital;
- to merge with other companies holding its shares;
- to grant shares as a reward to the staff of the company;
- to purchase the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting; or
- other purposes permitted by laws and administrative regulations.

The shares repurchased by the company as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any fund for the repurchase shall be paid out of after-tax profits of the company, and the shares repurchased shall be transferred to the staff of the company within one year. The Mandatory Provisions stipulate that upon obtaining approvals from relevant supervisory authorities in accordance with the articles of association of the company, a company may, for the aforementioned purposes, repurchase its issued shares by way of a general offer to its shareholders or purchase on a stock exchange or through outside-market contract.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in stock changes established pursuant to laws or by other means as stipulated by the State Council. Registered shares may be transferred by endorsement or in any other manner specified in applicable laws and regulations.

Shares held by the promoter(s) of a company shall not be transferred within one (1) year from the date of incorporation of the company. Shares issued by a company prior to the public offer of its shares shall not be transferred within one (1) year from the date of its shares being listed on a stock exchange. Directors, supervisors and senior management personnel of the company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the company held by each of them within one (1) year from the listing date.

Shareholders

Pursuant to the Company Law and the Mandatory Provisions, a shareholder's rights include:

- the right to transfer his/her shares in accordance with applicable laws and regulations as well as the articles of association;
- the right to attend in person or appoint a representative to attend the shareholders' general meeting and to vote in respect of the amount of shares held;
- the right to inspect the company's articles of association, shareholders' registers, records of short-term debentures, minutes of shareholders' general meeting, board resolutions, supervisor resolutions and financial accounting reports, and to put forward proposals or raise questions on the business operations of the company;
- where a resolution approved by the shareholders' general meeting or by the board of directors violates any law or regulation, or infringes on the shareholders' lawful rights and interests, the right to institute an action in a people's court demanding that the illegal infringing action be stopped;
- the right to obtain surplus assets of the company upon its termination in proportion to shares he/she holds; to claim against other shareholders who abuse their rights of shareholders for the damages;
- the right to receive dividends based on the number of shares held; and
- any other shareholders' rights specified in the articles of association.

The obligations of shareholders include:

- to comply with the articles of association of the company;
- to pay the subscription monies in respect of shares subscribed for;
- be liable for debts and liabilities of the company to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up;
- no abuse of shareholders' rights to damage the interests of the company or other shareholders of the company; no abuse of the independent status of the company as a legal person and its limited liability companies as to damage the interests of the creditors of the company; and
- any other obligation specified in the articles of association of the company.

Shareholders' general meeting

The shareholders' general meeting is the organ of authority of a company, which exercises its functions and powers in accordance with the Company Law. The shareholders' general meeting exercises the following functions and powers:

- to decide on operational policies and investment plans of the company;
- to elect or remove the directors and supervisors who are not representatives of the employees;
- to decide on matters relevant to remuneration of directors and supervisors;
- to review and approve reports of the board of directors;
- to review and approve reports of the board of supervisors or the supervisors;
- to review and approve annual financial budgets and financial accounts proposed by the company;
- to review and approve proposals for profit distribution and for recovery of losses of the company;
- to decide on increase and reduction of the registered capital of the company;
- to decide on bond issuances of the company;
- to decide on merger, division, dissolution and liquidation of the company and other issues;
- to amend the articles of association of the company; and
- other functions and powers specified in the articles of association of the company.

The annual shareholders' general meeting must be convened once a year. An extraordinary shareholders' general meeting shall be held within two months upon the occurrence of any of the following circumstances:

- the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the articles of association of the company;
- the losses of the company which are not made up reach one-third of the total paid-up share capital of the company;
- as requested by a shareholder holding, or shareholders holding in aggregate, 10% or more of the shares of the company;

- when deemed necessary by the board of directors;
- as suggested by the board of supervisors; or
- other matters required by the articles of association.

The shareholders' general meeting shall be convened by the board of directors and shall be presided over by the chairman of the board of directors. The notice to convene the shareholders' general meeting shall be dispatched to all the shareholders 20 days prior to the general meeting pursuant to the Company Law, and 45 days prior to the general meeting pursuant to the Special Regulations and the Mandatory Provisions, stating the matters to be reviewed at the general meeting. Under the Special Regulations and the Mandatory Provisions, shareholders intending to attend are required to send written confirmations of their attendance to the company 20 days before the general meeting.

According to the Special Regulations, at the annual shareholders' general meeting of the company, shareholders with 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be reviewed at the general meeting, which if within the functions and powers of the shareholders' general meeting, are required to be added to the agenda of the general meeting. Shareholders present at the shareholders' general meeting possess one vote for each share they hold. However, the company shall have no vote for any of its own shares the company holds. Resolutions proposed at the shareholders' general meeting shall be approved by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the general meeting, except that such resolutions as to the amendment to the articles of association, increase or reduction of registered capital, merger, splitting, winding-up or the change in the form of the company, shall be approved by shareholders with more than two-thirds of the voting rights cast by shareholders present (including those represented by proxies) at the general meeting.

A shareholder may entrust a proxy to attend a shareholders' general meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorization scope. There is no specific provisions in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or where the 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting, and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class.

Holders of domestic invested shares and holders of overseas-listed-foreign-invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to nineteen members. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. The directors may hold consecutive terms upon re-election.

Meetings of the board of directors shall be convened at least twice a year. A notice of meeting shall be given to all directors and supervisors at least ten days before the meeting.

Under the Company Law, the board of directors exercises the following functions and powers:

- to convene the shareholders' general meeting and report on its work to the shareholders;
- to implement the resolution of the shareholders' general meeting;
- to decide on the company's business plans and investment plans;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's proposals for profit distribution and for recovery of losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- to prepare plans for the merger, division or dissolution of the company;
- to decide on the company's internal management structure;
- to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- other functions and powers as specified in the articles of association.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors could be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Where a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization for another director to attend the meeting on his behalf.

Where a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, where it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not act as a director of a company:

- persons without capacity or restricted capacity to undertake civil liabilities;
- persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- persons who are former directors, factory managers or managers of a company or enterprise that has been bankrupt and has been liquidated due to mismanagement, and those persons are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, and less than three years have elapsed since the date of the revocation of the business license; or
- persons who have a relatively large amount of debt due and outstanding; or other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in Appendix V).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises the following functions and powers (including but not limited to):

- to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- to check on the implementation of the resolutions of the board of directors.

The legal representative of a company, in accordance with the Mandatory Provisions, may be the chairman. The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully

perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in Appendix V) contains further elaborations of such duties.

Supervisor

A joint stock limited company shall establish a board of supervisors comprised of no less than three members. The board of supervisors shall include shareholders' representatives and an appropriate proportion of employee representatives. The proportion of employee representatives shall be specified in the articles of association but in any event shall account for no less than one-third of the supervisors appointed. Employee representatives who serve as members of the board of supervisors shall be democratically elected through the employee representatives' assembly, the employees' assembly or in any other way.

No director or senior management of a company may concurrently act as one of its supervisors.

The Board of Supervisors exercises the following functions and powers:

- to check the financial affairs of the company;
- to supervise the directors and senior management in the performance of their duties, and to put forward proposals on the removal of any director or senior manager who violates laws, administrative regulations, the articles of association or any resolution of the shareholders' meeting;
- to require the director or senior manager to make corrections if his act is detrimental to the interests of the company;
- to propose the convening of extraordinary shareholders' general meetings, and to convene and preside over shareholders' meetings when the board of directors fails to exercise the function of convening and presiding over shareholders' meetings;
- to put forward proposals at shareholders' general meetings;
- to initiate actions against directors or senior management pursuant to Rule 151 of the Company Law; and
- other functions and duties as provided for by the articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply *mutatis mutandis* to supervisors of a company.

Meetings of supervisors shall be held at least once every six months.

Managers and senior management

A company shall have a manager who shall be appointed or removed by the board of directors. The manager reports to the board of directors and may exercise the following powers:

- manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;
- formulate the company's internal rules;
- recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- attend board meetings as a non-voting attendant; and
- other powers conferred by the board of directors or the company's articles of association.

Pursuant to the Company Law, other senior management personnel of a company include the financial officers, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company. The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company.

Duties of directors, supervisors, managers and senior officers

Directors, supervisors, managers and other senior officers of a company are required under the Company Law to abide by the relevant laws, regulations and the company's articles of association, to carry out their duties honestly and protect the interests of the company. Each director, supervisor, manager and senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company unless permitted by the relevant laws and regulations or by the shareholders.

Any directors, supervisors, managers and other senior officers who contravenes any laws, regulations or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

No director or senior management may:

- misappropriate company funds;
- divert company funds into an account held in his own name or in the name of any other individual;
- loan company funds or provide any guaranty to any other person by using company property in violation of the articles of association without first obtaining the consent of the board of shareholders, the general meeting of shareholders or the board of directors;
- become a party to any contract or business dealings with the company in violation of the articles of association without first obtaining the consent of the board of shareholders or the general meeting of shareholders;
- seek business opportunities for himself or for any other person by taking advantage of his position, or operate on his own behalf or on behalf of any other person any business similar in nature to that of the company, without first obtaining the consent of the board of shareholders or the general meeting of shareholders;
- personally accept any commission on any transaction to which the company is a party;
- unlawfully disclose confidential company information; or
- act in any way that is inconsistent with his duty of fidelity to the company. Any income received by any director or senior management in violation of this Article shall be treated as the property of the company.

Finance and accounting

A company shall establish its financial and accounting systems in accordance with the laws, administrative regulations and the regulations of the responsible financial department of the State Council. A company shall prepare a financial report which shall be audited and verified as provided by law at the end of each fiscal year.

A company shall make available its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve (except where such reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profit, subject to a resolution of the shareholders' meeting or the shareholders' general meeting, the company may make an allocation to a discretionary common reserve from the after-tax profits. If the aggregate balance of the company's statutory surplus reserve is not enough to make up for the losses of the company of the previous year, the current year's profits shall first be used for making good the losses before the statutory surplus reserve is set aside according to the provisions of the preceding paragraph.

After the losses have been made up and statutory surplus reserves have been set aside, the remaining profits shall be distributed to shareholders in proportion to the number of shares held by shareholders as in the case of a joint stock limited company, except as otherwise provided in the articles of association.

The capital common reserve of a joint stock limited company is made up of the premium over the nominal value of the shares of the company on issue, and other amounts required by the financial department of the State Council to be treated the capital reserve.

A company's common reserves shall be used to cover losses made in past years, to enhance the company's productivity and expand its business or to increase its registered capital; however a company's capital reserve shall not be used to cover the company's losses. Where the statutory common reserve is converted into capital, the value of the remaining common reserve shall be no less than 25 % of the company's registered capital prior to the conversion.

Appointment and retirement of auditors

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company.

Any proposed appointment or dismissal of an accounting firm as the company's auditor shall be subject to a resolution of the board of shareholders, the general meeting of shareholders or of the board of directors in accordance with the provisions of the articles of association.

Any shareholders' meeting, general meeting of shareholders or board of directors that votes to dismiss any accounting firm as its auditor shall allow the accounting firm to express its own opinions.

A company shall provide the accounting firm appointed as its auditor with accurate and complete accounting books and records, financial and accounting statements, and other accounting documents, and may not refuse to do so or conceal any such accounting records or make any false statement to its auditor.

Profit distribution

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas-listed-foreign-invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies' approval department of the State Council and CSRC. In relation to matters involving the company's registration, the company shall modify its registration with the companies' registration authority.

Dissolution and liquidation

Where any company encounters serious difficulties in its operations or management that will lead to significant losses to the benefits of the shareholder if the company continues its existence and the situation cannot be resolved by any other means, shareholders representing 10% or more of the voting rights of all shareholders may petition the people's court to dissolve the company.

Pursuant to the Company Law, a company may be dissolved where:

- its term of business operation as prescribed in the articles of association expires or any cause of dissolution as prescribed in the articles of association of the company occurs;
- the board of shareholders or the general meeting resolves to dissolve the company;
- dissolution of the company is necessary due to any merger or demerger to which the company is a party;
- its business license is revoked or it is ordered to close down or be dissolved in accordance with the law; or
- in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the People's Court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (1), (2), (4) and (5) above, a liquidation committee must be formed within 15 days from the date of dissolution. Members of the liquidation committee of a limited liability company shall be comprised of personnels confirmed in board meeting or in general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment. A liquidation committee shall, within ten days of its formation, notify the company's creditors of its formation, and shall make a public announcement in a newspaper on the formation of a liquidation committee within 60 days of its formation. Any creditor shall, within 30 days of receipt of a notice or within 45 days of the public announcement in the event that the relevant creditor does not receive a notice, make a claim to the liquidation committee on the debt owed to it/him.

The liquidation committee shall exercise the following functions and powers during the liquidation period:

- handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- notify creditors or issue public notices;
- deal with and settle any outstanding business of the company;
- pay any tax overdue;
- settle the company's financial claims and liabilities;
- handle the surplus assets of the company after its debts have been paid off; and
- represent the company in civil lawsuits.

Where the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the Shareholders of the company in proportion to the number of Shares held by them.

A company shall not engage in operating activities unrelated to the liquidation. If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors with respect to any loss arising from his willful or material default.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the CSRC and the listing must be arranged in accordance with the procedures specified by the State Council.

Loss of H share certificates

A shareholder may apply, in accordance with the relevant provision set out in the PRC Civil Procedure Law, to a people's court in the event that H share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates.

Suspension and termination of listing

Pursuant to the PRC Securities Law, in any of the following circumstances, the relevant stock exchange shall decide to suspend the listing of the relevant stock:

- the market capitalization or share ownership structure, etc. of the company changes, thus causing the company to breach the listing requirements;
- the company fails to make public its financial status as required, or includes any false record in its financial and accounting reports, which may mislead investors;
- the company commits any major illegal activity;
- the company has been operating at a loss for the last 3 consecutive years; or
- any other circumstances prescribed in the listing rules of the stock exchange.

In any of the following circumstances, the relevant stock exchange shall decide to terminate the listing of the relevant stock:

- the market capitalization or share ownership structure, etc. of the company changes, thus causing the company to breach listing requirements, and the company subsequently fails to meet listing requirements within the period of time prescribed by the stock exchange;
- the company fails to make public its financial status as required, or includes any false record in its financial and accounting reports, and refuses to take any remedial steps;
- the company has been operating at a loss for the last 3 consecutive years and fails to make a profit in the following year;
- the company is dissolved or declared bankrupt; and
- any other circumstances prescribed in the listing rules of the stock exchange.

Merger and demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. Where it merges by absorption, the company which is absorbed shall be dissolved. Where it merges by forming a new corporation, both companies will be dissolved.

Securities Law and Regulations and Regulatory Regimes

Since 1992, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Commission and the CSRC were established under the State Council. The Securities Commission is responsible for coordinating the drafting of relevant laws and regulations on securities, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising the CSRC. The CSRC is the regulatory and execution arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities related statistics and conducted research and analysis.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Liability Companies. These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed foreign shares and the disclosure of information of joint stock limited liability companies having domestic listed foreign shares.

On December 29, 1998, the Standing Committee of the NPC promulgated the Securities Law which came into effect on July 1, 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. On 28 August 2004, 27 October 2005 and 29 June 2013, the Securities Law was respectively revised three times. The Securities Law is applicable to the issuance and trading of shares in the PRC, company bonds and other securities designated by the State Council according to law, and provisions of the issuance and transaction of securities, acquisitions of listed companies, stock exchanges, security companies and the duties and responsibilities of securities regulatory authority under the State Council, etc.

Where the Securities Law does not apply, the provisions of the PRC Company Law and other applicable laws and administrative regulations will apply.

Arbitration and enforcement of arbitral awards

The Arbitration Law of the People's Republic of China (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August 1994 and became effective on 1 September 1995, and was amended on 27 August 2009. It is applicable to, among other matters, disputes over contracts and other property rights where all parties have entered into a written agreement to settle disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. Where parties have by agreement stipulated arbitration as the method for dispute settlement, the people's court shall refuse to handle the proceeding.

The GEM Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the GEM Listing Rules, in a contract between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of H shares and the company's directors, supervisors or other management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the CIETAC or the HKIAC. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of HKIAC.

Pursuant to the PRC Arbitration Law, an arbitral award shall be final and binding on the parties involved in the arbitration proceeding. Where any party fails to comply with the award, the other party may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there's any procedural irregularity (including irregularity in the composition of the arbitration committee, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

A party seeking to enforce an arbitral award by a PRC arbitration panel against a party who, or whose property, is not within the territory of PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts pursuant to the principles of the reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC's accession to the Convention, the Standing Committee of the NPC declared that

- the PRC will only recognize and enforce foreign arbitral awards based on the principle of reciprocity; and
- the PRC will only apply the New York Convention to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations.

An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was signed on 18 June 1999, approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. The arrangement reflects the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforced in Hong Kong and awards by Hong Kong arbitral authorities to be enforced in the PRC.

2. HONG KONG LAWS AND REGULATIONS**(1) Summary of Material Differences Between Certain Company Law Matters in the PRC and Hong Kong**

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. Our Company, which is a joint stock limited company established in the PRC, is governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

Set out below is a summary of the material differences between the Hong Kong law applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

(i) *Corporate existence*

Under Hong Kong law, a company having share capital, is incorporated and will acquire an independent corporate existing after the company registrar of Hong Kong issuing a certificate of incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association does not contain such pre-emptive provisions.

Under the Company Law, a company may be incorporated by promotion or public subscription. Unless otherwise required by laws and regulations, there is no minimum registered capital for a company. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

(ii) *Share capital*

Under Hong Kong law, the shares of a Hong Kong company have no nominal value and the directors may, with the prior approval of the shareholders if required, cause the company to issue new shares up to the maximum number (if any) set out in its articles of association. The Company Law does not provide for authorized share capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii) *Restrictions on shareholding and transfer of shares*

Under PRC law, the domestic shares ("domestic shares") in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares ("foreign shares") issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors, except as allowed under 《Tentative Regulatory Measures for Qualified Domestic Institutional Investors Investing in Overseas Securities》(合格境內機構投資者境外證券投資管理試行辦法).

Under the Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law except for the lock-up on the Company's issue of shares and the Controlling Shareholders' disposal of shares as described in the section headed "Underwriting" in this prospectus.

(iv) *Financial assistance for acquisition of shares*

Although the Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) *Variation of class rights*

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are

deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V to this Prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of a Hong Kong company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. Our Company (as required by the GEM Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) our Company issues domestic shares and listed foreign invested shares, separately or simultaneously, once every 12-month period, pursuant to a Shareholders' special resolution, not more than 20% of each of the issued domestic shares and issued overseas listed foreign invested shares existing as at the date of the Shareholders' special resolution; (ii) the plan for the issue of domestic shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) upon approval by CSRC, the shareholders of domestic shares of our Company transfer their shares to overseas investors and such shares are listed and traded in foreign markets.

(vi) ***Directors***

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration made by directors of the interests in material contracts; restrictions on directors' authority in making major dispositions; restrictions on companies providing certain benefits, prohibitions against compensation for loss of office without shareholders' approval. The Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V to this prospectus.

(vii) ***Board of Supervisors***

Under the Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision and inspection of a board of Supervisors but there is no mandatory requirement for the establishment of a board of Supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) *Derivative action by minority shareholders*

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The Company Law gives shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against the directors and supervisors in default.

(ix) *Protection of minorities*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong Government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Company Law provides that where any company encounters any serious difficulty in its operations or management so as that the interests of the shareholders will face serious loss if the company continues to exist and such difficulty cannot be resolved by any other means, the shareholders holding ten percent or more of the voting rights of all the issues shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company.

(x) *Notice of shareholders' meetings*

Under the Company Law, notice of a shareholders' general meeting must be given not less than 20 days before the meeting, or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively. The notice period for an annual general meeting is 21 days.

(xi) *Quorum for shareholders' meetings*

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum.

The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify its shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) *Voting*

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii) *Financial disclosure*

A company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by way of public subscription under the Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet,

auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting. The financial statements of a Hong Kong company must be prepared in accordance with the standards issued or specified by the Hong Kong Institute of Certified Public Accountants. A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) *Information on directors and shareholders*

The Company Law gives the shareholders of a company the right to inspect the Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) *Receiving agent*

Under both the Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xvi) *Corporate reorganization*

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 668 to 674 of the Companies Ordinance which requires the sanction of the court. Under Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

(xvii) *Arbitration of disputes*

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

(xviii) *Mandatory deductions*

Under the Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it declares any dividends after taxation. The company may not require to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has drawn statutory reserve fund from the after-tax profits, it may, upon a resolution made by the shareholders, draw a discretionary reserve fund from the after-tax profits. There are no such requirements under Hong Kong law.

(xix) *Remedies of a company*

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) have been in compliance with the GEM Listing Rules.

(xx) *Dividends*

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

(xxi) *Fiduciary duties*

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(xxii) *Closure of register of shareholders*

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(2) The GEM Listing Rules

The GEM Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company:

(i) *Compliance Advisor*

A company seeking listing on the Stock Exchange is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its second full year's financial results, to provide the company with professional advice on continuous compliance with the GEM Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the GEM Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

(ii) *Accountants' report*

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises.

(iii) *Process agent*

The company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) *Public shareholdings*

If at any time there are existing issued securities of a PRC issuer other than foreign shares (“foreign shares”) which are listed on the Stock Exchange, the GEM Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK\$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the company has an expected market capitalization at the time of listing of over HK\$10,000,000,000.

(v) *Independent non-executive directors and supervisors*

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) *Restrictions on purchase and subscription of its own securities*

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H shares on the Stock Exchange in accordance with the provisions of the GEM Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the Company.

(vii) *Mandatory provisions*

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V to this prospectus.

(viii) *Redeemable shares*

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

(ix) *Pre-emptive rights*

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Company's articles of association, prior to (1) authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the Company making any such authorization, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as at the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC; or where upon approval by securities supervision or administration authorities of State Counsel, the shareholders of domestic invested shares of the Company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

(x) *Supervisors*

Our Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code issued by the Stock Exchange.

Our Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires our Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year.

The remuneration and assessment committee of our Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and our Shareholders as a whole and advise our Shareholders on how to vote.

(xi) *Amendment to the Articles of Association*

Our Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the GEM Listing Rules and the Mandatory Provisions or the Company Law.

(xii) Documents for inspection

Our Company is required to make available at a place in Hong Kong for inspection by the public and its shareholders free of charge, and for copying by shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- our Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of our Company;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last certificates year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return led with the State Administration of Industry and Commerce of the PRC; and
- for shareholders only, copies of minutes of meetings of shareholders.

(xiii) Receiving agents

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in H share certificates

Our Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with our Company and each shareholder of our Company, and our Company agrees with each shareholder of our Company, to observe and comply with the Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;

- agrees with our Company, each shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with our Company and each shareholder of our Company that the H Shares are freely transferable by the holder thereof; and
- authorizes our Company to enter into a contract on his behalf with each Director, Supervisor, manager and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

(xv) *Compliance with the Company Law, the Special Regulations and the Articles of Association*

Our Company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

(xvi) *Contract between the Company and its Directors, officers and Supervisors*

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to our Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Takeovers Code and an agreement that our Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to our Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant law and administrative regulations concerning the affairs of the Company between our Company and our Directors or officers and between a holder of H Shares and a Director or officer of our Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto; the agreement to arbitrate is made by the Director or offer with our Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(xvii) *Subsequent listing*

Our Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

(xviii) *English translation*

All notices or other documents required under the GEM Listing Rules to be sent by our Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(xix) *General*

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the GEM Listing Rules to impose additional requirements and make special conditions in respect of our Company's listing.

(3) Other Legal and Regulatory Provisions

Upon our Company's listing, the provisions of the SFO, the Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to our Company.

(4) Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and China Taiwan.

(5) PRC Legal Matter

Our PRC Legal Advisers, have sent to us a legal opinion confirming that it has reviewed the summaries of relevant PRC laws and regulations as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. This letter is available for inspection as referred to in “Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection”. Any person wishing to have detailed advice on PRC law and the laws of any jurisdictions is recommended to seek independent legal advice.

This Appendix contains a summary of the principal provisions of the Articles of Association, which was adopted by our Shareholders in the Shareholders' general meeting held on 11 July 2016. The principal objective of this Appendix is to provide an overview of the Articles of Association. As the information contained below is a summary form, it does not contain all the information that may be important.

The Articles of Association and relevant amendments thereto were adopted or authorized by the Shareholders in Shareholders' general meetings in accordance with applicable laws and regulations, including the PRC Company Law, the Securities Law of the PRC, the Special Provisions of the State Council on Stock Raising and Listing Overseas by Limited Stock Companies, the Essential Clauses in Articles of Association of Companies Listed Overseas, the Guidance on Articles of Association Listed Company and the GEM Listing Rules, and will be effective on the Listing Date.

1. DIRECTORS AND BOARD OF DIRECTORS

(1) Power to Allocate and Issue Shares

The Articles of Association does not contain clauses that empower the Board of Directors to allocate or issue shares.

Any kind of share issue shall be subject to approval by our Shareholders at the Shareholders' general meetings in the form of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws and administrative regulations.

(2) Power to Dispose of the Assets of our Company or Assets of any of our Subsidiaries

Where the sum of the expected value of the fixed assets to be disposed of, together with the amount or value of the cost received from the disposed fixed assets of our Company within the immediately preceding four months of this proposal for disposal exceeds 33% of the value of fixed assets of our Company indicated on the latest audited balance sheet submitted to our Shareholders at the Shareholders' meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of Shareholders at the Shareholders' general meeting.

The above-mentioned disposal refers to the transfer of rights and interests in certain cases but does not include the provision of fixed assets as security.

The validity of a transaction for the disposal of fixed assets by our Company shall not be affected by the violation of the above-mentioned restriction contained in the Articles of Association.

(3) Compensation or Payment for Loss of Office

As stipulated in the contracts entered into between our Company and the Directors or the Supervisors regarding their emoluments, the Directors and Supervisors are entitled to, subject to the prior approval of our Shareholders at the Shareholders' general meeting, compensation or payment due to loss of office or retirement resulting from the acquisition of our Company.

The aforesaid acquisition of our company refers to any of the following circumstances:

- An offer is made by any person to all of our Shareholders;
- An offer is made by any person with a view that the offeror will become a controlling shareholder of our Company as defined in the Articles of Association.

Where the relevant Directors or Supervisors fail to comply with the above requirements, any sum received by them shall belong to those people who have sold their Shares as an acceptance of such offer. All related expenses shall not be deducted from the distributed payments which shall be borne by the Directors or Supervisors on pro rata basis.

(4) Loans or Guarantees to Directors

Our Company shall not, directly or indirectly, provide any loans or guarantees to the directors, supervisors, general manager and other senior management of our Company or of any parent company, nor to any persons related with the above personnel.

Circumstances below are not subject to the above-mentioned prohibition:

- (i) provision of a loan or loan guarantees by our Company to its subsidiary;
- (ii) the provision by our Company of loan, guarantee or other funds to its Directors, Supervisors, general manager and other senior management officer to meet expenditure incurred or to be incurred by him for the purposes of our Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the Shareholders in a general meeting; and
- (iii) where the ordinary scope of our Company's business includes the provision of loans or loan guarantees, our Company may provide loans or loan guarantees to any of the Director, Supervisor, general manager, a senior management or their related personnel, provided that the terms of the loan or the loan guarantees shall be normal commercial terms.

Loans made by our Company in violation of the above prohibitions shall be forthwith repayable by the recipient of the loans regardless of the terms of the loans.

Any loan guarantee provided by our Company in breach of above prohibition in the Articles of Association shall be unenforceable against our Company, unless under the following circumstances:

- (i) the loan provider, at the time of the provision, unknowingly provides loans to personnel related to the Directors, Supervisors, general manager and other senior management of our Company or its parent company; and
- (ii) the collateral provided by our Company has been sold legitimately by the lender to the buyer in good faith.

For the purpose of the above provisions, a guarantee includes acts where a guarantor undertaking the liabilities or providing properties to ensure that the obligor performs the obligations.

Where a Director, Supervisor, general manager or other senior management officer is in breach of his/her obligations to our Company, our Company shall, apart from the various rights and remedies provided by laws and administrative regulations, be entitled to take the following measures:

- (i) to request the relevant Director, Supervisor, general manager or the senior management to pay damages for the loss of our Company as a result of his/her negligence;
- (ii) to rescind any contract or transaction entered into between our Company and the relevant Director, Supervisor, general manager or other senior management officer, and any contract or transaction entered into between our Company and a third party (if such third party knows or should have known that such Director, Supervisor, general manager or other senior management officer representing our Company is in breach of his/her obligations to our Company);
- (iii) to demand the relevant Director, Supervisor, general manager or other senior management account for the profits obtained as a result of the breach of his/her obligations;
- (iv) to recover from the relevant Director, Supervisor, general manager or other senior management the monies which should have been received by our Company including, but not limited to, commissions; and
- (v) to request the relevant Director, Supervisor, general manager or other senior management to return the interest earned or may have earned from the funds which should have been paid to our Company.

(5) Financial Assistance for Purchasing Shares of our Company

Our Company shall not by any means at any time provide financial assistance to a person who acquires or proposes to acquire Shares in our Company. The said person includes anyone who has directly or indirectly incurred any liability as a result of the acquisition of Shares in our Company.

Our Company shall not by any means at any time provide financial assistance to a person mentioned in the foregoing paragraph for the purposes of reducing or discharging his liabilities.

The following acts shall not be deemed to be acts prohibited by the above:

- (i) the provision of the financial assistance by our Company which is in good faith and in the interests of our Company, and the principal purpose of the financial assistance is not to acquire our Company's shares or is an incidental part of the overall plan of our Company;
- (ii) the lawful distribution of our Company's assets by way of dividend;
- (iii) distribution of dividends in the form of Shares;
- (iv) reduction of our Company's registered capital, repurchase of Shares or reorganization of the shareholding structure in accordance with the Articles of Association;

- (v) the provision of loans by our Company within our scope of business and in the ordinary course of business, provided that the net assets of our Company shall not be thus reduced; or to the extent that those assets are thereby reduced, the financial assistance is provided out of the distributable profits of our Company; and
- (vi) the provision of money by our Company for contributing to the employees' stock ownership plan, provided that our Company's net assets are not thereby reduced or to the extent that those assets are thereby reduced, the financial assistance is provided out of the distributable profits of our Company.

(6) Disclosure of Interests in Contracts with our Company or any of our Subsidiaries

Where any of the Director, Supervisor, general manager or other senior management officer of our Company is in any way, directly or indirectly, materially interested in an existing contract, transaction or arrangement or proposed contract, transaction or arrangement with our Company (other than the employment contracts our Company entered into with its Directors, Supervisors, Manager and other senior management officers), the above personnel shall disclose the nature and extent of his interests to the Board of Directors at the earliest opportunity, whether or not such contract, transaction or arrangement or proposal is otherwise subject to the approval of the Board of Directors under normal circumstances.

Unless the interested Director, Supervisor, general manager and other senior management of our Company discloses his/her interests to the Board in light of the aforesaid provisions and the interested Director, Supervisor, general manager and other senior management is not counted in the quorum and refrains from voting, our Company is entitled to rescind the contracts, transactions or arrangements, except as against a party in good faith thereto acting without notice of the breach of such duties by the Directors, Supervisors, general manager or other senior management officer.

A Director, Supervisor, Manager or other senior management officer of our Company is deemed to be interested in a contract, transaction or arrangement in which his/her affiliate is interested.

Where a Director, Supervisor, Manager or other senior management of our Company notifies the Board in writing that, by reason of the facts specified in the notice, he/she is interested in contracts, transactions or arrangements, which may subsequently be entered into by our Company, then within the content stated in the notice he/she shall be deemed to have made a disclosure in accordance with the relevant provisions in the Articles of Association.

(7) Remuneration

Our Company shall enter into written agreements with our Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the general Shareholder's meeting. The said remuneration matters include:

- (i) remuneration as the Directors or Supervisors of our Company;
- (ii) remuneration as the Directors, Supervisors of the subsidiaries of our Company;

- (iii) remuneration for providing other services for management of our Company and its subsidiaries; and
- (iv) compensation received by the Directors or Supervisors as a result of loss of office or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided in the above-mentioned contracts.

(8) Resignation, Appointment and Removal

The following persons shall not serve as Directors, Supervisors, general managers or other senior management personnel of our Company:

- (i) Anyone who has no civil capacity or has restricted civil capacity;
- (ii) Persons who have been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or have been deprived of political rights and is within five years of the expiry date of punishment;
- (iii) persons who served as directors, factory manager or managers of a company or enterprise which has become insolvent and has been liquidated and were personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise whose business license was revoked and was ordered to close down due to a violation of the law and who were personally liable, where less than three years have elapsed since the date of the revocation of such business license;
- (v) persons who have failed to pay a relatively large debt when due and outstanding;
- (vi) persons who have committed criminal offences and are still under investigation by judicial authorities;
- (vii) persons who are not allowed to be heads of enterprises as stipulated by laws and administrative regulations;
- (viii) persons who are not natural persons; and
- (ix) persons who have been convicted of offences of violating provisions of the relevant securities laws and regulations involving offences of fraud or acting in bad faith by the relevant authority, where less than five years have elapsed since the date of conviction.

The Board of Directors shall be elected by our Shareholders at the Shareholders' general meeting with a term of office of three years. Directors are eligible for re-election upon expiry of their terms of office.

The Shareholders' general meeting shall not remove the directors from their duties without justifiable grounds. Independent directors may be elected by our Company upon needs, and shall be elected by Shareholders at the Shareholders' general meetings, with candidates nominated by the Shareholder(s) holding more than 1% of the issued Shares of our Company. The office term of an independent director is the same as a director and is entitled for re-election upon expiry of their terms of office, while the successive terms of office of independent directors shall not exceed six years. The Shareholders' general meeting may, in accordance with relevant laws and regulations, remove any directors prior to the expiry of their office terms by ordinary resolution (while the claims of loss based on any contracts are not impacted).

Provided that relevant laws and administrative regulations in the place our Company listed have been complied with, where the Board appoints a new director to fill the temporary vacancy of the Board, the office term of such new director shall come to the end when the next Shareholders' general meeting is convened, while such director is qualified to be re-elected and re-appointed. Where the Board appoints new directors to increase the number of directors, the office terms of such new directors shall come to the end when the next Shareholders' annual general meeting is convened, while such directors are qualified to be re-elected and re-appointed.

Written notices concerning proposed nomination of director candidate and indication of the candidate's intention to accept the nomination shall be sent to our Company no later than seven days prior to the date of the Shareholder's general meeting. The seven-day notice period shall commence no earlier than the day immediately following the date of dispatch of the notice of Shareholder's general meeting concerning the election of Directors and shall end no later than the day falling seven days prior to the date of the Shareholder's general meeting.

The chairman and vice-chairman of the Board shall be elected and removed by more than half of all of the Directors. The office terms of the chairman and vice-chairman shall be three years and they are eligible for re-election upon expiry of their terms of office.

The Directors need not to hold the Shares of our Company.

(9) Borrowing Powers

Subject to compliance with the laws and administrative regulations of the PRC, our Company is entitled to raise capital and borrow money, including (without limitation to) the issue of bonds, the mortgaging or pledging of part or whole of our Company's properties and other rights permitted by the laws and administrative regulations of the PRC provided that such action does not damage or abrogate rights of any Shareholder. The Articles of Association do not contain any special provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any special provision in respect of the manner in which such power may be raised, other than: (a) provisions which give the Directors the power to formulate proposals for the issuance of debentures by our Company; and (b) provisions which provide that the issuance of debentures must be approved by our Shareholders in a general meeting by way of a special resolution.

2. ALTERNATIONS TO CONSTITUTIONAL DOCUMENTS

The amendments to the Articles of Association shall be submitted to the competent authorities for approval, if the examination and approval of the competent authorities is necessary; should the registration of the Company be involved, the change to registration shall be handled according to laws.

3. VARIATIONS OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Any Shareholder who holds different classes of Shares is a classified Shareholder.

Any plan of our Company to change or abolish the rights of a classified Shareholder is subject to the approval of the Shareholders' general meeting by a special resolution and the approval of a separate general meeting as convened by the affected classified Shareholder in accordance with the requirements contained in the Articles of Association. The quorum of this classified Shareholders' meeting must be the number of Shareholders holding at least half of the issued shares of such class.

The following circumstances shall be deemed to be a variation or abrogation of the rights of a classified Shareholder:

- (i) to increase or decrease the number of classified Shares, or to increase or decrease the number of classified Shares having voting or equity rights or any other privileges equal or superior to those of the Shares of such class;
- (ii) to convert all or part of the classified Shares into other types or convert all or part of another type of Shares into this type of classified Shares or grant such conversion right;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to classified Shares;
- (iv) to reduce or remove a dividend preference or a liquidation preference attached to classified Shares;
- (v) to remove or reduce conversions, options, voting rights, right of transferring or pre-emptive rights, or rights to obtain securities of our Company;
- (vi) to remove or reduce rights to receive payment payable by our Company in certain currencies attached to classified Shares;
- (vii) to create a new class of Shares having voting or equity rights or privileges equal or superior than those of the classified Shares;
- (viii) to restrict the transfer of ownership of the classified Shares or increase such restriction;
- (ix) to issue subscription or conversion rights for this or other classified Shares;

- (x) to increase the rights and privileges of other types of Shares;
- (xi) to restructure our Company where the proposed restructuring will result in assumption of responsibility by different classes of Shareholders disproportionately; and
- (xii) to vary or abrogate provisions as stipulated in the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at Shareholders' general meetings, shall be entitled to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but interested Shareholder(s) shall not be entitled to vote at class meetings.

The "interested Shareholder(s)" mentioned above shall mean:

- (i) in the case of a repurchase of Shares by offers to all Shareholders pro rata in accordance with the Articles of Associations, or public dealing on a stock exchange, an "interested Shareholder" means a "controlling shareholder" as stipulated in the Articles of Association;
- (ii) in the case of a repurchase of Shares by an off-market agreement in accordance with the Articles of Associations, an "interested shareholder" means a holder of the Shares to which the proposed agreement relates; and
- (iii) in the case of a restructuring of our Company, an "interested Shareholder" means a Shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring plan or who has an interest different from the interest of Shareholders of that class.

Resolution of a class meeting shall be passed by votes of more than two-thirds of Shareholders attending the relevant meeting with voting rights at such meeting.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the Shareholders holding Shares of the class of the matters proposed to be considered at the meeting and the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver a written reply confirming attendance at the class meeting to our Company 20 days prior to the date of the meeting.

Where the number of Shares carrying voting rights at the meeting represented by the Shareholders who intend to attend the meeting reaches more than half of the voting shares of such class carrying voting rights at the meeting, our Company may hold the class meeting; if not, our Company shall notify our Shareholders of such class again by public notice, of the matters to be considered at the meeting and the date and place for the class meeting within five days. Our Company may convene the class meeting after publication of such notice.

Notice of class meetings needs only be served to Shareholders who are entitled to vote at the meetings.

Meetings of any class of Shareholders shall be conducted in a similar way as possible to the provisions for general meetings of Shareholders set out in the Articles of Association.

The special procedures for voting by classified Shareholders shall not be applicable under the following circumstances:

- (i) upon the approval by a special resolution at the general Shareholders' general meeting, our Company either separately or concurrently issues Domestic Shares and overseas listed foreign Shares every 12 months, and the number of Shares of each class to be issued shall not account for more than 20% of the outstanding Shares of such class;
- (ii) the issuance of Share of such class which is a part of the plan to issue Domestic Shares and overseas-listed foreign Shares upon the establishment of our Company, and which is completed within 15 months of the date of approval by CSRC or other qualified securities regulatory authorities under the State Council; and
- (iii) the unlisted Shares held by the Shareholders became listed or traded on an overseas stock exchange, as approved by the securities regulatory authorities of the State Council.

4. ORDINARY AND SPECIAL RESOLUTIONS — MAJORITY REQUIRED

Resolutions of the Shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution by a shareholders' general meeting, more than half of the votes represented by the Shareholders (including proxies of Shareholders) present at the meeting shall be exercised in favor of the resolution. To adopt a special resolution by a Shareholders' general meeting, more than two-thirds of the votes represented by the Shareholders (including proxies of shareholders) present at the meeting shall be exercised in favor of the resolution.

5. VOTING RIGHTS (GENERAL RIGHT ON A POLL AND RIGHT TO DEMAND A POLL)

The ordinary Shareholders of our Company have the right to attend or appoint a proxy to attend Shareholders' general meetings and to vote at the meeting.

A Shareholder (including a proxy) when voting at a general meeting may exercise voting rights in accordance with the number of Shares with voting power he represents. Each Share representing one vote.

On a poll taken at a meeting, a Shareholder (including a proxy) entitled to two or more votes needs not cast all his/her votes in the same way. In the event when the number of dissenting votes equals the number of affirmative votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to one additional vote.

6. ANNUAL GENERAL MEETING REQUIREMENTS

A shareholders' general meeting shall either be an annual general meeting or an extraordinary general meeting. Annual general meetings are held once every year and within six months from the end of the preceding fiscal year.

7. ACCOUNTING AND AUDITS**(1) Financial and Accounting Policies**

The financial and accounting system of our Company shall be established in accordance with the laws, administrative regulations and PRC accounting standards developed by the competent department in charge of finance under the State Council.

The Board of Directors of our Company shall submit the financial reports at every annual general Shareholder's meeting as required by the applicable laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company.

Our Company shall make its financial reports available for inspection by our Shareholders 20 days prior to the annual general meeting is convened. Each Shareholder is entitled to obtain one copy of the financial report.

Our Company's financial reports which include the annual accounts and the auditor's reports shall, at least 21 days before the date of convening the annual general meeting and within 4 months after the end of relevant financial year, be delivered by prepaid mail to the registered address of every holder of Overseas Listed Shares.

The financial statements of our Company shall, in addition to complying with PRC accounting standards, rules and regulations, be prepared in accordance with either international accounting standards or that of the overseas area in which our Company's Shares are listed. Where there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the notes to the financial statements. When our Company is to distribute its after-tax profits of the relevant financial year, the lower of the after-tax profits as shown in the two financial statements prepared in accordance with (i) PRC accounting standards, rules and regulations; or (ii) international accounting standards or that of the overseas area in which our Company's Shares are listed shall be adopted.

Any interim results or financial information published or disclosed by our Company shall also be prepared and presented in accordance with PRC accounting standards and regulations as well as either International Financial Reporting Standards or that of the overseas place in which our Company's shares are listed.

Our Company shall publish its interim results announcement within 60 days after the expiration of the first six months of each financial year and the annual results announcement within 120 days after the expiration of each financial year.

Our Company shall not keep any other books of accounts other than those stipulated by law.

(2) Appointment and Removal of Accountants

Our Company shall appoint an independent qualified accounting firm that meets appropriate requirements of the state to be responsible for auditing its annual report and reviewing its other financial reports.

The first accounting firm of our Company may be appointed by the inaugural meeting of our Company prior to the first annual general Shareholders' meeting and the accounting firm so appointed shall hold office until the conclusion of the first annual Shareholders' general meeting. Where the inaugural meeting fails to perform this duty, it shall be performed by the Board instead.

Our Shareholders in general meeting may, by ordinary resolution, remove an accounting firm before the expiration of its office term, notwithstanding the stipulations in the contract between the firm and our Company, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration or the manner in which to be determined of an accounting firm shall be determined by the general meeting. The remuneration of an accounting firm appointed by the Board shall be determined by the Board.

Decisions on matters relating to the appointment, removal or non-reappointment of an accounting firm shall be made at shareholders' meetings and such decisions shall be reported to the competent securities department under the State Council for the record.

Where the general meeting of shareholders proposes to retain an accounting firm not currently retained to fill in any vacancy in relation to the accounting firm, or re-retain an accounting firm retained by the board of directors to fill in any vacancy, or remove an accounting firm the tenure of which has not expired by means of resolution, the following provisions shall be met:

- (i) Proposal in relation to appointment or removal prior to the issuance of notice of the general meeting of shareholders shall be sent to the accounting firm proposed to be retained or removed or that has been removed from office in relevant accounting year. Removal from office includes being fired, resignation and leaving office.
- (ii) Where the accounting firm that is about to leave office makes any written representation and demands the company to notify the same to the shareholder, then the company shall take the following measures unless the receipt of the same is too late:
 - state on the notice issued for making resolution that the accounting firm about to leave office has made representation; and
 - send the representation copy as an appendix to the notice to the shareholders by means of articles of association.
- (iii) Where the company fails to send out the relevant representation of the accounting firm stipulated in Paragraph 2 hereof, the accounting firm concerned may demand such representation to be read at the general meeting of shareholders and may further appeal.

(iv) The accounting firm that has left office may attend the following meetings:

- general meeting of shareholders at which its tenure will expire;
- general meeting of shareholders for filling the vacancy due to its being fired; and
- general meeting of shareholders convened due to its proactive resignation.

The accounting firm that has left office is entitled to receive all notice of the said meetings or other information with respect thereto, and speak at the said meetings with respect to matters concerning its being the former accounting firm of the company.

The accounting firm may resign by placing a written resignation notice at our Company's legal address. The notice shall take effect on the date of delivery to that address or any such later date as may be specified in the notice. Such notice shall contain any one of the following statements:

- (i) a statement to the effect that there are no circumstances relevant with its resignation which it considers should be brought to the notice of Shareholders or creditors of our Company;
- (ii) a statement of any circumstances that should be disclosed.

Our Company shall, within 14 days upon receipt of the written notice referred to in the preceding paragraph, send a copy of the notice to the relevant competent authorities. If the notice contains a statement referred to in the second item of the preceding paragraph, a copy thereof shall be deposited at our Company for reference of our Shareholders, and such copy shall also be delivered to holders of overseas listed foreign shares by postage-prepaid mail with recipients' addresses as shown in the share register.

Where the notice of resignation of the accounting firm contains a statement relevant with item (ii) in the above paragraph, it may request the Board to convene an extraordinary general meeting for the purpose of giving an explanation of the circumstances referred to in the said notice.

8. NOTICE OF MEETING AND BUSINESS TO BE CONDUCTED THEREAT

The Shareholders' general meeting is the organ of authority of our Company and its functions and powers shall be exercised in accordance with the law.

Without the prior approval of shareholders in general meeting, our Company shall not enter into any contract with any person other than a Director, Supervisor, general manager or senior management whereby such person is entrusted with the management of the whole or a material part of any business of our Company.

A Shareholders' general meeting is divided into an annual general meeting or an extraordinary general meeting. Annual general meetings are held once every year within six months after the end of a fiscal year. An extraordinary general meeting shall be held when necessary. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- (i) when the number of Directors is less than the number of Directors required by the PRC Company Law or two-thirds of the number of Directors stipulated in the Articles of Association;
- (ii) when the unrecovered losses of our Company amount to one-third of its share capital;
- (iii) when Shareholder(s) individually or collectively holding 10% or more of the outstanding Shares of our Company carrying voting rights request so in writing;
- (iv) when the Board of Directors considers necessary or upon the request of the Board of Supervisors; and
- (v) any other circumstances stipulated in the laws, administrative regulations, regulations of the competent authorities, the GEM Listing Rules or the Articles of Association.

Where our Company convenes a Shareholders' general meeting, it shall give written notices 45 days prior to the date of the meeting, informing all registered Shareholders of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders who intend to attend the meeting shall return the written replies of attendance to the Company 20 days before the date of the meeting.

Where our Company convenes a Shareholders' annual general meeting, the Shareholders who individually or collectively hold more than 3% or more of the total voting shares of our Company shall have the right to propose new motions, and shall propose and submit extraordinary motions to the Board of Directors 10 days before the meeting in writing. The Board of Directors shall notify other shareholders 2 days upon receipt of such motions and shall submit such extraordinary motions to the Shareholders' general meeting for approval. Our Company shall place matters in the proposed motions within the scope of functions and powers of the Shareholders' general meeting on the agenda.

Our Company shall, based on the written replies received 20 days before the date of the Shareholders' general meeting, calculate the number of voting Shares represented by Shareholders who intend to attend the meeting. Where the number of voting shares represented by the Shareholders who intend to attend the meeting reaches more than half of our Company's total voting shares, our Company may hold the meeting. If not, then our Company shall notify the Shareholders again by public notice of the matters proposed to be considered, within five days, the place and the date for the meeting. Our Company may hold the meeting after the publication of such notice.

An extraordinary general meeting shall not determine matters not specified in the notice.

Notice of a Shareholders' general meeting shall meet the requirements as below:

- (i) be given in writing;
- (ii) specify the place, date and time of the meeting;
- (iii) state the matters to be discussed at the meeting;
- (iv) provide such information and explanation as necessary for our Shareholders to make an informed decision on the matters to be discussed. This principle includes but not limited to that, in case of proposals made to amalgamate our Company with another, to repurchase Shares of our Company, to restructure its share capital, or otherwise, the details of the agreed terms of, and the contract (if any) for the proposed transaction must be provided, and the reason for and the consequences thereof must be properly explained;
- (v) contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, Manager or other senior management officer in the transaction proposed and the effect of the proposed transaction on such Director, Supervisor, Manager or other senior executive officer in their capacity as Shareholders in so far as it is different from the effect on the interests of the Shareholders of the same class;
- (vi) contain the full text of any special resolution proposed to be proposed for adoption at the meeting;
- (vii) contain a clear statement that a Shareholder entitled to attend and vote at the meeting shall be entitled to appoint one or more proxies to attend such meeting and to vote on his or her behalf and that such proxy may not necessarily be a Shareholder; and
- (viii) specify the time and place for lodging proxy form(s) for the meeting.

Notice of Shareholders' general meeting shall be served on our Shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to their addresses as shown in the register of Shareholders. Shareholders of domestic shares may also be notified by public announcement. The public announcement shall be published in one or more newspapers designated by the CSRC between 45 days and 50 days before the date of the meeting. After the publication of such announcement, Shareholders shall be deemed to have received the notice of the relevant Shareholders' general meeting.

The following matters shall be adopted by the Shareholders' general meeting through ordinary resolutions:

- (i) work reports of the Board of Directors and the Board of Supervisors;
- (ii) plans formulated by the Board of Directors for the distribution of profits and for making up losses;

- (iii) Removal of members of the Board of Directors and members of Board of Supervisors and their remuneration and manner of payment thereof;
- (iv) annual preliminary and final budgets, balance sheets, income and other financial statements of our Company; and
- (v) matters other than those required by the laws, administrative regulations or the Articles of Association to be approved by special resolutions.

The following matters shall be resolved by a special resolution at the Shareholders' general meeting:

- (i) the increase or decrease in our Company's share capital, and issue of shares of any class, warrants and other similar securities;
- (ii) the issue of debentures of our Company;
- (iii) division, merger, dissolution and liquidation of our Company and any change in the form of our Company;
- (iv) amendments to the Articles of Association;
- (v) matters relating purchase and sale of major assets and guaranteed amount which exceeds 30% of the latest audited total assets of our Company within a year; and
- (vi) any other matters decided by the Shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on our Company and should be adopted by a special resolution.

9. TRANSFER OF SHARES

All fully paid up overseas listed foreign shares listed in Hong Kong shall be exempted from any restriction on the right of transfer (except when permitted by the Hong Kong Stock Exchange) and shall also be exempted from all lien pursuant to the Articles of Association.

However, unless the overseas listed foreign shares listed in Hong Kong meet the following conditions, the Board of Director may refuse to recognise any transfer document without giving any reason:

- (a) Any instrument of transfer or other documents which are related to or will affect the ownership of Shares shall be subject to registration, and a fee thereupon shall be paid to the Company at a rate to be stipulated by the Listing Rules;
- (b) The transfer documents only involve overseas listed foreign shares listed in Hong Kong;
- (c) The stamp duty chargeable on the transfer documents has been paid and this has been registered in accordance with the regulations of the Hong Kong Stock Exchange;

- (d) The relevant Share certificate, and upon the reasonable request of the Board of Directors, any evidence in relation to the right of the transferor to transfer the Shares has been submitted;
- (e) If the Shares are to be transferred to joint holders, the number of the joint holders shall not exceed four;
- (f) Our Company does not have any lien on the relevant Shares; and
- (g) No shares shall be transferred to minors, mentally disabled persons or any persons without legal capacity.

No change shall be made to the information in the register of Shareholders as a result of the share transfer within 30 days before the shareholders' general meeting is convened or within five days prior to the record date on which our Company has decided to distribute dividends.

10. RIGHTS OF OUR COMPANY TO PURCHASE ITS OWN SHARES

Our Company may reduce its registered share capital in accordance with the provisions of the Articles of Association. Our Company may, with approval according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (i) cancellation of Shares for the reduction of our Company's capital;
- (ii) merger with another company which holds our Company's Shares;
- (iii) providing Shares as bonus to our Company's employees;
- (iv) requests from our Shareholders who demand our Company to buy back their shares due to dissents to the resolution of merger or dissolution of our Company adopted by the Shareholders' general meeting; and
- (v) other circumstances permitted by laws and administrative regulations.

In the event our Company buys back its Shares for reasons stated in (i) to (iii) of the preceding paragraph, related resolutions must be adopted at the Shareholders' general meeting. Where our Company buys back the Shares according to the provisions of the preceding paragraph under the circumstances set forth in (i), the Shares bought back must be cancelled within ten days of the date on which they are bought back. In the event of the circumstances set forth in (ii) and (iv), the Shares bought back must be transferred or cancelled within six months.

In the event that our Company buys back the Shares pursuant to the provisions of (iii) in the preceding paragraph, the Shares bought back must not exceed 5% of the total issued Shares of our Company. The fund used for such buyback must be allocated from the after-tax profit of our Company and the Shares bought back must be transferred to the employees within one year.

Our Company may, subject to the approval of the competent authorities, repurchase its Shares in any of the following ways:

- (i) making a pro-rata offer of repurchase to all its shareholders;
- (ii) repurchasing Shares through public trading on a stock exchange; and
- (iii) repurchasing Shares by an off-market agreement.

Where our Company repurchases its shares by an off-market agreement, the prior approval by our Shareholders at general meeting shall be obtained in accordance with the Articles of Association. Our Company may, upon the prior approval of the Shareholders' general meeting obtained in the same manner, revoke or alter a contract so entered into by our Company mentioned above, or waive any of its rights under such contract.

A contract to repurchase Shares includes (without limitation to) an agreement to become obliged to repurchase or an acquisition of the right to repurchase Shares. Our Company shall not assign any contract to repurchase Shares or any of its rights specified under such contract.

Unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- (i) Where our Company repurchases its Shares at par value, payment shall be made out of book surplus distributable profits of our Company, or out of proceeds of a new issue of Shares made for that purpose;
- (ii) Where our Company repurchases its Shares at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profits of our Company, or out of the proceeds of a new issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
 - Where the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of our Company;
 - Where the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of our Company, and out of the proceeds of a new issue of Shares made for that purpose, provided that the amount paid out of proceeds of the new issue shall neither exceed the aggregate premiums received by our Company on the issue of the Shares being repurchased nor the amount in the capital reserve account when the repurchase take place (including the premiums on the new issue).

(iii) Payment by our Company for the following purposes shall be made within our Company's distributable profits:

- acquisition of rights to repurchase the Shares;
- variation of any contract to repurchase the Shares;
- release of any of our Company's liabilities under a contract to repurchase the Shares;

(iv) After the total par value of the cancelled Shares is deducted from the registered capital pursuant to the relevant provisions, the amount deducted from the distributable profits for payment of the par value portion of the Shares repurchased shall be credited to our Company's capital reserve account.

11. DIVIDENDS AND OTHER METHODS OF DISTRIBUTION

Our Company may distribute dividends in the following manners:

- (i) Cash;
- (ii) Shares.

Our Company shall appoint receiving agents for holders of overseas listed Shares. Such agents shall receive on behalf of such Shareholders dividends and other monies payable by our Company in respect of their Shares. The receiving agents appointed by our Company shall comply with the requirements of the laws in the jurisdiction where the Shares are listed or the requirements of the stock exchanges on which the Shares are listed. The receiving agent appointed for holders of overseas listed shares listed in Hong Kong shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

12. PROXIES

Any Shareholder entitled to attend and vote at a meeting of the Shareholders shall be entitled to appoint one or more persons (whether a Shareholder or not) as his proxies to attend and vote on his behalf, and a proxy so appointed shall:

- (i) have the right as the Shareholder to speak at the meeting;
- (ii) have authority to demand or join in demanding a poll; and
- (iii) have the right to vote by a show of hands or by ballot, however, where a Shareholder has appointed more than one proxies, those proxies may only vote on a poll.

The instrument appointing a proxy shall be in writing and shall be signed by the appointer or a person duly authorized in writing. Where the appointer is a legal person, the stamp of the legal person shall be affixed, or signed by the director or a duly authorized agent. Such instrument shall state the number of shares every proxy represents.

The instrument appointing a proxy must be in writing and deposited at the residence of our Company or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the proxy is put to vote is convened or 24 hours before the designated time at which the resolution is adopted. If the instrument is signed by another person authorized by the appointer by means of power of attorney or other instrument of authorization, the power of attorney or other instrument of authorization must be verified by a notary. The power of attorney or other instrument verified by the notary must be deposited together with the instrument appointing the proxy at the residence of our Company or other location designated at the notice convening the meeting. If the appointer is a legal person, its legal representative or such person as authorized by resolution of its board of directors or other governing bodies to act as its representative may attend at any general meetings of our Company.

Any form issued to a Shareholder by the Board of our Company for use of appointing a proxy shall be such as to enable our Shareholder according to his intention, to instruct the proxy to vote in favor of or against each resolution at the meeting. Such a form shall contain a statement that in the absence of instructions by such Shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given, provided that no notice in writing of such matters as aforesaid shall have been received by our Company at its domicile before the commencement of the meeting at which proxy is used.

13. INSPECTION OF REGISTER OF SHAREHOLDERS

Our Company may keep overseas a register of members of the overseas-listed foreign Shares and entrust an overseas agency to manage it according to the understanding reached and agreement entered into between CSRC and the overseas securities regulatory agency.

The original register of members of the overseas listed foreign Shares listed in Hong Kong shall be kept in Hong Kong. Our Company shall keep a copy of the register of members of the overseas-listed foreign Shares at its residential address. The overseas entrusted agency shall at all time guarantee consistency between the original and copy of the register of members of the overseas-listed foreign Shares.

In the event that there's inconsistency between the original and copy of the register of members of the overseas-listed foreign Shares, the original shall prevail.

Our Company shall keep a complete register of members. The register of members shall include the contents below:

- (i) Register of members kept at our Company's residential address other than those specified in (ii) and (iii) below;
- (ii) Register of members of our Company's overseas-listed foreign Shares kept at the location of the overseas stock exchange where such Shares are listed; and

- (iii) Register of members kept in other locations in light of the decision of the Board of Directors as required for the listing of the Shares.

Different parts of the register of members shall not overlap. The transfer of Shares registered in a certain part of the register of members shall not be registered elsewhere in the register of members as long as the Shares are remained to be registered. Any alteration or rectification to any part of the register of members shall be made in accordance with the laws in the place where such part of the register of members is maintained.

14. QUORUM FOR SHAREHOLDERS' GENERAL MEETINGS AND SEPARATE CLASS MEETINGS

Our Company may convene a shareholders' general meeting where the number of voting Shares represented by those shareholders who intend to attend the meeting reaches more than one half of our Company's voting Shares; if that number is not reached, our Company shall within five days notify the Shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, our Company may convene the shareholders' general meeting.

Please refer to the paragraph headed "3. Variations of Rights of Existing Shares or Classes of Shares" above for the requirements and quorum for convening a shareholders' separate class meeting.

15. RIGHTS OF MINORITY SHAREHOLDERS IN CONNECTION WITH FRAUD OR OPPRESSION

In addition to the obligations imposed by laws, administrative regulations or the listing rules required by the stock exchange on which Shares of our Company are listed, controlling shareholders (within the meaning of the Articles of Association) shall not exercise their voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of our Shareholders:

- (i) to release the responsibility of a Director or Supervisor to act honestly in the best interests of our Company;
- (ii) to approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person), in any disguise, of our Company's assets, including (without limitation to) any opportunities beneficial to our Company; and
- (iii) to approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person) of the personal rights of other Shareholders, including (without limitation to) rights of distributions and voting but does not include a restructuring proposal submitted to Shareholders for approval in accordance with the Articles of Association.

16. LIQUIDATION PROCEDURES

Our Company shall be dissolved and liquidated in accordance with laws upon the occurrence of any of the following events:

- (i) a resolution for dissolution is passed by a Shareholders' general meeting;
- (ii) the dissolution is necessary due to a merger or division of our Company;
- (iii) our Company is legally declared insolvent due to its failure to repay debts which are due;
- (iv) our Company is ordered to close down due to its violation of laws or administrative regulations;
- (v) the operation term of our Company expires;
- (vi) the occurrence of other dissolution circumstances as stipulated in the Articles of Association;
- (vii) where our company encounters significant difficulties in business and management, continuous survival will be significantly detrimental to the interests of Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request a People's court to dissolve our Company.

Where our Company is dissolved due to the provisions set forth in (i) and (v) above, the liquidation committee shall be established within 15 days and the personnel of the liquidation committee shall be determined by a Shareholders' general meeting by means of ordinary resolution. Where the liquidation committee is not set up within the stipulated period of time above, creditors may request the People's Court to designate relevant personnel to form a liquidation committee and conduct the liquidation.

In the event that our Company is dissolved in accordance with the provisions set forth in (iii) above, the People's court shall organize Shareholders, related agencies and professionals to form a liquidation committee to conduct the liquidation.

In the event that our Company is dissolved in accordance with the provisions set forth in (iv) above, the competent authority shall organize Shareholders, relevant agencies and professionals to establish a liquidation committee and conduct the liquidation.

Where the Board decides to liquidate our Company (due to reasons other than the declaration of insolvency), the Board shall state in the notice of the Shareholders' general meeting convened that the Board has conducted adequate research of the affairs of our Company and deem that our Company is capable to pay its debts in full within 12 months after the commencement of the liquidation.

Upon the resolution of liquidation of our Company is approved by our Shareholders at general meeting, all functions and powers of the Board of our Company shall terminate immediately.

The liquidation committee shall act in accordance with the instructions of the Shareholders' general meeting and report at least once per year to the Shareholders' general meeting on the committee's income and payments, the business operation of our Company and the progress of the liquidation. It shall present a final report to the Shareholders' general meeting by the time of completion of the liquidation.

The liquidation committee shall, within ten days of its establishment, notify creditors and make a public announcement in the press within sixty days. The liquidation committee shall register all claims.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (i) categorize our Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (ii) notify the creditors or publish public announcements;
- (iii) dispose of and liquidate any pending businesses of our Company;
- (iv) pay outstanding taxes;
- (v) settle claims and debts;
- (vi) dispose of the surplus assets remaining after our Company's debt having been fully paid; and
- (vii) represent our Company in any civil proceedings.

After it has categorized our Company's assets and prepared the balance sheet and the inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a Shareholders' general meeting or to the relevant competent authority for confirmation.

Where our Company is liquidated by reason of dissolution, upon completion of the categorization of our Company's assets and preparation of a balance sheet and an inventory of assets, if the liquidation committee discovers that our Company's assets are insufficient to repay its debts in full, the liquidation committee shall immediately apply to the People's court for a declaration of insolvency. After our Company is declared insolvent by a ruling of the People's court, the liquidation committee shall transfer all matters regarding the liquidation to the People's court.

Following the completion of liquidation, the liquidation committee shall prepare a report on liquidation and a statement of the income and payments and financial books and records during the period of liquidation, which shall be audited by the PRC certified public accountants and submitted to the Shareholders' general meeting or the relevant and competent authorities for confirmation. The liquidation committee shall also submit the documents referred to in the preceding paragraph to the company registration authority and apply for cancellation of registration of our Company, and publish an announcement relating to the termination of it within 30 days after such confirmation.

17. OTHER PROVISIONS MATERIAL TO OUR COMPANY OR ITS SHAREHOLDERS**(1) General Provisions**

The term of business of our company is 30 years.

Our Company may invest in other companies; however, unless stipulated by law, it may not become a jointly liable investor for the liability commitments of the invested company.

The Articles of Association is a legally binding document regulating our Company's affairs and the rights and obligations between our Company and each Shareholder and among our Shareholders since the date it becomes effective.

Subject to the provisions of the Articles of Association, our Shareholders may sue our Company and other Shareholders; Shareholders may also sue Directors, Supervisors, general manager and other senior management of our Company. Our Company may also sue Shareholders pursuant to the Articles of Association.

For the purpose of the above paragraph, the term "sue" shall include the initiation of proceedings in a court or the application of arbitration to an arbitration organization.

(2) Shares and Transfers

Our Company may, based on the needs for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase in capital.

Our Company may increase its capital in the following ways:

- (i) public offer of new Shares;
- (ii) private issue of shares;
- (iii) distributing bonus shares or placing of new Shares to its existing shareholders;
- (iv) other means approved by laws and regulations.

The Company's increase in capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted pursuant to the procedures stipulated by relevant laws and administrative regulations.

When our Company reduces its registered share capital, it must draw up a balance sheet and an inventory of assets. Our Company shall notify creditors within ten days of the date of our Company's resolution for reduction of share capital and shall publish a notice in a newspaper within 30 days from the date of such resolution is approved. Creditors is entitled to, within 30 days of receiving the notice

or, in the case of a creditor who does not receive the notice, within 45 days of the date of the public notice, demand our Company to repay its debts or provide a corresponding guarantee for such debt. Our Company's registered capital after reduction shall not be less than the statutory minimum amount.

(3) Shareholders

Shareholders of our Company are people who lawfully hold the Shares of our Company and whose names (titles) are listed in the register of Shareholders.

Shareholders are entitled to rights and assume obligations according to types of their Shares and their shareholdings. Shareholders who hold the same type of Shares are entitled to the same rights and assume the same obligations.

Shareholders of ordinary Shares of our Company are entitled the following rights:

- (i) to receive dividends and other types of distributions in proportion to the number of Shares held;
- (ii) to participate in or appoint a proxy of Shareholder to participate in and exercise voting rights at the Shareholders' general meeting;
- (iii) to supervise our Company's business operations, and to propose suggestions and inquiries;
- (iv) to transfer the Shares held in accordance with laws, administrative regulations and the Articles of Association;
- (v) to obtain relevant information according to the Articles of Association;
- (vi) to participate in the distribution of the remaining assets of our Company in proportion to the number of Shares held upon our termination or liquidation;
- (vii) other rights conferred by laws, administrative regulations and the Articles of Association.

(4) Board

The Board of Directors shall be accountable to the general meeting of our Shareholders, and shall exercise the following functions and powers:

- (i) convene the Shareholders' general meeting and report on work to the Shareholders' general meeting;
- (ii) implement the resolutions of the Shareholders' general meeting;
- (iii) decide our Company's business operation plans and investment proposals;
- (iv) formulate our Company's proposed annual financial budget and final accounts;

- (v) formulate our Company's profit distribution plan and plan for making up for losses;
- (vi) formulate the plans for increasing or decreasing the registered capital and the issuance of debentures;
- (vii) formulate plans for corporate merger, separation, and dissolution of our Company;
- (viii) decide on the setup of our Company's internal management organization;
- (ix) appoint or dismiss the general manager of our Company; and appoint or dismiss the deputy general manager and senior management officers (including chief financial officer) based on the nomination of the general manager, and determine their remuneration;
- (x) formulate our Company's basic management systems;
- (xi) formulate plans for the amendment of the Articles of Association; and
- (xii) other powers and rights authorized by the Articles of Association or the Shareholders' general meeting.

All of the above resolutions adopted by the Board of Directors, except for those in (vi), (vii) and (xi), which must be approved by more than a two-thirds vote of the Directors, are to be approved by a simple majority of votes by the Directors.

Meetings of the Board shall be held at least 4 times a year and convened by the chairman of the Board. Notice of the meeting shall be served on all of the Directors and supervisors 14 days before the date of the meeting via delivery, post, fax and e-mail.

Meetings of the Board shall be held only if more than half of the Directors (including the proxies) are present. Each Director shall have one vote. Where the numbers of dissenting votes and affirmative votes against a resolution are equal, the chairman of the Board shall have an additional vote.

The Director who attends the meeting on behalf of another Director is to exercise the right of the Director within the scope of authorization. Where any Director fails to attend the Board meeting or entrust a proxy to be present on his/her behalf, such Director is deemed to have waived his/her voting rights at the meeting.

(5) Secretary to the Board

The secretary to the Board must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors. He/she shall be deemed as one of our Company's senior management.

(6) Board of Supervisors

Our Company shall have a supervisory committee composed of 3 persons. The Directors, general manager, financial personnel and senior management shall not act as Supervisors. The terms of office of Supervisors shall be 3 years, renewable upon re-election and reappointment. The supervisory committee shall have one chairman. The election or removal of the chairman of the supervisory committee shall be made by the affirmative vote of at least two-thirds (including two-thirds) of the members of the supervisory committee. Resolutions of the supervisory committee shall be made by the affirmative vote of at least two-thirds (including two-thirds) of the members of the supervisory committee.

At least one thirds of the Supervisors shall be the representatives of staff and of our Company. The representative of staff of our Company as Supervisors shall be elected and replaced by the staff of our Company democratically thereby.

The Supervisory Board is responsible to the Shareholders' general meeting and lawfully exercises the following powers:

- (i) examine the financial standing of our Company;
- (ii) supervise the performance of Directors, general manager and senior management officers of their duties where any violations of the applicable laws, regulations or the Articles of Association are occurred;
- (iii) require the Directors, general manager and other senior management to take corrective measures when their actions are detrimental to our Company's interests;
- (iv) verify the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the Shareholders' general meetings and, should any queries arise, to entrust, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;
- (v) propose to convene extraordinary Shareholders' meetings, where the Board of Directors fails to perform the duties in relation to convening or presiding over the general meeting as required by the PRC Company Law, to convene and preside over the general Shareholders' meeting;
- (vi) represent our Company in negotiating with or in bringing actions against the Directors pursuant to Article 151 of the PRC Company Law; and
- (vii) other powers and duties entrusted by the Shareholders' general meeting.

Supervisors present at meetings of the Board.

(7) General Manager

Our Company shall have one general manager, who shall be appointed and dismissed by the Board. The Manager shall be accountable to the Board and exercise the following functions and powers:

- (i) be in charge of the production and operation management of our Company, and to organize the enforcement of resolutions of the Board of Directors;
- (ii) organize the implementation of the annual operation plans and investment schemes of our Company;
- (iii) formulate the structure scheme of the internal management of our Company;
- (iv) formulate the basic management system of our Company;
- (v) formulate basic rules and regulations of our Company;
- (vi) propose the appointment or dismissal of the deputy general manager and other senior management (including chief financial officer) of our Company;
- (vii) appoint or dismiss management personnel other than those to be appointed or dismissed by the Board of Directors; and
- (viii) other powers and duties authorized by the Articles of Association and the Board of Directors.

(8) Common Reserve Fund

Our company's after-tax profits shall be used subject to the order as below:

- (i) Offset our losses;
- (ii) Allocate to the statutory reserve fund;
- (iii) Discretionary common reserve may be allocated to subject to the resolution of the Shareholders' general meeting;
- (iv) Pay for the dividends of common shares. Our company shall not distribute dividends or distribute in the form of bonus or other ways prior to loss offset and statutory reserve fund allocation.

(9) Dispute Resolution

Our Company shall comply with the following rules governing the settlement of disputes:

- (i) Whenever any disputes or claims arise between (i) our Company's Directors, Supervisors, General Manager or other senior management; (ii) the holders of foreign shares (including holders of overseas listed foreign shares and holders of non-listed foreign shares) and our Company, holders of foreign shares (including holders of listed foreign shares and holders of non-listed foreign shares) and our Company's Directors, Supervisors, general manager or other senior management, or holders of overseas-listed foreign shares and non-listed foreign shares and holders of domestic shares, based on the Articles of Association, or any rights or obligations imposed by our Company Law, or any other relevant laws and administrative regulations concerning the affairs of our Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to it, and all persons who have a cause of action based on the same facts resulting in the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is our Company or our Shareholders, Directors, Supervisor, General Manager, or other senior management.

Disputes in relation to the identification of shareholders and disputes in relation to the share register may not be referred to arbitration;

- (ii) A claimant may choose for arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body as chosen by the claimant.

If a claimant elects for arbitration at Hong Kong International Arbitration Centre, any party to the dispute may request the arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre;

- (iii) The laws of the PRC are applicable to the arbitration for the disputes or claims of rights as stated in item i), unless otherwise stipulated in laws and administrative regulations; and
- (iv) The award of an arbitration body shall be final and conclusive and binding on all parties.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Predecessor Company was established in Yangzhou City, the PRC as a limited liability company under the PRC Company Law on 12 November 2008. On 10 August 2012, our Predecessor Company was converted into a joint stock limited company and renamed as 揚州市廣陵區泰和農村小額貸款股份有限公司 (Yangzhou Guangling District Taihe Rural Micro-finance Company Limited), namely our Company. Our Company has established a place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 29 May 2015. Mr. Xu Lei and Mr. Wong Yat Tung have been appointed as our agent for the acceptance of service of process in Hong Kong.

As we are incorporated in the PRC, our corporate structure and Articles of Associations are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Associations is set out in Appendix V to this prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC and Hong Kong is set out in Appendix IV of this prospectus.

2. Changes in the Registered Share Capital of Our Company

Our Predecessor Company was established in Yangzhou City, the PRC as a limited liability company with a registered share capital of RMB60,000,000 under the PRC Company Law on 12 November 2008.

For details of changes in the registered share capital of our Company since its establishment, please refer to the section headed "History and Development" in this prospectus.

3. Resolutions Passed at Our Company's Extraordinary General Meeting on 6 April 2017

At the extraordinary general meeting of our Company held on 6 April 2017, among other things, the following resolutions were passed by our Shareholders:

- (a) subject to the completion of the Public Offer, the Articles of Association has been approved and adopted, which shall become effective on the Listing Date;
- (b) approving the issue of H Shares with a par value of RMB1.00 each. The number of the H Shares so issued shall not exceed 150,000,000 H Shares (being 25% of the total issue share capital of our Company after the Public Offer); and
- (c) authorizing the Board and/or persons authorized by the Board to handle all matters relating to, among other things, the issue of H Shares and the listing of H Shares on the Stock Exchange.

B. OUR SUBSIDIARY

The Company does not have any subsidiary.

C. FURTHER INFORMATION ABOUT THE BUSINESS**1. Summary of Material Contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of business), within two years preceding the date of this prospectus which are or may be material to our business:

- (a) the Non-competition Agreement;
- (b) the Deed of Indemnity; and
- (c) the Underwriting Agreement.

2. Intellectual Property Rights*Trademarks*

As at the Latest Practicable Date, we are the registered owner of the following trademarks which are or may be material to the business of our Company in Hong Kong:

No.	Trademark	Place of Registration	Name of Registered Proprietor	Application Number	Class	Duration
1	<p>(a)</p>  <p>(b)</p> 	Hong Kong	the Company	303123594	36	3 September 2014 - 2 September 2024
2	<p>(a)</p>  <p>(b)</p> 	Hong Kong	the Company	303123585	36	3 September 2014 - 2 September 2024

As at the Latest Practicable Date, we are the registered owner of the following trademarks which are or may be material to the business of our Company in the PRC:

No.	Trademark	Place of Registration	Name of Registered Proprietor	Application Number	Class	Duration
1	Taihe	the PRC	the Company	15028573	36	21 September 2015 - 20 September 2025

Domain Name

As at the Latest Practicable Date, we are the registered owner of the following domain names which our Directors consider are material to our business:

Name of Registered Proprietor	Domain name or internet keywords	Date of registration	Expiry date
The Company	gltaihe.com	22 April 2014	22 April 2019

D. DISCLOSURE OF INTERESTS

1. Disclosure of our Directors' and Supervisors' Interests in the Registered Capital of Our Company and its Associated Corporations

Immediately following completion of the Public Offer, the beneficial interests or short positions of our Directors, Supervisors and the chief executives in any shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which once the shares are listed, will be required (a) to be notified to our Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept therein once the H Shares are listed; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the GEM Listing Rules, once the H Shares are listed are as follows:

The Company

Director/Supervisor	Nature of interest	Number of shares held after the Public Offer ⁽¹⁾	Approximate shareholding percentage in the relevant class of shares after the Public Offer ⁽²⁾	Approximate percentage of shareholding in the total share capital of the Company after the Public Offer ⁽³⁾
Mr. Bo Wanlin	Interest in controlled corporation ⁽⁴⁾	430,100,000 Domestic Shares (L)	95.58%	71.68%

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Domestic Shares.
- (2) The calculation is based on the percentage of shareholding in Domestic Shares.
- (3) The calculation is based on the total number of 600,000,000 Shares in issue after the Public Offer.
- (4) Botai Group will be directly interested in approximately 40.03% in our Company. The disclosed interest represents the interest in the Company held by Botai Group which is in turn held as to approximately 33.33% by Mr. Bo Wanlin, approximately 16.67% by Mr. Bo Nianbin, approximately 16.67% by Ms. Bai Li, approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin) and approximately 16.67% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin). Mr. Bo Wanlin and his spouse control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in the Company by virtue of the SFO.

Associated Corporation

Director/Supervisor	Associated Corporation	Nature of interest	Approximate shareholding percentage in the relevant class of Shares in the Associated Corporation
Mr. Bo Wanlin	Botai Group	Beneficial owner ⁽¹⁾	33.33%
		Family interest of spouse ⁽²⁾	16.67%
Ms. Bai Li	Botai Group	Beneficial owner ⁽¹⁾	16.67%
Mr. Bo Nianbin	Botai Group	Beneficial owner ⁽¹⁾	16.67%

Notes:

- (1) The disclosed interest represents the interests in Botai Group, the associated corporation which is wholly owned as to approximately 33.33% by Mr. Bo Wanlin, approximately 16.67% by Mr. Bo Nianbin, approximately 16.67% by Ms. Bai Li, approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin) and approximately 16.67% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin).
- (2) Mr. Bo Wanlin is the spouse of Ms. Wang Zhengru and is deemed to be interested in Ms. Wang Zhengru’s interest in Botai Group by virtue of the SFO.

2. Substantial Shareholders

So far as our Directors are aware, immediately following the Public Offer, each of the following persons will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions

2 and 3 of Par XV of the SFO or who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in any circumstance at general meetings of our Company:

Shareholders	Nature of interest	Number of Shares held after the Public Offer ⁽¹⁾	Approximate shareholding percentage in the relevant class of Shares after the Public Offer ⁽²⁾	Approximate percentage of shareholding in the total share capital of the Company after the Public Offer ⁽³⁾
Botai Group	Beneficial Owner of the Company	240,200,000 Domestic Shares (L)	53.38%	40.03%
	Interest in controlled corporation ⁽⁴⁾	189,900,000 Domestic Shares (L)	42.20%	31.65%
Mr. Bo Wanlin	Interest in controlled corporation ⁽⁵⁾	430,100,000 Domestic Shares (L)	95.58%	71.68%
Ms. Wang Zhengru	Family Interest of spouse ⁽⁶⁾	430,100,000 Domestic Shares (L)	95.58%	71.68%
Liantai Guangchang	Beneficial Owner of the Company	189,900,000 Domestic Shares (L)	42.20%	31.65%

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Domestic Shares.
- (2) The calculation is based on the percentage of shareholding in the Domestic Shares.
- (3) The calculation is based on the total number of 600,000,000 Shares in issue after the Public Offer.
- (4) As at the Latest Practicable Date, Liantai Guangchang is held as to approximately 48.67% by Botai Group, approximately 26.33% by Mr. Bo Wanlin, approximately 15.00% by Mr. Bo Nianbin and approximately 10.00% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin). Botai Group controls more than one-third of the voting rights of Liantai Guangchang and are deemed to be interested in its interest in the Company by virtue of the SFO.
- (5) As at the Latest Practicable Date, Botai Group is held as to approximately 33.33% by Mr. Bo Wanlin, approximately 16.67% by Mr. Bo Nianbin, approximately 16.67% by Ms. Bai Li, approximately 16.67% by Ms. Wang Zhengru (spouse of Mr. Bo Wanlin) and approximately 16.67% by Ms. Zhu Wenying (mother of Mr. Bo Wanlin). Mr. Bo Wanlin and his spouse control more than one-third of the voting rights of Botai Group and are deemed to be interested in its interest in the Company by virtue of the SFO.
- (6) Ms. Wang Zhengru, the spouse of Mr. Bo Wanlin, is deemed to be interested in Mr. Bo Wanlin’s interest in the Company by virtue of the SFO.

3. Particulars of Service Contracts

Each of our Directors and Supervisors, has entered into a service contract with our Company. The principal particulars of these service contracts are (a) for a term of three (3) years commencing from the Listing Date; and (b) are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations.

Pursuant to Rules 25.41 and 25.42 of the GEM Listing Rules, each of the Directors and Supervisors has entered into a contract in respect of, among others, compliance of relevant laws and regulations, observations of the Articles of Association and provision on arbitration with our Company.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have a service contract with us (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

4. Directors' and Supervisors' Remuneration

For the three years ended 31 December 2014, 2015, and 2016, the aggregate amount of fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) payable by us to our Directors and Supervisors were approximately RMB946,233, RMB1,038,662 and RMB1,018,506 respectively. Save as disclosed under Note 8 to the financial information in the Accountants' Report set out in Appendix I to this prospectus, no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of the three years ended 2014, 2015 and 2016.

Save as disclosed above, no other payments have been paid or are payable by us to the Directors and Supervisors in respect of the three years ended 31 December 2014, 2015, and 2016.

There is no arrangement under which any Director or Supervisor has waived or agreed to waive future emoluments, nor has there been any waiver of emoluments by any Director or Supervisor during the current financial year.

Under the current arrangements, our Directors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending 31 December 2017 under arrangement in force as at the date of this prospectus which is expected to be approximately RMB1,028,442 in aggregate.

Under the current arrangements, our Supervisors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending 31 December 2017 under arrangement in force as at the date of this prospectus which is expected to be approximately RMB209,128 in aggregate.

5. Agency Fees or Commissions Paid or Payable

Save as disclosed in the section headed “Underwriting” in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years ended on the date of this prospectus.

6. Related Party Transactions

During the two years preceding the date of this prospectus, we have engaged in the material related party transactions as described in Note 23 to the financial information in the Accountants’ Report set out in Appendix I to this prospectus.

7. Disclaimers

Save as disclosed in this prospectus and as at the Latest Practicable Date:

- (a) our Directors are not aware of any other person (not being a Director or Supervisor or the chief executive of our Company) who will, immediately following completion of the Public Offer, have interests and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of the share capital of our Company carrying rights to vote in all circumstances at general meetings of our Company;
- (b) none of our Directors or Supervisors or the chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of our Company, our subsidiary or any of the associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed “Qualification of Experts” of this Appendix was interested, directly or indirectly, in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company, or were proposed to be acquired or disposed of by or leased to our Company;
- (d) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed “Consents of Experts” of this Appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant to the business of our Company taken as a whole;

- (e) save in connection with the Underwriting Agreement, none of the experts referred to in the paragraph headed “Consents of Experts” of this Appendix has any shareholding in our Company or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company; and
- (f) none of our Directors or Supervisors or their respective associates nor, to the knowledge of the Directors, any Shareholders who held more than 5% of the total Shares as at the Latest Practicable Date had any interest in the five largest customers or the five largest suppliers of our Company.

E. OTHER INFORMATION

1. Indemnities

On 6 April 2017, our Controlling Shareholders entered into the Deed of Indemnity with and in favor of our Company, pursuant to which our Controlling shareholders agreed and undertook with our Company, subject to the terms of the Deed of Indemnity, to indemnify and keep our Company indemnified on a joint and several basis against any and all tax liabilities falling on our Company which might be payable by us in respect of, among others, any incomes, profits or gains earned, accrued or received prior to the date on which the Public Offer becomes unconditional (the “**Effective Date**”), save in the following circumstances:

- (a) to the extent that provision has been made for such taxation in any audited accounts of the Company for any period up to 31 December 2016; or
- (b) for which our Company is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets (if any) after the Effective Date;
- (c) to the extent that such taxation or liability falling on our Company in respect of its accounting period commencing from 1 January 2017 unless liability for such taxation would not have arisen but for some act or omission of or transaction voluntarily effected by our Company (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement of our Controlling Shareholders, other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or as part of an acquisition and disposition of capital assets (if any) conducted in the ordinary course on or before the Effective Date; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date or pursuant to any statement of intention made in this prospectus; or

- (iii) to the extent that such taxation arises or is incurred as a result of a retrospective change in laws or interpretation and practice by the SAT or other relevant authority or a retrospective increase of tax rates coming into force after the Effective Date; or
- (iv) to the extent that any provisions or reserve made for taxation in the audited account of our Company up to 31 December 2016 which is finally established to be an over-provision or an excessive reserve in which case our Controlling Shareholders' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this item (iv) to reduce our Controlling Shareholders' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, our Controlling Shareholders also agreed and undertook to indemnify and keep our Company indemnified on a joint and several basis against any costs, expenses, claims, liabilities, penalties, losses and damages that our Company may suffer due to (i) the non-compliance with the relevant PRC laws including but not limited to the non-compliance referred to in the section headed “Business — Approval, Compliance and Legal Proceedings — Historical non-compliance with relevant guidelines specific to microfinance companies” in this prospectus; and (ii) all claims, penalties, fines and all losses and damages which may be suffered by our Company as a result of any litigation, arbitration, claim and/or legal proceedings, whether of criminal, administrative, contractual, tortious or otherwise nature instituted or threatened against our Company accrued or arising on or before the Listing Date.

2. Estate Duty

Our Directors have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

3. Litigation

As at the Latest Practicable Date, save as disclosed in the section headed “Business — Approval, Compliance and Legal Proceedings” in this prospectus, our Company is not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

4. Restrictions on Share Repurchase

Please see the section headed “Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions — Restrictions on purchase and subscription of its own securities” in this prospectus for details.

5. Sole Sponsor

The Sole Sponsor has declared their independence pursuant to Rule 6A.07 of the GEM Listing Rules. Our Company has agreed to pay the Sole Sponsor a fee of HK\$6,500,000 to act as the sole sponsor to the Company in relation to the Public Offer.

The Sole Sponsor has made an application on our behalf to the Stock Exchange for listing of, and permission to deal in, our H Shares. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

6. Preliminary Expenses

Our preliminary expenses are approximately RMB573,406.20. All preliminary expenses and all expenses relating to the Public Offer will be borne by our Company.

7. Qualification of Experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
China Galaxy International Securities (Hong Kong) Co., Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified public accountants
Commerce & Finance Law Offices	PRC Legal Adviser
Ipsos Limited	Independent industry consultant

Note: experts are ranked randomly.

8. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in our financial or trading position since 31 December 2016.

9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Miscellaneous

Save as disclosed in this prospectus,

- (a) within the two years preceding the date of this prospectus, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) our Company has no outstanding convertible debt securities or debentures;
- (e) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of our Company;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived;
- (g) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months;
- (h) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (i) our Company is not a Sino-foreign equity joint venture or which operates as or under a cooperative or contractual joint venture; and
- (j) our Company currently does not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

12. Consents of Experts

Each of the experts as referred to in the paragraph headed “Qualification of Experts” in this Appendix has given, and has not withdrawn, their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

Save as disclosed in this prospectus, none of the experts named above has any shareholding interests in any securities of our Company or the right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in the Company.

13. Promoters

The promoters of the Company are Botai Group, Liantai Guangchang, Guo Lanxiu (郭蘭秀) (former director of the Company), Cao Songmei (曹松妹) (former director and former general manager of the Company), Zuo Yuchao (左玉潮) (non-executive Director of the Company), Li Yunzhen (李雲珍) (former supervisor and former director of the Company), Gao Guoping (高國平) (former director of the Company), Wang Zhengru (王正茹), Bai Li (柏莉) (executive Director and general manager of the Company), Chen Zhanqiu (陳占秋) (former director of the Company), Zhou Yinqing (周吟青) (executive Director of the Company), Cheng Jinlan (程金蘭) (former supervisor of the Company), Xue Xianyue (薛憲躍) (former supervisor of the Company), Yu Detian (俞德田) (former supervisor of the Company) and 35 individual Independent Third Parties.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to the promoters named above in connection with the Public Offer or the related transactions described in this prospectus.

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the **WHITE, YELLOW** and **GREEN** Application Forms, the written consents referred to in the sub-paragraph headed “Consents of Experts” under the paragraph headed “Other Information” of Appendix VI to this prospectus, and certified copies of the material contracts referred to in the sub-paragraph headed “Summary of Material Contracts” under the paragraph headed “Further Information about the Business” of Appendix VI to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Li & Partners at 22nd Floor, World-Wide House Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association in Chinese;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of the Company for each of the three financial years ended 31 December 2014, 2015, and 2016;
- (d) the assurance report on the compilation of the unaudited pro forma financial information of our Company from Ernst & Young, the text of which is set out in Appendix II to this prospectus;
- (e) the PRC Company Law, the Special Regulations and the Mandatory Provisions together with unofficial English translations thereof;
- (f) the PRC legal opinions issued by our PRC Legal Advisers, in respect of various aspects of our Company and the property interests of our Company in the PRC;
- (g) the material contracts referred to in the sub-paragraph headed “Summary of Material Contracts” under the paragraph headed “Further Information about the Business” in Appendix VI to this prospectus;
- (h) the written consents referred to in the sub-paragraph headed “Consents of Experts” under the paragraph headed “Other Information” in Appendix VI to this prospectus;
- (i) the service contracts referred to in the paragraph headed “Particulars of Service Contracts” in Appendix VI to this prospectus; and
- (j) the Ipsos Report.

TaiHe