



# 佐力科創小額貸款股份有限公司 Zuoli Kechuang Micro-finance Company Limited

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

Stock code: 6866

## GLOBAL OFFERING

Sole Sponsor



Joint Bookrunners and Joint Lead Managers  
*(in alphabetical order)*



**Convoy Investment Services Limited**  
康宏證券投資服務有限公司



# IMPORTANT

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



## Zuoli Kechuang Micro-finance Company Limited\*

### 佐力科創小額貸款股份有限公司

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

### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 300,000,000 H Shares (subject to the Over-allotment Option)
Number of International Offer Shares	: 270,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	: 30,000,000 H Shares (subject to adjustment)
Maximum Offer Price	: HK\$1.39 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: RMB1.00 per H Share
Stock code	: 6866

#### Sole Sponsor



#### Joint Bookrunners and Joint Lead Managers (in alphabetical order)



Convoy Investment Services Limited  
康宏証券投資服務有限公司



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 "Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (WUMP) Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around 8 January 2015 (Hong Kong Time) and, in any event, not later than 11 January 2015 (Hong Kong Time). The Offer Price will be not more than HK\$1.39 and is currently expected to be not less than HK\$1.27. If, for any reason, the Offer Price is not agreed by 11 January 2015 (Hong Kong Time) between the Joint Bookrunners (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse. Investors applying for Offer Shares must pay, on application, the maximum Offer Price of HK\$1.39 per Share, unless otherwise announced, together with brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% subject to refund if the Offer Price finally determined is lower than HK\$1.39 per Share.

The Joint Bookrunners (on behalf of the Underwriters) may, with the consent of the Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as well as at our website [www.zlkcxd.cn](http://www.zlkcxd.cn) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this Prospectus.

We are established, and 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 "Risk Factors," "Appendix IV — Summary of Principal Legal and Regulatory Provisions" and "Appendix V — Summary of Articles of Association" in this Prospectus. Prior to making an investment decision, potential investors should consider carefully all of the information set out in this Prospectus, including the risk factors set out in "Risk Factors."

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Bookrunners (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in our Shares commences on the Hong Kong Stock Exchange. See "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination."

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered, sold, pledged or transferred within the United States. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act.

\* For identification purposes only

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Latest time to complete electronic applications under <b>White Form eIPO</b> service through the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(2)</sup> .....	11:30 a.m. on Monday, 5 January 2015
Application lists open <sup>(3)</sup> .....	11:45 a.m. on Monday, 5 January 2015
Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms and give electronic application instructions to HKSCC <sup>(3)(4)</sup> .....	12:00 noon on Monday, 5 January 2015
Latest time to complete payment of <b>White Form eIPO</b> applications by applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....	12:00 noon on Monday, 5 January 2015
Application lists close .....	12:00 noon on Monday, 5 January 2015
Expected Price Determination Date .....	Thursday, 8 January 2015
Announcement of the Offer Price .....	Monday, 12 January 2015
Announcement of:	
<ul style="list-style-type: none"><li>● the level of indication of interest in the International Offering;</li><li>● the level of applications in the Hong Kong Public Offering; and</li><li>● the basis of allocation of the Hong Kong Offer Shares to be published (a) in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese); (b) on our website at <a href="http://www.zlkexd.cn">www.zlkexd.cn</a><sup>(5)</sup> and the website of the Hong Kong Stock Exchange at <a href="http://www.hkexnews.com">www.hkexnews.com</a> or before .....</li></ul>	Monday, 12 January 2015
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, or business registration numbers, where appropriate) to be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares — 11. Publication of Results") from .....	Monday, 12 January 2015
Results of allocations in the Hong Kong Public Offering will be available at <a href="http://www.iporeresults.com.hk">www.iporeresults.com.hk</a> with a "search by ID" function .....	Monday, 12 January 2015

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## EXPECTED TIMETABLE<sup>(1)</sup>

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H Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before<sup>(6)</sup>..... Monday, 12 January 2015

White Form e-Refund payment instructions/refund checks in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be dispatched on or before<sup>(6)(7)(8)</sup>..... Monday, 12 January 2015

Dealings in H Shares on the Stock Exchange expected to commence on..... Tuesday, 13 January 2015

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*Notes:*

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, are set out in “Structure of the Global Offering” in this Prospectus.
- (2) If you have already submitted your application and obtained an application 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. You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 5 January 2015, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this Prospectus. If the application lists do not open and close on Monday, 5 January 2015, the dates mentioned in “Expected Timetable” may be affected. A press announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this Prospectus.
- (5) None of the website or any of the information contained on the website forms part of this Prospectus..
- (6) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Forms may collect their H Share certificates (where applicable) or refund check (where applicable) from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 12 January 2015. Applicants being individuals who opt for personal collection must not authorize any other person to collect on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his/her corporation stamped with the corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected refund checks and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants’ Application Forms at the applicants’ own risk. Details of the arrangements are set out in “How to Apply for Hong Kong Offer Shares” in this Prospectus.
- (7) Applicants who apply through the **White Form eIPO** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to the application payment account, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** 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 to the **White Form eIPO** Service Provider, in the form of refund checks, by ordinary post at their own risk.
- (8) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

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## EXPECTED TIMETABLE<sup>(1)</sup>

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The H Share certificates will only become valid certificates of title provided that: (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its respective terms prior to 8:00 a.m. on Tuesday, 13 January 2015. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

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*This Prospectus is issued by Zuoli Kechuang Micro-finance Company Limited solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this Prospectus in any jurisdiction other than Hong Kong.*

*You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. The Company has 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 the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, employees, agents or professional advisers or any other person or party involved in the Global Offering.*

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## SUMMARY AND HIGHLIGHTS

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*This summary aims to give you an overview of the information contained in this Prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read this Prospectus in its entirety 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 “Risk Factors” in this Prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

As of 30 June 2014, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to *EY Advisory*. In addition, we were the second largest licensed microfinance company in Zhejiang in terms of outstanding loans as of 30 June 2014, according to the same source. We are dedicated to serving customers in Deqing, a county in Huzhou, Zhejiang with robust commercial and agricultural activities, by providing financing solutions with flexible terms through quick and comprehensive loan assessment and approval processes. Our long-term commitment to serve the local market and our strong capital base have enabled us to build a broad customer base that, in line with our business scale, has expanded since our inception in August 2011. As of 30 June 2014, we had a registered capital of RMB880.0 million and gross outstanding loans of RMB1,064.5 million, serving a total of over 1,200 customers. According to our license, we are currently only permitted to conduct business operation in Deqing. We were one of the five microfinance companies in Deqing and occupied 44.0% of market share in Deqing in terms of outstanding loans as of 30 June 2014.

#### ***Our Principal Loan Products***

We focus on providing credit-based financing solutions to Deqing’s fast-growing SME and microenterprise sector. In general, this category of customers has largely been underserved by the commercial banks, who are typically in the business of asset-based lending. As a result of our credit-based business model, only 11.8% of our gross outstanding loans as of 30 June 2014 were secured by collateral or pledge. However, as part of our risk management and control procedures, we generally require the loans that we grant to our customers to be backed by one or more guarantors, such that both customers and guarantors are jointly and severally liable for the repayment of our loans. As of 30 June 2014, 85.5% of our gross outstanding loans were guaranteed loans.

We offer various loan products with flexible terms that are tailored to the needs of different customer groups. For marketing purpose, we divide our principal products into two main categories, namely: (i) enterprise loans which include agriculture loans, technology enterprises credit loans and loans for other SMEs and microenterprises; and (ii) individual loans, which include individual business, consumption, start-up and other loans. We focus on providing short-term loans to minimize our risk exposure and, as such, a substantial majority of our loans have a maturity period of between six months and one year.



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## SUMMARY AND HIGHLIGHTS

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### *Our Customers*

We solicit our customers principally through our business and marketing department and advertisements. Our key customers primarily consist of customers engaged in agricultural businesses, customers engaged in rural development activities, and/or customers residing in rural areas, or AFR (三農), and SMEs and microenterprises in various industries. These customers generally lack sufficient business scale and/or do not possess acceptable collateral to obtain credit from commercial banks. We provide various loan products to meet the diverse needs of our target customers. During the Track Record Period, our loans ranged in size from RMB10,000 to RMB25.0 million, with a term generally ranging from two months to one year. As a privately owned and dedicated microfinance company, we are able to deliver quick, convenient and efficient financing solutions to our customers to meet their needs for quick access to funds. We also enjoy a higher degree of flexibility in terms of capital requirements and lending restrictions compared to commercial banks, which allows us to target certain groups of customers, such as SMEs and microenterprises in the start-up and growth phases, and individuals in the agricultural, industrial and service sectors, to broaden our customer base.

### *Government Support*

As the largest microfinance company in Zhejiang in terms of registered capital, we believe we enjoy strong government support, including our potential to launch new and innovative loan products and to expand our geographical coverage by setting up branches in the remaining areas of Huzhou. In addition, Deqing has been designated as a “technological outstanding county” as well as a “financial innovation demonstration county” by the Zhejiang provincial government. Deqing county government has also implemented several policies to prompt the development of innovative financing, such as “Special Fund for Financial Development (金融發展專項基金).” During the Track Record Period, we also received government grants in relation to the nature of our business, our capital increase, credit risk, performance assessment and auditing, mainly including government subsidies relating to EIT and business tax. We believe that, by taking advantage of these supportive policies, we will be able to achieve continuous business growth and offer diversified and innovative loan products to better service our existing and new customers.

### *Our Risk Management*

We provide financing solutions to customers who typically require funds on short notice without compromising the integrity of our risk management. We strictly adhere to the policy of “separation of application investigation and approval (審貸分離).” Our customer relationship managers are responsible for the investigation and verification of customers’ application materials and the facts contained therein, the value of collateral or pledge and creditworthiness of such customers and their guarantors. To facilitate our loan assessment and approval process, we proactively implement comprehensive and effective risk management procedures and measures through three tiers of assessment and approval processes according to loan size. After the loan is granted, we conduct post-loan grant reviews on a regular basis to monitor our customers’ interest payment patterns, as well as their business operations or the value of collateral or pledge. We believe that this “separation of application investigation and approval” policy has ensured the effectiveness of our risk management and risk control efforts. For more information of our loan application and approval process, see “Business — Risk Management — Credit Risk Management — Loan application” and “Business — Risk Management — Credit Risk Management — Assessment and approval” on page 126 and page 128 of this Prospectus. The continued

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## SUMMARY AND HIGHLIGHTS

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improvement of our risk management capability has helped us to effectively handle the challenges brought on by the recent slowdown of economic growth in China and to manage our overall risks. As a result, we did not have overdue loans as of 31 December 2011, and we had overdue loans of RMB10.9 million, RMB0.8 million and RMB1.0 million as of 31 December 2012 and 2013 and 30 June 2014, respectively, accounting for 2.3%, 0.1% and 0.1% of our gross outstanding loans as of the same dates. As of 31 October 2014, only RMB475,000 of the overdue loans outstanding as of 30 June 2014 had not been recovered. According to *EY Advisory*, the average overdue ratio of all microfinance companies in Deqing was 0.4% and 0.5% as of 31 December 2013 and 30 June 2014, respectively.

### *Our Track Record*

During the Track Record Period, we experienced significant revenue growth mainly driven by our increasing capital base, effective interest rate pricing and strong customer demand. Our gross outstanding loans increased from RMB218.0 million as of 31 December 2011 to RMB469.7 million as of 31 December 2012, and to RMB541.3 million as of 31 December 2013. Our gross outstanding loans further increased to RMB1,064.5 million as of 30 June 2014. Our net interest income was RMB7.8 million for the period from 18 August 2011 to 31 December 2011 and increased from RMB62.7 million for the year ended 31 December 2012 to RMB78.5 million for the year ended 31 December 2013. Our net interest income was RMB37.0 million and RMB65.6 million for the six months ended 30 June 2013 and 2014, respectively. Our profit for the period/year was RMB0.3 million for the period from 18 August 2011 to 31 December 2011 and increased from RMB26.2 million for the year ended 31 December 2012 to RMB51.6 million for the year ended 31 December 2013. Our profit for the period was RMB24.5 million and RMB46.0 million for the six months ended 30 June 2013 and 2014, respectively. We expect our business will continue to be driven by the size of our capital base, overall development trend of the domestic macroeconomic environment, the development of SME and microenterprise sector in Zhejiang and Deqing and the ongoing reform of urban and rural system in China, in particular Zhejiang and Deqing.

### **OUR COMPETITIVE STRENGTHS**

- We are the largest licensed microfinance company in Zhejiang in terms of registered capital.
- We possess in-depth local knowledge and expertise in a strong market.
- We maintain sound and effective risk management practices and are dedicated to enhancing our risk control procedures.
- We have the ability to offer competitive and diverse loan products to a wide range of customers.
- Our capable and visionary management team and experienced personnel have in-depth industry experience coupled with localized market knowledge and intelligence that ensures the successful development of our business.

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## SUMMARY AND HIGHLIGHTS

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### OUR BUSINESS STRATEGIES

Our principal business objective is to maintain and strengthen our position as a leading microfinance company in Zhejiang. Key strategies for reaching our goal are as follows:

- Further penetrate local market and expand the geographical coverage of our business through replication of our business model in strategic locations;
- Introduce innovative loan and loan-related products;
- Optimize capital structure to improve our return on equity; and
- Enhance corporate governance and strengthen risk management efforts.

### OUR CONTROLLING SHAREHOLDER(S)

Immediately following the completion of the Global Offering, Zuoli Holdings, Puhua Energy, Mr. Y Yu, Deqing Yintian, Mr. Yu, Mr. Shen, Dingsheng Investment and Mr. Zhang will be entitled to exercise and control the exercise of approximately 33.48% of our issued share capital (assuming the Over-allotment Option is not exercised) in aggregate.

As of the Latest Practicable Date, Mr. Y Yu held 100% equity interest in Deqing Yintian. Deqing Yintian is the single largest shareholder of Zuoli Holdings holding an equity interest of approximately 32.04%, which in turn is interested in the entire equity interest of Puhua Energy. As of the Latest Practicable Date, Puhua Energy was directly interested in 30% of the issued share capital of the Company, and would be directly interested in approximately 22.37% of the issued share capital of the Company upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised). Since Mr. Y Yu is a party to the Acting in Concert Agreement, each of Deqing Yintian (being a company wholly owned by Mr. Y Yu) and Zuoli Holdings (being a company indirectly controlled by Mr. Y Yu) is our Controlling Shareholder. Further, Mr. Yu, Mr. Shen, Mr. Zhang and Puhua Energy, being parties to the Acting in Concert Agreement, are also our Controlling Shareholders. Since Dingsheng Investment is a company wholly owned by Mr. Shen, it is also our Controlling Shareholder.

### COMPLIANCE

Except for the non-compliance incident disclosed in “Business — Compliance and Legal Proceedings — Compliance with Relevant PRC Laws and Regulations — Other organizational and operational requirements” on page 139 of this Prospectus, as advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant PRC laws and regulations in all material respect. The following table summarizes the key statutory capital requirements and lending restrictions applicable to us and the compliance status during the Track Record Period:

#### Key requirements

If a microfinance company is a limited liability company, its registered capital must be at least RMB50 million; if a microfinance company is a joint stock limited liability company, its registered capital must be at least RMB80 million.

#### Compliance status

Our registered capital was over the various registered capital requirements throughout the Track Record Period before and after we became a joint stock limited liability company from a limited liability company.

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## SUMMARY AND HIGHLIGHTS

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### Key requirements

A microfinance company shall only borrow bank loans up to a certain percentage, usually 50%, of its net capital for conducting loan business; however, a microfinance company that serves SME and AFR customers, operates lawfully and has a sound risk control system and reasonable interest rate level may borrow a total amount not exceeding 100% of its net capital from (i) banking financial institutions and (ii) subject to the approval from the competent regulatory authorities, institutional shareholders and other microfinance companies within the city.

70% of the outstanding loan balance of the microfinance company shall be applied to borrowers of a single account whose balance of the loan is no more than RMB1.0 million as well as borrowers engaged in agricultural activities such as farming and breeding, while the rest may be applied to other borrowers; provided that loans to any of such borrowers shall not exceed 5% of the net capital.

The percentage of the outstanding loan balance of the microfinance company applied to business loans (經營性貸款) with a term longer than two months shall be kept above 70%.

No loans shall be granted to the shareholders of the microfinance company. The aggregate amount of the outstanding loan balance of the microfinance company granted to the connected parties (who are defined as either the direct relatives (直系親屬) of individual shareholders or the parent company, subsidiaries, shareholders and/or senior executives of the institutional shareholders) shall be kept below 5% of the registered capital.

The interest rates cannot exceed four times the PBOC Benchmark Rate pursuant to the *Interim Measures of Zhejiang Province for the Administration of Pilot Operation of Microfinance Companies* (浙江省小額貸款公司試點暫行管理辦法) issued on 14 July 2008.

For more details, see “Business — Compliance and Legal Proceedings — Compliance with Relevant PRC Laws and Regulations” on page 133 of this Prospectus.

### Compliance status

Throughout the Track Record Period and as of the Latest Practicable Date, our bank borrowings never exceeded the threshold.

We complied with such requirement throughout the Track Record Period.

We complied with such requirement throughout the Track Record Period.

We complied with such requirement throughout the Track Record Period.

Throughout the Track Record Period, the interest rate of each of our loans was below four times of the PBOC Benchmark Rate.

## SUMMARY AND HIGHLIGHTS

### KEY FINANCIAL AND OPERATING DATA

#### *Summary Financial Information*

The table below sets forth a summary of our statement of profit or loss and other comprehensive income for the periods indicated:

	Period from 18 August to 31 December	Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income . . . . .	7,820	70,973	90,789	43,362	71,243
Interest and commission expenses . . . . .	(11)	(8,322)	(12,335)	(6,382)	(5,662)
<b>Net interest income . . . . .</b>	<b>7,809</b>	<b>62,651</b>	<b>78,454</b>	<b>36,980</b>	<b>65,581</b>
Other revenue . . . . .	390	634	5,626	2,355	19,834
Impairment losses . . . . .	(3,871)	(17,756)	(2,450)	(1,054)	(16,052)
Administrative expenses . . . . .	(3,836)	(10,353)	(12,660)	(5,636)	(7,980)
<b>Profit before tax . . . . .</b>	<b>492</b>	<b>35,176</b>	<b>68,970</b>	<b>32,645</b>	<b>61,383</b>
Income tax . . . . .	(157)	(8,939)	(17,354)	(8,172)	(15,370)
<b>Profit and total comprehensive income for the period/year . . . . .</b>	<b>335</b>	<b>26,237</b>	<b>51,616</b>	<b>24,473</b>	<b>46,013</b>

Our net interest income increased during the Track Record Period mainly due to an increase in our interest income, which was attributable to an increase in our outstanding loans. Our profit for the period/year also increased during the Track Record Period primarily as a result of: (i) an increase in our net interest income; and (ii) an increase in our other revenue, partly offset by an increase in our income tax during the same period. Our impairment losses recognized in our statement of profit or loss and other comprehensive income fluctuate according to the balance of allowances for impairment losses recognized as of the period/year end as a reserve we set aside to cover incurred losses based on our total outstanding loans. For more information, see “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Six months ended 30 June 2014 compared with six months ended 30 June 2013” and “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Year ended 31 December 2013 compared with year ended 31 December 2012” on page 195 and page 196 of this Prospectus.

## SUMMARY AND HIGHLIGHTS

The following table sets forth a summary of our assets and liabilities as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>				
Cash and cash equivalents . . . . .	9,576	19,612	81,100	56,068
Trading financial assets <sup>(1)</sup> . . . . .	—	—	150,000	—
Interest receivables . . . . .	1,111	2,828	8,622	7,156
Loans and advances				
to customers . . . . .	214,099	448,063	517,238	1,024,386
Fixed assets . . . . .	2,728	2,191	1,630	1,987
Deferred tax assets . . . . .	1,023	5,549	6,131	13,408
Other assets . . . . .	70	3,465	12,027	17,790
<b>Total assets</b> . . . . .	<b>228,607</b>	<b>481,708</b>	<b>776,748</b>	<b>1,120,795</b>
<b>Liabilities</b>				
Interest-bearing borrowings . . . . .	26,000	120,000	171,000	160,000
Accruals and other payables . . . . .	1,092	2,779	6,426	17,627
Current tax liabilities . . . . .	1,180	9,465	9,842	19,675
<b>Total liabilities</b> . . . . .	<b>28,272</b>	<b>132,244</b>	<b>187,268</b>	<b>197,302</b>
<b>Net assets</b> . . . . .	<b>200,335</b>	<b>349,464</b>	<b>589,480</b>	<b>923,493</b>

*Note:*

- (1) During the Track Record Period, in order to better flexibly utilize our surplus cash in hand, we purchased from time to time principal guaranteed and interest paying wealth management products offered by licensed commercial banks such as Agricultural Bank of China, Deqing Branch and Bank of China, Deqing Branch in the PRC, which we hold for a relatively short period of time, usually less than a week, and recorded investment returns. For such principal guaranteed products, the banks undertake to guarantee the full repayment of the principal on redemption which the Directors consider to be of a similar nature with bank deposits but generally offered slightly higher interest return than typical current bank deposits, thereby improving short-term capital usage efficiency and allowing the Company to earn additional investment return on its surplus cash. All our investments in trading financial assets are related to such wealth management products during the Track Record Period. In terms of net cash used in/generated from investing activities in relation to these investments, we had a net cash inflow of RMB0.4 million and RMB0.6 million for the period from 18 August 2011 to 31 December 2011 and the year ended 31 December 2012, respectively, a net cash outflow of RMB149.0 million for the year ended 31 December 2013, and a net cash inflow of RMB150.2 million for the six months ended 30 June 2014. The balance of such wealth management products amounted to RMB150.0 million as of 31 December 2013, while we did not have such financial wealth management products as of 31 December 2011 and 2012 and 30 June 2014. For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2014, we had investment returns from such wealth management products of RMB0.4 million, RMB0.6 million, RMB1.0 million and RMB0.2 million, respectively.

For more information, see “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Selected items of the statement of financial position” on page 202 of this Prospectus.

## SUMMARY AND HIGHLIGHTS

The following table sets forth a selected summary of our cash flow statement for the periods indicated:

	Period from 18 August to 31 December	Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash and cash equivalents at beginning of period/year . . . . .	—	9,576	19,612	19,612	81,100
Net cash used in operating activities . . . . .	(213,927)	(196,139)	(19,809)	(38,334)	(439,503)
Net cash (used in)/generated from investing activities . . . . .	(2,497)	588	(149,062)	(5,922)	149,479
Net cash generated from financing activities . . . . .	226,000	205,587	230,359	35,298	264,992
Net increase/(decrease) in cash and cash equivalents	<u>9,576</u>	<u>10,036</u>	<u>61,488</u>	<u>(8,958)</u>	<u>(25,032)</u>
Cash and cash equivalents at end of period/year . . . . .	<u><u>9,576</u></u>	<u><u>19,612</u></u>	<u><u>81,100</u></u>	<u><u>10,654</u></u>	<u><u>56,068</u></u>

For more information, see “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Cash flows” on page 199 of this Prospectus.

### **Key Financial Data**

The table below sets forth our key financial data for the periods indicated:

	Period from 18 August to 31 December	Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants <sup>(1)</sup> . . . . .	—	—	4,658	1,636	19,670
Net profit margin <sup>(2)</sup> . . . . .	4.3%	37.0%	56.9%	56.4%	64.6%
Return on weighted average equity . . . . .	NA	8.6%	13.8%	NA	12.2% <sup>(4)</sup>
Return on average assets <sup>(3)</sup> . . . . .	NA	7.4%	8.2%	NA	9.7% <sup>(4)</sup>

**Notes:**

- (1) Represent government grants in relation to the nature of our business, our capital increase, credit risk, performance assessment and auditing, mainly including government subsidies we received pursuant to the *Some Opinions of the People’s Government of Deqing County on Promoting the Financial Innovative Development* (德清縣人民政府關於推進金融創新發展的若干意見). For more information, see “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Results of Operations and Financial Condition — PRC tax incentives and government grants” on page 184 of this Prospectus.

## SUMMARY AND HIGHLIGHTS

- (2) Represents profit for the period/year divided by interest income.
- (3) Represents profit for the period/year divided by average balance of total assets as of the beginning and end of a period/year.
- (4) Is annualized by dividing the actual figure by six and multiplied by 12.

Our net profit margin increased from 37.0% in 2012 to 56.9% in 2013 mainly due to an increase in the net interest income of RMB15.8 million and a substantial decrease in the impairment losses of RMB15.3 million in 2013. Our net profit margin increased from 56.4% for the six months ended 30 June 2013 to 64.6% for the six months ended 30 June 2014 primarily because of: (i) a substantial increase in the net interest income of RMB28.6 million; and (ii) a significant increase in government subsidies in relation to EIT and business tax of RMB12.8 million, partly offset by a substantial increase in impairment losses of RMB15.0 million for the six months ended 30 June 2014. See “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 182 of this Prospectus.

### *Key Operating Data*

The table below sets forth our key operating data as of the dates and for the periods indicated:

	As of or for the period from 18 August to 31 December	As of or for the year ended 31 December		As of or for the six months ended 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Gross outstanding loans and advances to customers . . . . .	217,970	469,690	541,315	1,064,515
Average interest rate . . . . .	20.2%	18.4%	17.2%	15.6%
Impaired loan ratio <sup>(1)</sup> . . . . .	—	5.4%	2.8%	1.3%
Provision coverage ratio <sup>(2)</sup> . . . . .	N/A	84.8%	159.7%	293.4%
Provision for impairment losses ratio <sup>(3)</sup> . . . . .	1.8%	4.6%	4.4%	3.8%
Overdue loan ratio <sup>(4)</sup> . . . . .	—	2.3%	0.1%	0.1%

*Notes:*

- (1) Represents the balance of impaired loans divided by the balance of the gross outstanding loans and advances to customers. Impaired loan ratio indicates the quality of our loan portfolio.
- (2) Represents the allowances for impairment losses on all loans divided by the balance of impaired loans. The allowances 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. Provision coverage ratio indicates the level of provisions we set aside to cover probable loss in our loan portfolio.
- (3) Represents the allowances for impairment losses divided by the balance of the gross outstanding loans and advances to customers. Provision for impairment losses ratio measures the cumulative level of provisions.
- (4) Represents the overdue loans divided by the balance of the gross outstanding loans and advances to customers.



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## SUMMARY AND HIGHLIGHTS

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The balance of our gross outstanding loans increased during the Track Record Period, which was in line with our business scale primarily attributable to our enlarged capital base. The decline in our average interest rate during the Track Record Period was primarily: (i) in line with the market trend of the average interest rate charged by microfinance companies in Deqing, decreasing from 18.9% in 2012 to 16.8% in 2013 and further to 16.1% in the first half of 2014, which was primarily attributable to the generally decreasing trend of the PBOC Benchmark Rate from 6.56% as of 31 December 2011 to 6.00% as of 30 June 2014 and certain government policies promoting the sustained development of the microfinance industry by encouraging lowering of interest rate charged to facilitate marketization of interest rates and to realize economic efficiency, such as the *Some Opinions of the General Office of People's Government of Zhejiang Province on Further Promoting the Reform and Development of Microfinance Companies* (浙江省人民政府辦公廳關於深入推進小額貸款公司改革發展的若干意見); (ii) due to, in line with our enlarged capital base, the increased percentage of loans of an amount over RMB5 million granted during the Track Record Period, of which we charged a relatively lower interest rate compared to our other loans ranging from RMB500,000 to RMB5 million, given that such customers are relatively more established and financially stronger, and in order to increase our market share and expand our customer base to include those relatively large enterprises; and (iii) as a result of focusing more on serving customers with stronger repayment ability in 2013 and for the six months ended 30 June 2014, of which we charged a lower interest rate, after an increase in overdue loan ratio to 2.3% in 2012. Our impaired loan ratio and overdue loan ratio was higher in 2012, compared to those in other periods during the Track Record Period, primarily because of two loans with an aggregate amount of RMB10.0 million from a customer which were overdue as of 31 December 2012 but subsequently recovered in 2013. Except for the period from 18 August 2011 to 31 December 2011, our provision for impairment losses ratio remained stable during the Track Record Period. Our overdue loan ratio as of 30 June 2014 was much lower than the average overdue loan ratio of 0.5% of all microfinance companies in Deqing as of 30 June 2014. For more information, see “Business — Provisioning Policies and Asset Quality” on page 118 and “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies, Judgments and Estimates” on page 187 of this Prospectus.

### SOURCE OF FUNDING

Our funding sources consist primarily of capital contributions from Shareholders, bank borrowings and cashflow from operations. As of the Latest Practicable Date, our registered capital was RMB880.0 million. Currently, according to relevant laws and regulations, a microfinance company is only permitted to obtain bank borrowings up to a certain percentage, usually 50%, of its net capital for conducting its loan business. As a result, the scale of our business depends, to a large extent, on the amount of our registered capital. As of 30 June 2014, we had a registered capital of RMB880.0 million and had outstanding bank borrowings of RMB160.0 million from Bank of China, Deqing Branch. We were never in default on our bank loans during the Track Record Period. For further details, see “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” on page 199 of this Prospectus.

### LIQUIDITY AND CAPITAL RESOURCES

Our business is capital intensive and requires a substantial amount of operating cash as we expand our loan portfolio. Our liquidity and capital requirements primarily relate to extending loans and other working capital requirements. We have, in the past, funded our working capital and other capital

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## SUMMARY AND HIGHLIGHTS

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requirements primarily by capital contributions from Shareholders, bank borrowings and cash flows from operations. As of 31 December 2011, 2012 and 2013 and 30 June 2014, the effective interest rates for our interest-bearing borrowings were 8.5%, 7.8%, 7.2% and 7.0%, respectively.

During the Track Record Period, our business growth was mainly supported by funding from equity contributions which were classified as cash inflows from financing activities. However, the continuous growth in our loan portfolios during the Track Record Period resulted in increased cash outflows in the form of increased loans to customers, which were classified as cash outflows from operating activities. As a result of these classifications, we reported negative operating cash flows during the Track Record Period as we deployed our capital base for business expansion.

We plan to use the net proceeds from this Global Offering to further expand the capital base of our loan business. See “Future Plans and Use of Proceeds” beginning on page 220 in this Prospectus. As a result, we expect to continue to report negative operating cash flows in the near term after our Listing. See “Risk Factors — Risks Relating to Our Business and Industry — We reported negative operating cash flows during the Track Record Period and expect to continue to do so in the near term subsequent to the Listing” on page 34 and “Risk Factors — Risks Relating to Our Business and Industry — We may have difficulty sustaining our operations and growth if our access to funding is reduced” on page 32 in this Prospectus.

### RECENT DEVELOPMENTS

As of the Latest Practicable Date, our registered capital was RMB880.0 million. Since 30 June 2014, being the date of our latest audited financial statements, our business continued to grow. Our gross outstanding loans increased from RMB1,064.5 million as of 30 June 2014 to RMB1,087.8 million as of 31 October 2014, in line with the growth in our loan portfolio. Our interest income increased from RMB74.6 million for the ten months ended 31 October 2013 to RMB130.8 million for the ten months ended 31 October 2014, primarily due to an increase in our gross outstanding loans. Our average interest rate for loans was 15.6% for the ten months ended 31 October 2014. We had overdue loans of RMB475,000 as of 31 October 2014, accounting for 0.04% of our gross outstanding loans as of the same date. Such overdue loans have not been settled as of the Latest Practicable Date. As of 31 October 2014, our bank borrowings amounted to RMB160.0 million.

The abovementioned unaudited financial information, except for the average interest rate for loans, for the ten months ended 31 October 2014 has been derived from our internal financial statements, which has been reviewed by our reporting accountants in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Our Directors confirmed that, up to the date of this Prospectus, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since 30 June 2014, being the date of our latest audited financial statements.

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## SUMMARY AND HIGHLIGHTS

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### OFFERING STATISTICS

The statistics in the following table are based on the assumptions that: (i) the Global Offering is completed and 300,000,000 H Shares are newly issued in the Global Offering; (ii) the Over-allotment Option for the Global Offering is not exercised; and (iii) 1,180,000,000 Shares are issued and outstanding following the completion of the Global Offering:

	<u>Based on an Offer Price of HK\$1.27 per Share</u>	<u>Based on an Offer Price of HK\$1.39 per Share</u>
Market capitalization of our Shares . . . . .	HK\$1,499 million	HK\$1,640 million
Unaudited pro forma adjusted net tangible assets per Share <sup>(1)</sup> . . . . .	HK\$1.27	HK\$1.29

*Note:*

- (1) The amount of unaudited pro forma adjusted net tangible assets per Share is calculated in accordance with Rule 4.29 of the Listing Rules after the adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information.”

### DIVIDEND POLICY

In accordance with our Articles of Association, dividends may be paid only out of distributable profits as determined under PRC GAAP or HKFRS, whichever is lower. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, capital adequacy ratio, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors deems relevant. We declared cash dividends of RMB32.0 million in 2013. Our dividend distributions during the Track Record Period had complied with the applicable reserve requirements in the PRC. The undistributed profit accumulated before the Listing will be shared among current and future Shareholders. There is no assurance that we will be able to declare or distribute any dividend in the future. For more details, see “Financial Information — Dividend Policy” on page 217 of this Prospectus.

### LISTING EXPENSES

The Global Offering does not involve the listing of the Domestic Shares and the listing expenses incurred or to be incurred are predominately attributable to the issue of Offer Shares. The total listing expenses (including underwriting commission) in connection with the Global Offering are estimated to be approximately HK\$52.0 million, of which approximately HK\$46.5 million is directly attributable to the issue of Offer Shares and to be accounted for as a deduction from equity and approximately HK\$5.5 million is to be charged as expenses in the statement of profit or loss and other comprehensive income in the period in which the expenses are incurred. Listing expenses of approximately HK\$9.3 million directly attributable to the issue of Offer Shares were recognized as assets for the six months ended 30 June 2014. The remaining listing expenses to be incurred for the years ending 31 December 2014 and 2015 are estimated to be approximately HK\$14.4 million and HK\$28.3 million respectively. Of the HK\$14.4 million, approximately HK\$4.1 million will be charged as expenses whilst approximately HK\$10.3 million will be deducted from equity upon our successful Listing. The estimated listing expenses of HK\$1.6 million to be incurred for the year ending 31 December 2015 will be expensed as

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## SUMMARY AND HIGHLIGHTS

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incurred. We do not expect the above expenses to have a material impact on our results of operations in 2014 or 2015 as to be reflected in our statement of profit or loss and other comprehensive income for 2014 and 2015.

### USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$347.0 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us, and assuming the Offer Price of HK\$1.33 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. We intend to use all the net proceeds from the Global Offering to further expand the capital base of our loan business.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares will be approximately HK\$57.5 million, after deducting the underwriting commissions and our estimated expenses, assuming an Offer Price of HK\$1.33 per Share, being the mid-point of the indicative Offer Price range. We intend to use the additional proceeds for expanding the capital base of our loan business.

For more details, see “Future Plans and Use of Proceeds” on page 220 of this Prospectus.

### RISK FACTORS

Our operations 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 doing business in China; and (iii) risks relating to the Global Offering. Some of the risks generally associated with our business and industry include the following:

- Our business is subject to extensive regulation and supervision by national, provincial and local government authorities, which may interfere with the way we conduct our business and may negatively impact our business and results of operations.
- Generally, we rely on the creditworthiness of our customers and/or their guarantors, rather than on collateral or pledge, which may limit our ability to recover from defaulting customers.
- As our customers are SMEs, microenterprises and individuals, we are exposed to greater credit risks than lenders focusing more on medium to large enterprises.
- We may have difficulty sustaining our operations and growth if our access to funding is reduced.
- Changes in the interest rates and spread could have a negative impact on our revenue and results of operations.
- Competition in the industry we operate is growing and could cause us to lose market share and revenue in the future.

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## SUMMARY AND HIGHLIGHTS

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- Our current operations in China are geographically limited to Deqing. Any significant deterioration of the economy or business environment of Deqing could materially adversely affect our financial condition and results of operations.
- We reported negative operating cash flows during the Track Record Period and expect to continue to do so in the near term subsequent to the Listing.
- The collateral securing our loans may not be sufficient and we may be unable to realize the value of collateral in a timely manner, or in full.

These risks are not the only significant risks that may affect the value of our Shares. You should carefully consider all of the information set forth in this Prospectus and, in particular, should evaluate the specific risks set forth in “Risk Factors” on page 30 of this Prospectus in deciding whether to invest in our Shares.

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## DEFINITIONS

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*In this Prospectus, unless the context otherwise requires, the following words and expressions have the following meanings.*

“Acting in Concert Agreement”	an agreement entered into by Mr. Y Yu, Mr. Yu, Mr. Shen, Mr. Zhang and Puhua Energy and dated 28 April 2014. For details, please see “History and Development” in this Prospectus
“affiliate(s)”	any other person(s), directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person(s)
“AIC”	Administration of Industry & Commerce* (工商管理管理機關) in the PRC or, where the context so requires, the State Administration of Industry & Commerce of the PRC (中華人民共和國工商管理總局) or its delegated authority at provincial, municipal or other local level
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association”	the articles of association of the Company, conditionally adopted on 19 May 2014 and as amended from time to time, a summary of which is set out in “Appendix V — Summary of Articles of Association” in this Prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Bangni Fiber”	Zhejiang Bangni Refractory Fiber Co., Ltd. (浙江邦尼耐火纖維有限公司), formerly known as Deqing Bangni Refractory Fiber Co., Ltd.* (德清邦尼耐火纖維有限公司), a limited liability company established in the PRC on 17 March 2005 and one of our Promoters. The equity interest of Bangni Fiber is held as to 75.50% by Mr. Pan Zhongmin, a non-executive Director, and thus it is a connected person of the Company

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## DEFINITIONS

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“Beihu Construction”	Zhejiang Beihu Construction Company Limited* (浙江北湖建設有限公司), formerly known as Deqing County Beihu Construction and Engineering Company Limited* (德清縣北湖建築工程有限公司), Zhejiang Beihu Group Construction and Engineering Company Limited* (浙江北湖集團建築工程有限公司) and Huzhou Beihu Group Construction and Engineering Company Limited* (湖州北湖集團建築工程有限公司), a limited liability company established in the PRC on 24 May 1995 and one of our Promoters, the equity interest of which is held by two individuals, each of them being an Independent Third Party. Other than its shareholding interest in the Company, Beihu Construction is an Independent Third Party
“Board” or “Board of Directors”	the board of directors of the Company
“Business Day”	any day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CAGR”	compound annual growth rate
“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 general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	Mr. Yu
“China” or “PRC”	the People’s Republic of China, but for the purpose of this Prospectus and for geographical reference only and except where the context requires, references in this Prospectus to “China” and the “PRC” do not apply to Taiwan, Macau Special Administrative Region and Hong Kong

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## DEFINITIONS

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“close associate(s)”	has the meaning ascribed thereto under the 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,” “we,” “us” or “our”	Zuoli Kechuang Micro-finance Company Limited (佐力科創小額貸款股份有限公司), a joint stock company incorporated in the PRC with limited liability on 18 August 2011 and converted from our Predecessor Company on 28 April 2014 and where the context otherwise requires, its predecessor
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and in case of the Company, means Zuoli Holdings, Puhua Energy, Mr. Yu, Mr. Y Yu, Deqing Yintian, Mr. Shen, Dingsheng Investment and Mr. Zhang
“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 29 December 2014 entered into by our Controlling Shareholders with and in favor of the Company
“Deed of Non-Competition”	the deed of non-competition dated 4 September 2014 entered into by our Controlling Shareholders in favor of the Company
“Deqing”	Deqing County, Huzhou, Zhejiang, where the Company operates
“Deqing Yintian”	Deqing Yintian Equity Investment and Management Company Limited* (德清銀天股權投資管理有限公司), a limited company established in the PRC on 28 December 2011 wholly owned by Mr. Y Yu, and one of our Controlling Shareholders
“Dingsheng Investment”	Deqing Dingsheng Equity Investment and Management Company Limited* (德清鼎盛股權投資管理有限公司), a limited company established in the PRC on 28 December 2011 and wholly owned by Mr. Shen, and one of our Controlling Shareholders
“Director(s)”	the director(s) of the Company



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## DEFINITIONS

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“Domestic Share(s)”	ordinary share in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC-established entities
“EIT”	the PRC enterprise income tax
“EIT Law”	the <i>PRC Enterprise Income Tax Law</i> (中華人民共和國企業所得稅法)
“EY Advisory”	Ernst & Young (China) Advisory Limited, an international consulting firm providing data and analyses in relation to various industries, which is an Independent Third Party
“Financial Office”	the Financial Work Office of the People’s Government of Zhejiang Province (浙江省人民政府金融工作辦公室)
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Guiding Opinions”	<i>Guiding Opinions on the Pilot Operation of Microfinance Companies</i> (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
“H Share(s)”	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and are to be listed on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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## DEFINITIONS

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“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this Prospectus and the Application Forms, as further described in “Structure of the Global Offering”
“Hong Kong Offer Shares”	the 30,000,000 H Shares (subject to adjustment) being offered by us for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting — Hong Kong Underwriters” in this Prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 29 December 2014 relating to the Hong Kong Public Offering and entered into by, among others, the Joint Bookrunners, the Hong Kong Underwriters, the Controlling Shareholders and us, as further described in “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering” in this Prospectus
“Huacai Chemical”	Zhejiang Huacai Chemical Company Limited* (浙江華彩化工有限公司), formerly known as Deqing County Huacai Chemical Company Limited* (德清縣華彩化工有限公司) and Deqing County New Type Construction and Decoration Materials Company Limited* (德清縣新型建材裝潢材料有限公司), a limited liability company established in the PRC on 10 June 1993 and one of our Promoters, the equity interest of which is held by four individuals, each of them being an Independent Third Party. Other than its shareholding interest in the Company, Huacai Chemical is an Independent Third Party
“Huzhou”	Huzhou City, Zhejiang
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which, as far as the Directors are aware after having made all reasonable enquiries, is/ are not a connected person(s) of the Company within the meaning of the Listing Rules
“International Offering”	the conditional placing by the International Underwriters of the International Offer Shares outside the United States to institutional and professional investors in offshore transactions as defined in and in accordance with Regulation S, as further described in “Structure of the Global Offering” in this Prospectus

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## DEFINITIONS

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“International Offer Shares”	the 270,000,000 H Shares offered by the Company pursuant to the International Offering, together with, where relevant, any additional H Shares to be sold pursuant to the exercise of the Over-allotment Option
“International Underwriters”	the underwriters of the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering and to be entered into by, among others, us, the Controlling Shareholders, the Joint Bookrunners and the International Underwriters on or about 8 January 2015, as further described in “Underwriting — Underwriting Arrangements and Expenses — International Offering” in this Prospectus
“Jiangsu”	Jiangsu Province, a province located in the eastern coast of China
“Jinyan Import & Export”	Zhejiang Jinyan Import & Export Company Limited* (浙江津岩進出口有限公司), formerly known as Deqing County Jinyan Import & Export Company Limited* (德清縣津岩進出口有限公司), a limited liability company established in the PRC on 19 August 2008 and one of our Promoters. It is held as to 100% by Mr. Tang Hairong and his associates. Mr. Tang Hairong is a former director of our Predecessor Company and a former supervisor of our Company. Jinyan Import & Export is a connected person of the Company
“Joint Bookrunners” (in alphabetical order)	China Galaxy International Securities (Hong Kong) Co., Limited, Convoy Investment Services Limited and Guangdong Securities Limited
“Joint Lead Managers” (in alphabetical order)	China Galaxy International Securities (Hong Kong) Co., Limited, Convoy Investment Services Limited and Guangdong Securities Limited
“Jolly Pharmaceutical”	Zhejiang Jolly Pharmaceutical Co., Ltd. (浙江佐力藥業股份有限公司, stock code: 300181), a company established in the PRC on 28 January 2000 and listed on the Shenzhen Stock Exchange. As of the Latest Practicable Date, it is held as to 33.94% by Mr. Y Yu, a Controlling Shareholder, and thus is a connected person of the Company
“Latest Practicable Date”	22 December 2014, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information in this Prospectus prior to its publication
“Listing”	the listing of the H Shares on the Main Board

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## DEFINITIONS

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“Listing Committee”	the Listing Committee of The Stock Exchange of Hong Kong Limited
“Listing Date”	the date, expected to be on 13 January 2015, on which dealings in the H Shares first commence on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Mandatory Provisions”	the <i>Mandatory Provisions for Articles of Association of Companies to be Listed Overseas</i> * (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 Counsel and the former State Commission for Restructuring the Economic Systems on 27 August 1994
“Ministry of Finance” or “MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Shen”	Mr. Shen Haiying (沈海鷹), one of our Controlling Shareholders and the general manager and a director of Zuoli Holdings
“Mr. Y Yu”	Mr. Yu Youqiang (俞有強), father of Mr. Yu, one of our Controlling Shareholders and the chairman of the board of directors of Zuoli Holdings
“Mr. Yu”	Mr. Yu Yin (俞寅), our executive Director, Chairman of our Company and one of our Controlling Shareholders
“Mr. Zhang”	Mr. Zhang Jianming (張建明), one of our Controlling Shareholders and the deputy general manager and a director of Zuoli Holdings
“National Bureau of Statistics”	the National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

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## DEFINITIONS

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“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“Offer Price”	the final Hong Kong dollar price per H Share (exclusive of brokerage fee, Hong Kong Stock Exchange trading fee and SFC transaction levy) at which the Offer Shares are to be subscribed pursuant to the Global Offering
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional H Shares sold pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by us to the Stabilizing Manager on behalf of the International Underwriters under the International Underwriting Agreement pursuant to which the Company may be required to sell up to an additional aggregate of 45,000,000 H Shares (in aggregate representing 15% of the Offer Shares initially being offered under the Global Offering) at the Offer Price
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PBOC Benchmark Rate”	the deposit and lending interest rates set by the PBOC for commercial banks and other financial institutions in China
“PRC Company Law”	the <i>PRC Company Law</i> (中華人民共和國公司法)
“PRC GAAP”	the <i>Accounting Standards for Business Enterprises</i> promulgated by the Ministry of Finance
“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, any of them
“PRC Legal Advisers”	Dacheng Law Offices, legal advisers to the Company as to the PRC laws in connection with the Global Offering
“Predecessor Company” or “our Predecessor Company”	Deqing Zuoli Kechuang Micro-finance Company Limited* (德清佐力科創小額貸款有限公司), a limited liability company established in the PRC on 18 August 2011 and the predecessor of the Company
“Price Determination Agreement”	the agreement to be entered into by the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date to record and fix the Offer Price

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## DEFINITIONS

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“Price Determination Date”	the date, expected to be on or around 8 January 2015 but no later than 11 January 2015, on which the Offer Price is fixed for the purposes of the Global Offering
“Promoter(s)”	the promoters that established the Company on 28 April 2014. At the time of our establishment, our Promoters comprised six corporate shareholders and 44 individual shareholders
“Prospectus”	this prospectus issued in connection with the Hong Kong Public Offering
“Puhua Energy”	Deqing Puhua Energy Company Limited* (德清普華能源有限公司), formerly known as Deqing Puhua Materials Company Limited* (德清普華物資有限公司), a limited liability company established in the PRC on 31 October 2005 which is wholly owned by Zuoli Holdings, one of our Controlling Shareholders and our principal Promoter
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency for the time being of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Securities and Futures Commission” or “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 Share(s)
“Special Regulations”	the <i>Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies</i> (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
“Stabilizing Manager”	China Galaxy International Securities (Hong Kong) Co., Limited

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## DEFINITIONS

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“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Sole Sponsor”	China Galaxy International Securities (Hong Kong) Co., Limited, a licensed corporation under the SFO permitted to engage in type 6 of the regulated activities (as defined under the SFO), acting as the sole sponsor to the Listing
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	our supervisory committee established pursuant to the <i>PRC Company Law</i> , as described in “Directors, Supervisors and Senior Management” in this Prospectus
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs, as amended from time to time
“Track Record Period”	the period from 18 August 2011 (being the date of establishment of our Predecessor Company) to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the White Form eIPO Service Provider, <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited

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## DEFINITIONS

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“Yiweier Industry”	Huzhou Yiweier Industry Company Limited* (湖州伊唯爾實業有限公司), formerly known as Huzhou Yiweier Group Company Limited* (湖州伊唯爾集團有限公司), a limited liability company established in the PRC with limited liability on 10 June 1996 and one of our Promoters, the equity interest of which is held by two individuals, each being an Independent Third Party. Other than its shareholding interest in the Company, Yiweier Industry is an Independent Third Party
“Zhejiang”	Zhejiang Province, a province located in the southeastern coast of China
“Zuoli Holdings”	Zuoli Holdings Group Company Limited* (佐力控股集團有限公司), previously known as Zhejiang Shuangyou Industrial Development Company Limited* (浙江雙友實業有限公司), a limited liability company established in the PRC on 18 April 2011 and one of our Controlling Shareholders. See “Relationship with Controlling Shareholders — Background of Our Controlling Shareholders — Zuoli Holdings” for further details of the ownership structure of Zuoli Holdings

\* denotes English translation of the name of a Chinese company or entity, or vice versa, and is provided for identification purposes only



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## GLOSSARY

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*This glossary of technical terms contains terms used in this Prospectus in connection with us and our business. Some of these terms and their meanings may not correspond to standard industry meanings or usage of such terms.*

“AFR (三農)”	agriculture, rural areas and farmers or, as the case may be, individuals or organizations engaged in agricultural businesses and/or rural development activities, and/or residing in rural areas
“average interest rate”	annualized weighted average interest rate, which equals the sum of loan interest incurred during a certain period as a percentage of the weighted average of the loan principal
“gross outstanding loans”	gross loans and advances to customers, representing loans and advances to customers before netting off the allowances for impairment losses
“loan-to-value ratio”	outstanding collateralized loans as divided by the value of collateral of such collateralized loans
“microenterprise(s)”	microenterprise(s), as defined in the <i>Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises</i> (關於印發中小企業劃型標準規定的通知) promulgated by the National Bureau of Statistics, the Ministry of Finance, the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) and the NDRC in June 2011. For example, in respect of the retail business, a microenterprise refers to an entity with fewer than ten employees or annual revenue of less than RMB1.0 million
“net capital”	net asset or ownership equity, according to the annual appraisal carried out by the Financial Office, when determining whether microfinance companies are in compliance with the relevant regulations
“overdue loan(s)”	loan(s) with whole or part of the principal or interest that was overdue for one day or more
“provision coverage ratio”	allowances for impairment losses on loans as divided by the balance of impaired loans

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## GLOSSARY

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“return on weighted average equity”

$P0/(E0 + NP \div 2 + E_i \times M_i \div M0 - E_j \times M_j \div M0 \pm E_k \times M_k \div M0)$ , of which P0 refers to the net profit attributable to our Shareholders and net profit attributable to our Shareholders; NP refers to the net profit attributable to our Shareholders; E0 refers to the net assets attributable to our Shareholders at the opening of a reporting period;  $E_i$  refers to the additional of net assets attributable to our Shareholders resulted from, among other things, issuing of new shares during the reporting period;  $E_j$  refers to the reduction of net assets attributable to our Shareholders resulted from share repurchase or cash dividend during the reporting period; M0 refers to the number of months of the reporting period;  $M_i$  refers to the accumulative number of months for the period between the second month since the additional of net assets occurred and the end of the reporting period;  $M_j$  refers to the accumulative number of months for the period between the second month since the net assets reduction occurred and the end of the reporting period;  $E_k$  refers to the change in net assets attributable to ordinary shareholders of the Company resulted from other transactions or matters;  $M_k$  refers to the accumulative number of months for the period between the second month since the other changes, namely addition or reduction, in net assets occurred and the end of the reporting period

“SME(s)”

small and medium-sized enterprise(s), as defined in the *Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises*. 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

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## FORWARD-LOOKING STATEMENTS

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We have included in this Prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and the 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 business and operating strategies and our ability to implement such strategies;
- future developments, trends, conditions and the competitive environment in the industry and markets in which we operate or into which we intend to expand;
- our expansion plan;
- financial market developments;
- our financial condition and performance;
- our future debt levels and capital needs;
- changes in economic conditions in the cities in which we operate, including a downturn in the property markets and general economy in China;
- our strategies, plans, objectives and goals;
- our ability to reduce costs;
- our dividend policy;
- our capital expenditure plans;
- our business prospects;
- 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;
- the actions and developments of our competitors;
- certain statements in “Financial Information” with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical facts.

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## FORWARD-LOOKING STATEMENTS

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In some cases, we use the words “aim,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “ought to,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and similar expressions to identify forward-looking statements. In particular, we use these forward-looking statements in “Business” and “Financial Information” in this Prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Our Directors confirm that the forward-looking statements are made after reasonable care and due consideration. By their nature, however, forward-looking statements require us to make assumptions that are subject to inherent risks and uncertainties. As such, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to this cautionary statement.

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## RISK FACTORS

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*Investing in the H Shares involves a high degree of risk. You should carefully consider each of the risks described below and all of the other information contained in this Prospectus before deciding to invest in the H Shares. You should be aware that our business and operations in China are governed by a legal and regulatory environment that in some respects differs significantly from that in other countries.*

*If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In that case, the trading price of the H Shares could decline, and you may lose all or part of your investment.*

Our operations 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 doing business in China; and (iii) risks relating to the Global Offering.

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

***Our business is subject to extensive regulation and supervision by national, provincial and local government authorities, which may interfere with the way we conduct our business and may negatively impact our business and results of operations.***

The microfinance industry in China is subject to extensive government regulation at the national, provincial and local levels. Numerous regulatory authorities of the PRC Government are empowered to issue and implement regulations governing various aspects of the microfinance industry. As such, we face the risk of significant intervention by PRC regulatory authorities and could be subject to administrative or regulatory penalties and limitations or conditions on our business activities if we are deemed to have been non-compliant with applicable laws and regulations.

Extensive government regulation and the related delays in seeking the appropriate approvals can also significantly delay the implementation of our business expansion plans or introduction of new loan and loan-related products, which could materially adversely affect our market competitiveness, profitability and prospects. If we fail to obtain or maintain any of these approvals or licenses, we may be subject to various penalties. Even if we do obtain approval from the competent authorities, such approval may be granted on a limited basis or subject to modification of our products, which could increase our costs.

Furthermore, as China's legal system and microfinance industry continue to evolve, changes in the relevant laws and regulations or in their interpretation or enforcement may make it difficult for us to comply with regulatory requirements. If we cannot comply with such regulatory requirements, we may not be able to obtain or maintain the necessary approvals, licenses or permits, which may adversely affect our business, financial condition, results of operations and prospects.

***Our limited operating history makes it difficult to evaluate our results of operations and prospects.***

We were established on 18 August 2011 and have a limited operating history. Our net interest income for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014 was RMB7.8 million, RMB62.7 million,

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## RISK FACTORS

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RMB78.5 million, RMB37.0 million and RMB65.6 million, respectively. Although we have experienced revenue growth since our inception, we cannot assure you that our revenue will continue to increase at previous rates or at all, or that we will be able to operate profitably in future periods. Our limited operating history makes the prediction of future results of operations difficult and, therefore, past revenue growth experienced by us should not be taken as indicative of our future performance. You should consider our business and prospects in light of the risks, uncertainties, expenses and challenges that we will face as an early-stage microfinance company operating in new, rapidly evolving and challenging markets such as the microfinance industry.

***Generally, we rely on the creditworthiness of our customers and/or their guarantors, rather than on collateral or pledge, which may limit our ability to recover from defaulting customers.***

A large portion of our loan portfolio is based solely on credit or backed by guarantees, instead of being secured by collateral or pledge. As of 31 December 2011, 2012 and 2013 and 30 June 2014, 91.9%, 82.9%, 85.0% and 88.2% of our total gross outstanding loans were unsecured loans and guaranteed loans. We have developed a series of credit evaluation procedures that enables us to make credit decisions based on the creditworthiness of our customers and/or their guarantors rather than the value of collateral or pledge, and we expect a majority of our loans to be unsecured by collateral or pledge in the future. However, in general, our ability to recover payments from defaulting customers of unsecured loans and guaranteed loans is more limited than those backed by collateral or pledge.

Our customer's repayment ability is affected by various factors including economic development in the regions where our customer locates or operates, market conditions in the industry where our customer conducts business, and development of our customer's business. As a result, if our customers of unsecured loans default for any reason, our return and results of operations could be adversely affected. For our guaranteed loans, upon a customer's default, we may not be able to locate the guarantor, or the guarantor may have limited or no financial resources to make full payment on the customer's behalf, each of which may materially adversely affect our financial condition and results of operations. See "Business — Provisioning Policies and Asset Quality."

If (i) our customers of unsecured loans default, or (ii) our customers of guaranteed loans default and we are unable to receive full repayment from the guarantors, we may apply to enforce our claims against the defaulting customers, their guarantors and their assets, such as land use rights, machinery and real property, through court orders. However, the enforcement application for assets of another person and liquidating or realizing the value of such assets may be time consuming or ultimately unsuccessful. In addition, the enforcement process may be difficult for legal and practical reasons. Furthermore, the defaulting customers and their guarantors may have concealed, transferred or sold their assets beforehand, which makes it difficult or impossible for us to apply for enforcement. Moreover, if the foreclosed assets are mortgaged and registered in favor of third parties, our interests will be ranked behind these third parties and our unsecured rights may not be enforced until secured creditors receive full payment, thereby limiting or even preventing us from benefiting from such assets.

***As our customers are SMEs, microenterprises and individuals, we are exposed to greater credit risks than lenders focusing more on medium to large enterprises.***

There are inherent risks associated with our business, including credit risk, which refers to the risk that a borrower may default on the repayment of any outstanding loan balance. As a microfinance company, we extend credits to SMEs, microenterprises and individuals. These borrowers generally have

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## RISK FACTORS

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fewer financial resources in terms of capital or borrowing capacity than larger entities and may have fewer financial resources to weather a downturn in the economy. Such borrowers may expose us to greater credit risks than lenders lending to larger, better-capitalized businesses with longer operating histories. Conditions such as inflation, economic downturn, local policy change, adjustment of industrial structure and other factors beyond our control may increase our credit risk more than such events would affect lenders focusing more on medium to large enterprises. In addition, since our business is currently limited in Deqing, our ability to geographically diversify our economic risks is limited by the local markets and economy. Also, decreases in local real estate value could adversely affect the values of the real property used as collateral for our secured loans. Such adverse changes in the local economy may have a negative impact on the ability of borrowers to repay their loans and the value of our collateral, and our financial condition and results of operations may be adversely affected.

***We may have difficulty sustaining our operations and growth if our access to funding is reduced.***

Our business is largely driven by our capital base. Consequently, our ability to sustain our operations and implement our business expansion plans depends, to a significant extent, on our continued access to funding and ability to expand our capital base. Currently, according to PRC laws and regulations, a microfinance company is only permitted to obtain bank borrowings up to a certain percentage, generally 50%, of its net capital, and may not receive any deposits from the public for conducting banking activities. See “Regulatory Overview.” As such, we finance our operations primarily through a combination of capital contributions from Shareholders and borrowings from banks. However, our ability to raise additional funds from our financing sources may be limited by our future financial performance as well as a number of factors outside of our control, such as government regulatory changes, general market conditions for capital raising activities, the availability of bank liquidity in general, and the economic and political environment in and outside of China. If these sources of funding are not available to us on a regular basis, on reasonable terms, or at all, we may be required to reduce or suspend our business activities. In the event that we have to downsize our operating scale, our financial condition, results of operations and liquidity position would be materially adversely affected.

***Changes in the interest rates and spread could have a negative impact on our revenue and results of operations.***

Our revenue and financial condition are primarily dependent on interest income, which is the difference between interest earned from loans we provide and interest paid for our bank borrowings. The interest rates we charge the borrowers are linked to the PBOC Benchmark Rate, which may fluctuate significantly due to changes in the PRC Government’s monetary policy. We are subject to the restriction that our interest rates cannot exceed four times the PBOC Benchmark Rate pursuant to the *Interim Measures of Zhejiang Province for the Administration of Pilot Operation of Microfinance Companies* (浙江省小額貸款公司試點暫行管理辦法) issued on 14 July 2008. If we have to reduce the interest rates we charge the borrowers to reflect the decrease of the PBOC Benchmark Rate, the interest earned from our loans will decline. Furthermore, we may face fierce competition and price wars and as a result, we may lower our interest rates, which would adversely affect our earnings and financial conditions.

In addition, if we are not able to control our funding costs or adjust our lending interest rates in a timely manner, we will experience a narrowing interest rate spread, which could adversely affect our earnings and financial conditions.

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## RISK FACTORS

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***Competition in the industry we operate is growing and could cause us to lose market share and revenue in the future.***

We operate in an increasingly competitive industry. 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 levels of funding for their operations but do not meet the criteria to obtain bank loans from larger commercial banks or traditional financial institutions. This has led to the emergence of many licensed microfinance companies and other similar businesses. Furthermore, some of the unlicensed businesses, due to their unregulated nature and lack of government supervision, may add disruptive pressure on the competition in our industry. We believe that competition in the microfinance industry will continue to intensify as the industry matures and begins to consolidate. In Deqing, we compete with other microfinance companies that offer the same or similar loan products, some of which may have larger assets, stronger market positions, more diverse product offerings and a broader customer base.

***Our business model could be negatively affected by changes and fluctuations in the banking industry.***

We are dedicated to serving local customers, primarily focusing on SMEs, microenterprises and individuals in the agricultural, industrial and service sectors in Deqing. Our business model is established based on the fact that such SMEs, microenterprises and individuals are generally underserved by the banking industry in China, for the reason that they generally lack sufficient business scale and/or do not possess acceptable collateral to obtain credit. In addition, the loan approval process of commercial banks is time consuming, which conflicts with the needs of such customers for quick access to loans. These have created opportunities for us to develop and expand our business. However, there may be changes and fluctuations in the banking industry in China. Microfinance businesses may become more attractive to commercial banks along with the market development, or commercial banks may be involved more in the financing of SMEs, microenterprises and individuals in the agricultural, industrial and service sectors in light of the PRC Government's support of such financing. Under such circumstances, we may face greater competition in our business and may not succeed in competing with commercial banks.

In addition, our business may be affected by other changes in the banking industry. For example, in times of liquidity squeeze within the banking industry, we may not be able to get sufficient bank borrowings from the banks we cooperate with. Since we source our funding primarily from capital contributions from our Shareholders and borrowings from commercial banks, our funding available to granting of loans may decrease due to the liquidity squeeze measures. As a result, our business and results of operations may be adversely affected.

***Our current operations in China are geographically limited to Deqing. Any significant deterioration of the economy or business environment of Deqing could materially adversely affect our financial condition and results of operations.***

In accordance with the PRC state and provincial laws and regulations with regard to microfinance companies, we are not permitted to extend loans to businesses and individuals located outside of Deqing. As such, all of our business activities and our outstanding loans during the Track Record Period were originated from Deqing. If our operations are limited in Deqing in the future, our growth opportunities will depend on the stability of the economy in Deqing. Any significant downturn in the local economy or the implementation of local policies unfavorable to SMEs and microenterprises in



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general may result in a decrease in demand for our loans, as well as adversely affecting the ability of borrowers to repay their loans on a timely basis, both of which could have a negative impact on our business and profitability.

***We reported negative operating cash flows during the Track Record Period and expect to continue to do so in the near term subsequent to the Listing.***

During the Track Record Period, our business development was mainly supported by capital contributions from our Shareholders, which are classified as cash inflows from financing activities. Our cash inflows from equity contributions were RMB200.0 million, RMB122.9 million, RMB220.4 million and RMB288.0 million for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013 and the six months ended 30 June 2014, respectively. We did not have cash inflows from equity contributions for the six months ended 30 June 2013. However, the expansion of our loan portfolio during the Track Record Period resulted in increased cash outflows in the form of loans to customers, which were classified as cash used in operating activities. As a result, we incurred net cash used in operating activities of RMB213.9 million, RMB196.1 million, RMB19.8 million, RMB38.3 million and RMB439.5 million for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, respectively. Our cash used in operating activities primarily consists of granting of loans. Due to the nature of our business, when growth rate of our loan portfolio is greater than that of the loans repaid by the borrowers, there will be net operating cash outflow.

We plan to use the net proceeds from the Global Offering to further expand the capital base of our loan business. See “Future Plans and Use of Proceeds.” We expect to deploy the additional capital to continue to expand our loan portfolio, which will be classified as operating cash outflows, 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 our ability to obtain additional borrowings from banks.

***The collateral securing our loans may not be sufficient and we may be unable to realize the value of collateral in a timely manner, or in full.***

During the Track Record Period, we offered secured loans, including collateralized loans to our customers in Deqing. As of 30 June 2014, 11.7% of our gross outstanding loans in terms of amount were secured by collateral, including land use rights and building ownership rights. The value of collateral may fluctuate and decline due to various factors, including those affecting the PRC economy, real estate and financial market in general. Moreover, the growth in the real estate industry and price of real estate properties in China are significantly influenced by macroeconomic policies of the PRC Government, such as interest rate and credit policies.

In addition, the procedures for liquidating or otherwise realizing the value of collateral of borrowers in China may be protracted or ultimately unsuccessful, and the enforcement process in China may be difficult for legal and practical reasons. Moreover, some of our loans are secured by collateral that carries rights subordinated to other secured creditors with higher priority. If the borrowers providing collateral default, our security interest in the collateral may not be realized until creditors with higher priority have been paid in full. Moreover, there is no assurance that we will be able to realize the value

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of collateral in a timely manner, or the residual values of the collateral are sufficient to cover the outstanding balance of the subordinated collateral loans after settling the first and other higher ranking secured loans in full in case of foreclosure.

***Our allowances for impairment losses may not be adequate to cover actual losses or prevent a material adverse effect on our business, financial condition and results of operations, and increases in allowances for impairment losses will cause our net profit to decrease.***

As of 30 June 2014, our total allowances for impairment losses were RMB40.1 million. The amount of allowances for impairment losses is based on our assessment of various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrowers' operational and financial condition, repayment ability and intention and the realizable value of collateral or pledge. Many of these factors are neither predictable nor within our control.

If our risk assessment and expectations differ from actual events, or if the quality of our loan portfolio deteriorates, our allowances for impairment losses may not be adequate to cover our actual losses and we may need to set aside additional provisions, which could materially adversely affect our business, financial condition and results of operations. In addition, our allowances for impairment losses may continue to increase as a result of future regulatory and accounting policy changes, deviations in loan classification or our own decision in light of the lack of clarity in the applicable regulations with regard to microfinance companies. Any increase in allowances for impairment losses will result in a decrease in net profit and may have a material adverse effect on our financial condition and results of operations.

***We may encounter difficulties when developing new loan and loan-related products and expanding into new markets.***

We plan to introduce a number of innovative products as part of our plan to broaden our loan product offering. However, we can give no assurance that our newly developed products will successfully address our customers' needs. In addition, we may not be able to obtain regulatory approvals for some of our new products we plan to launch. Furthermore, our new products may involve increased and unperceived risks and may not provide the returns that we expect. If we are unable to achieve the intended results for our new products, our business, financial condition, results of operations and prospects may be adversely affected.

Subject to receiving the requisite approval and/or license, we also plan to expand our geographic coverage by expanding our operations into other regional markets in the future, such as the remaining areas of Huzhou. However, we may not be able to replicate our business model in Deqing in other major regions or new markets. In expanding our business, we may enter markets in which we have limited or no experience. We may not be familiar with the local business and regulatory environment and fail to attract a sufficient number of customers due to our limited presence in that region. 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 these and other difficulties in our geographic expansion, our results of operations and prospects may be adversely affected.

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***We benefit from government grants, the loss of or a reduction in which could reduce our profits.***

During the Track Record Period, we received government grants in relation to the nature of our business, our capital increase, credit risk, performance assessment and auditing. See “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Results of Operations and Financial Condition — PRC tax incentives and government grants.” For the year ended 31 December 2013 and the six months ended 30 June 2013 and 2014, our government grants amounted to RMB4.7 million, RMB1.6 million and RMB19.7 million, respectively, representing 6.8%, 5.0% and 32.0% of our profit before tax during the same periods, respectively. We did not receive government grants for the period from 18 August 2011 to 31 December 2011 and the year ended 31 December 2012.

However, we cannot assure you that we will continue to receive the same or similar government grants as the relevant government policies may change over time. Any loss of or reduction in government grants could have an adverse effect on our financial condition, results of operations and prospects.

***Our risk management and internal control systems may not fully protect us against various risks inherent in our business.***

We have established risk management and internal control systems consisting of the relevant organizational framework policies, risk management policies and risk control procedures to manage our risk exposures, primarily credit risk, operational risk and legal risk as well as liquidity risk. However, we may not be successful in implementing our risk management and internal control systems. While we seek to continue to enhance our risk management and internal control systems from time to time, we cannot assure you that our risk management and internal control systems are adequate or effective notwithstanding our efforts, and any failure to address any potential risks and internal control deficiencies could materially adversely affect our business, financial condition and results of operations.

Since our risk management and internal control systems depend on their implementation by our employees, we cannot assure you that all of our employees will adhere to such policies and procedures, and the implementation of such policies and procedures may involve human errors or mistakes. Moreover, our growth and expansion may affect our ability to implement stringent risk management and internal control policies and procedures as our business evolves. If we fail to timely adopt, implement and modify, as applicable, our risk management and internal control policies and procedures, our business, financial condition and results of operations could be materially adversely affected.

***We have limited information regarding the SMEs, microenterprises and individuals to which we provide loans, and the quality of our credit evaluation may be compromised as a result.***

Substantially all of our customers are the SMEs, microenterprises and individuals who have difficulties in obtaining loans from banks, such as certain underserved groups including young entrepreneurs with college degree, veterans and persons with disabilities. While our credit evaluation depends primarily on customer due diligence reviews, there is limited information available about SMEs, microenterprises and individuals. For example, our enterprise customers might not maintain complete accounting records or other financial information, document their business model and procedures, or have sufficient internal control as the larger corporate entities would have. Our individual customers might lack record on their financial condition or adequate information related to their capabilities and

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reputations. We rely on our customer relationship managers to conduct due diligence reviews in respect of our customers' financial condition and to obtain and verify the information necessary to enable us to make credit evaluations. For more details, see "Business — Risk Management." However, lack or inadequacy of information may not only result in additional efforts and costs on, but also undermine the effectiveness of, our customer due diligence reviews. There are difficulties in covering all material information necessary to make a fully informed decision through our customer due diligence process, and our due diligence efforts may not be sufficient to identify the risks associated with the loans. If we fail to perform thorough due diligence reviews or discover customer credit deficiency, the quality of our credit evaluation may be compromised. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have a material adverse effect on our business, financial condition and results of operations.

In addition, we may not be able to monitor our customers' actual use of the loans we grant, or verify if our customers have other undisclosed assets or borrowings. In addition, we may not be able to detect our customers' suspicious or illegal transactions, such as money laundering activities, and we may suffer financial and/or reputational damage as a result.

***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 approve a loan application beyond authorized credit limits or collude with customers to hide key customer information in order to help such customers obtain loans by fraud. In addition, a customer or third party may make fraudulent accounting statement or other false statements to deceive our employees. Such fraud and misconduct could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. We have in place risk management systems and internal control procedures to monitor our operations and overall compliance. For example, we have adopted a risk responsibility scheme, under which our customer relationship managers, risk management department and other relevant personnel in charge of loan assessments and approvals take varying shares of responsibility for the loss resulting from a customer's default. However, there is no assurance that we can identify non-compliant or suspicious transactions in a timely manner, or at all. Moreover, it may be difficult to deter or prevent fraud or misconduct at all times, and the precautions we take to prevent and detect such activities may not be effective. As a result, we cannot assure that our business and reputation will not be materially adversely affected by future incidents of fraud and other misconduct committed by our employees or other parties.

***Our results of operations may be adversely affected if there are failures in our information technology systems.***

We rely, to a large extent, on our information technology systems for daily operations. Our information technology systems allow us to enter and collect data, process loan applications, monitor portfolio and conduct post-loan grant reviews. Our operating efficiency and risk management practices have been enhanced by such information technology systems. However, we cannot assure you that any damage or interruption caused by power outages, computer viruses, hardware and software failures, telecommunications failures, fires, natural disasters and other similar events relating to our information technology systems will not happen in the future. Additionally, restoring any damaged information

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technology systems may incur significant costs and require additional workforce. If any serious damage or significant interruption occurs, we may experience errors in the systems and our operations may be disrupted.

***Our inability to attract, retain or secure key management and qualified personnel for our operations could hinder our continuing growth and success.***

Our success depends on the services and efforts of key management and other employees and our ability to continue to attract, retain and motivate qualified personnel to a significant extent. We compete with other microfinance companies and financial services providers for experienced management and other qualified personnel, and the competition for such personnel is intense. There can be no assurance that we will be able to continue to attract and retain the qualified employees essential for our growth. Given our relatively lean human resources structure, the loss of services of any employee holding an important position or possessing industry expertise or experience, including those in charge of risk management, credit evaluation, sales and marketing, collection, and accounting and financial management, could have a material adverse effect on our operations. Under such circumstances, if we are unable to recruit and retain replacement personnel with the equivalent qualifications in time or at all, our growth and success could be adversely affected. For more information on our key management, see “Directors, Supervisors and Senior Management” in this Prospectus.

***We have no insurance coverage for our business or our bank accounts, which could expose us to significant costs and business disruption.***

Our business and operations involve many risks, including the borrowers’ failure to repay principal and make interest payments when due, losses of key personnel, business interruption due to fire, power shortages, network failure or labor disturbances, and risks posed by natural disasters including storms, floods and earthquakes, any of which may result in significant costs or business disruption. In addition, we do not maintain any credit insurance, business interruption insurance, third-party liability insurance or any other insurance policies, except for the mandatory social insurance for our employees. If we incur any loss that is not covered by our insurance coverage, our business, financial condition and results of operations could be materially adversely affected.

We maintain 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.

***The future development and implementation of anti-money laundering laws in China may increase our obligation to supervise and report transactions with our customers, thereby increasing our costs and exposing us to criminal or administrative sanctions for non-compliance.***

PRC laws and regulations relating to anti-money laundering have developed significantly in recent years. According to our PRC Legal Advisers, we are not currently subject to PRC anti-money laundering laws and regulations and are not required to establish specific identification and reporting procedures relating to anti-money laundering. However, we may be subject to new requirements as a result of new development of anti-money laundering laws to supervise and report transactions with our customers, which may increase our costs or expose us to potential criminal or administrative sanctions if we fail to establish and implement adequate procedures in accordance with the relevant laws and regulations.

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### RISKS RELATING TO DOING BUSINESS IN CHINA

*We are vulnerable to adverse changes in economic, political and social conditions and government policies in China.*

We are established, and all of our operations and assets are located, in China. Accordingly, our financial condition, results of operations and prospects are subject, to a significant degree, to the economic, political and social conditions and government policies in China. The PRC economy differs from the economies of most developed countries in a number of respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange. Before its adoption of reform and open-door policies beginning in 1978, China was primarily a planned economy. Since that time, the PRC economy has been reformed from a planned economy to a market economy with socialist characteristics.

For approximately three decades, the PRC Government has implemented economic reform measures to utilize market forces in the development of the PRC economy. Many of the reform measures are unprecedented or experimental and are expected to be modified from time to time. Other political, economic and social factors may also lead to further readjustment or introduction of other reform measures. This reform process and any changes in laws and regulations or the interpretation or implementation thereof in China may have a material impact on our operations or may adversely affect our financial condition and results of operations.

While the PRC economy has grown significantly in the past 30 years, this growth has been geographically uneven among various sectors of the economy and during different periods. We cannot assure you that the PRC economy will continue to grow, or that if there is growth, such growth will be steady and uniform. Any economic slowdown may have a negative effect on our business. For example, as the PRC economy experienced high rates of increase in residential property prices in recent years, the PRC Government adopted a number of measures, including raising statutory reserve rates for banks and controlling bank lending to certain industries or economic sectors, to combat high property prices and prevent the economy from overheating. We cannot assure you that the various macroeconomic measures and monetary policies adopted by the PRC Government to guide economic growth and the allocation of resources will be effective in improving the growth rate of the PRC economy. In addition, such measures, even if they benefit the overall PRC economy in the long term, may materially adversely affect us if they reduce demand for our loan products.

*The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.*

The legal system in China has inherent uncertainties that could limit the legal protection available to our Shareholders. As we are a company established under the PRC law and all of our business and operations are conducted in China, we are principally governed by the PRC laws, rules 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.

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However, many of these laws and regulations are relatively new, and because of the limited volume of published decisions, 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.

***The PRC Government's control over foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our H Shares.***

Currently, Renminbi still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that, under a certain exchange rate, we will have sufficient foreign currencies to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following the completion of the Global Offering, do not require prior approval from the 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 the SAFE.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the 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 currencies may restrict our ability to obtain sufficient foreign currencies for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements.

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

The Company is established in China. All of our assets are located in China and the majority of our Directors, Supervisors and executive officers reside in China. Therefore, it may not be possible to effect service of process within Hong Kong or elsewhere outside China upon us or our Directors, Supervisors or executive officers. Moreover, China has not entered into a treaty for the reciprocal recognition and enforcement of court judgments with the United Kingdom, Japan and many other countries. As a result, recognition and enforcement in China of a court judgment obtained in other jurisdictions may be difficult or impossible.

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 Agreements between Parties Concerned.” 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

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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. As a result, it may be difficult or impossible for investors to enforce a Hong Kong court judgment against our assets or our Directors, Supervisors or executive officers in China.

***Payment of dividends is subject to restrictions under the PRC law.***

Under the PRC law and our Articles of Association, we may only pay dividends out of distributable profits. Distributable profits are our after-tax profits as determined under PRC GAAP or HKFRS, 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 profits to enable us to make dividend distributions to our Shareholders, including in periods for which our financial statements indicate we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

***Foreign individual holders of our H Shares may become subject to PRC income tax and the PRC tax obligations of foreign enterprises that are holders of our H Shares remain uncertain.***

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of H Shares.

Non-PRC resident individual holders of our H Shares are required to pay PRC individual income tax at a rate of 20% under the *PRC Individual Income Tax Law* (中華人民共和國個人所得稅法), unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside reduce, or provide an exemption for, the relevant tax obligations. Generally, a convenient tax rate of 10% shall apply to the dividends paid by a company listed in Hong Kong to foreign individuals according to the tax treaties between China and Hong Kong. When a tax rate of 10% is not applicable, the withholding company shall: (i) return the excessive tax amount if the applicable tax rate is lower than 10%; (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%; and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For non-PRC resident enterprises that do not have establishments or premises in China, or have establishments or premises in China but their income is not related to such establishments or premises, under the *EIT Law*, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to the EIT at a rate of 20%. In accordance with the *Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders Which are Overseas Non-resident 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) issued by the SAT, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between China and the jurisdiction of the residence of the relevant non-PRC resident enterprise.



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Despite the arrangements mentioned above, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and rules due to several factors, including whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders of our H Shares will be subject to PRC individual income tax at a flat rate of 20%.

In addition, there remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by the PRC's tax authorities, including the taxation of capital gains by non-PRC resident enterprises, individual income tax on dividends to non-PRC resident individual holders of our H Shares and on gains realized on the sale or other disposition of our H Shares. The PRC's tax laws, rules and regulations may also change. If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your investment in our H Shares may be materially affected.

***Inflation in China could negatively affect our profitability and growth.***

Economic growth in China has, in the past, been accompanied by periods of high inflation, and the PRC Government has implemented various policies from time to time to control inflation, including imposing various corrective measures designed to restrict the availability of credit or regulate growth. High inflation in the future may cause the PRC Government to once again impose controls on credit and/or price of commodities, or to take other actions, which could inhibit economic activities in China. Any action on the part of the PRC Government that seeks to control credit and/or price of commodities may adversely affect our business operations.

***The national and regional economies in China and our business may be adversely affected by natural disasters, acts of God and the occurrence of epidemics.***

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the region where we conduct our business. Some of the regions in China may be under the threat of floods, earthquakes, sandstorms, snowstorms, fires or droughts, power shortages or failures, or are susceptible to potential wars, terrorist attacks or epidemics, such as Ebola, severe acute syndrome, or SARS, strains of avian influenza, the human swine influenza A (H1N1), the human swine influenza A (H5N1) and the human swine influenza A (H7N9). Serious natural disasters may result in a tremendous loss of lives, injuries and the destruction of assets, as well as disrupt our business and operations. Severe communicable disease outbreaks could result in a widespread health crisis that could materially adversely affect economic systems and financial markets. Acts of war or terrorism may also injure our employees, cause loss of lives, disrupt our operations and adversely affect our markets. Any of these factors and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the region where we conduct business, cause our business to suffer in ways that we cannot predict and materially adversely impact our business, financial condition and results of operations.

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## RISK FACTORS

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### RISKS RELATING TO THE GLOBAL OFFERING

*There has been no prior market for our H Shares, and their liquidity and market price following the Global Offering may be volatile.*

Prior to the Global Offering, there has been no public market for our H Shares. The initial issue price range for our H Shares was the result of negotiations among us and the Joint Bookrunners on behalf of the Underwriters, and the Offer Price may differ significantly from the market price of our H Shares following the Global Offering. In addition, there can be no guarantee that: (i) an active trading market for our H Shares will develop; or (ii) if such a trading market does develop, it will be sustained following the completion of the Global Offering; or (iii) the market price of our H Shares will not decline below the Offer Price. Factors such as variations in our revenue, earnings and cash flows or any other developments of the Company may affect the volume and price at which our H Shares will be traded.

*Our Controlling Shareholders have substantial influence over us and their interests may not be aligned with the interests of our other Shareholders.*

Immediately after the Global Offering, our Controlling Shareholders will directly and indirectly be entitled to exercise and control the exercise of an aggregate of 33.48% of our Shares, if the Over-allotment Option is not exercised, or 32.25% of our Shares, if the Over-allotment Option is exercised in full. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of the Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of the Company or may reduce the market price of our Shares. In addition, to the extent the interests of our Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders may be disadvantaged or harmed.

*Future sales, or market perception of sales, of a substantial number of our H Shares in the public market could cause the market prices of our H Shares to fall.*

The market price of our H Shares could decline as a result of future sales of a substantial number of our H Share or other securities relating to our H Shares in the public market, or the issuance of new H Shares or other securities relating to our H Shares, or the perception that such sales or issuances may occur. Moreover, future sales, or perceived sales, of substantial amounts of our H Shares or other securities relating to our H Shares, including as part of any future offerings, could materially and adversely affect the prevailing market price of our H Shares and our ability to raise future capital at a favorable time and price.

*We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.*

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return. We plan to use the net proceeds from the Global Offering to further expand the capital base of our loan business. For details of our intended use of proceeds, see

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“Future Plans and Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

***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 would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume of our H Shares to decline.

***Potential investors will experience immediate and substantial dilution as a result of the Global Offering and could face dilution as a result of future equity financings.***

Potential investors will pay a price per Share that substantially exceeds the per Share value of our tangible assets after subtracting our total liabilities and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Global Offering. As a result, if we were to distribute our net tangible assets to the Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their Shares.

We may need to raise additional funds in the future to finance further expansions or new developments in our existing operations. If additional funds are raised through the issuance of new equities or equity-linked securities of the Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in the Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

***We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the PRC economy and our relevant industries contained in this Prospectus.***

Certain facts, forecasts and other statistics in this Prospectus relating to China, the PRC economy and our relevant industries, such as the microfinance industry, have been derived from information provided or published by PRC and other government agencies, industry associations, independent research institutions or other third-party sources and we can guarantee neither the quality nor the reliability of such source materials. They have not been prepared or independently verified by us, the Sole Sponsor, the Joint Bookrunners and the Underwriters or any of its or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

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## RISK FACTORS

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*Forward-looking statements 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,” “intend,” “ought to,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and similar expressions, as they relate to the 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, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this Prospectus. Subject to the requirements of the 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.

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## WAIVER FROM COMPLIANCE WITH THE LISTING RULES

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### MANAGEMENT PRESENCE

Rules 8.12 and 19A.15 of the Listing Rules require that a new applicant applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since we have our headquarters and principal operations in the PRC, we do not, and in the foreseeable future will not, have sufficient management presence in Hong Kong in strict compliance with the normal requirements under Rules 8.12 and 19A.15 of the Listing Rules. Currently, none of the executive Directors is a Hong Kong resident. Mr. Yu, Mr. Zheng Xuegen, Mr. Hu Haifeng and Mr. Ding Maoguo are all PRC residents and have to spend most of their time looking after the principal businesses and operations of the Company in the PRC. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements set out in Rules 8.12 and 19A.15 of the Listing Rules.

The Company has made arrangements to maintain regular and effective communication between the Stock Exchange and us as follows:

- The Company has appointed Mr. Yu, our executive Director, and Mr. Yip Kui Wan, our company secretary, as the authorized representatives in compliance with Rule 3.05 of the Listing Rules. Mr. Yu and Mr. Yip Kui Wan will serve as the principal channel of communication with the Stock Exchange on behalf of the Company and will be readily contactable by telephone, fax and email and if required, will be able to meet with the Stock Exchange to discuss any matter in relation to the Company.
- Mr. Yu and Mr. Yip Kui Wan or their alternates to be appointed under Rule 3.06(2) of the Listing Rules have provided or will provide to the Stock Exchange their home, office and mobile telephone numbers, email address and correspondence address and fax numbers, and shall therefore be readily contactable by the Stock Exchange as contemplated under Rule 19A.07 of the Listing Rules.
- Both Mr. Yu and Mr. Yip Kui Wan have means of contacting all other Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact any Director on any matter.
- Each of our Directors and our company secretary has provided to the Stock Exchange his office phone number, mobile phone number, fax number and email address.
- Each of our Directors who is not ordinarily resident in Hong Kong possesses or will be able to apply for valid travel documents to visit Hong Kong and should be able to meet with the Stock Exchange within a reasonable period of time.
- In accordance with Rules 3A.19 and 19A.05 of the Listing Rules, the Company has appointed China Galaxy International Securities (Hong Kong) Co., Limited as the Company's compliance adviser which will serve as a further channel of communication with the Stock Exchange for the period from the Listing Date to the date on which the Company has sent the annual report to the Shareholders in respect of the first full financial year commencing immediately after the Listing. The Company will ensure compliance with the requirements under Rules 19A.05 and 19A.06 of the Listing Rules applicable to and required of it, and the

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## WAIVER FROM COMPLIANCE WITH THE LISTING RULES

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compliance adviser will have access at all times to the Company's authorized representatives, the other Directors and officers of the Company to ensure that they are in a position to provide prompt responses to any queries or requests from the Stock Exchange in respect of the Company.

- In accordance with Rule 19A.06(4) of the Listing Rules, it is expected that the compliance adviser will also provide the Stock Exchange with the names, home and office telephone numbers and fax numbers of at least one of its officers and an alternate who will act as its contact with the Company and the Stock Exchange.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **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 Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Prospectus misleading.

### **CSRC APPROVAL**

We have obtained approvals of the CSRC for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange. In granting such consent, the CSRC does not accept any responsibility for our financial soundness or for the accuracy of any of the statements made or opinions expressed in this Prospectus or in the Application Forms.

### **THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS**

This Prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. Neither the delivery of this Prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Prospectus or that the information in it is correct as of any subsequent time.

### **UNDERWRITING**

For applicants under the Hong Kong Public Offering, this Prospectus and the Application Forms set forth the terms and conditions of the Hong Kong Public Offering. The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to agreement on the Offer Price between the Company and the Joint Bookrunners (on behalf of the Underwriters). The International Offering is expected to be underwritten by the International Underwriters. The Global Offering is coordinated by the Joint Bookrunners.

For further information about the Underwriters and the underwriting arrangements, please see "Underwriting" in this Prospectus.

### **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Bookrunners (on behalf of the Underwriters) and us on or around 8 January 2015, and in any event no later than 11 January 2015.

If the Joint Bookrunners (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price on or before 11 January 2015, or such later date or time as may be agreed between the Joint Bookrunners (on behalf of the Underwriters) and us, the Global Offering will not become unconditional and will lapse.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this Prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, 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. 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.

### APPLICATION FOR LISTING OF THE H SHARES ON THE HONG KONG STOCK EXCHANGE

The Company has applied to the Listing Committee for the granting of the listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option). No part of the share or loan capital of the Company 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.

### REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the 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 the holder delivers a signed form to the 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 *PRC Company Law*, the *Special Regulations* and our Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers, agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the *PRC Company Law* or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our 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;
- (iii) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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- (iv) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this Prospectus and the Applications Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering 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 the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, see “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this Prospectus and the relevant Application Forms.

### **H SHARE REGISTRAR AND STAMP DUTY**

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on our H Share register of members to be maintained in Hong Kong by our H Share Registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members will be maintained by us at our head office in China.

Dealings in the H Shares registered in our H Share register of members will be subject to the Hong Kong stamp duty.

### **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 Hong Kong Stock Exchange and the Company’s compliance with the stock admission requirements of HKSCC, our 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 may be determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange 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.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the H Shares. None of the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchasing, holding, disposing of, or dealing in our H Shares or the exercise of any rights attaching to our H Shares.

### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedure for applying for Hong Kong Offer Shares is set out in “How to Apply for Hong Kong Offer Shares” in this Prospectus and in the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering” in this Prospectus.

### **LANGUAGE**

If there is any inconsistency between the English version of this Prospectus and the Chinese translation of this Prospectus, the English version of this Prospectus should prevail. If there is any inconsistency between the Chinese names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like mentioned in this Prospectus and their English translations, the Chinese names shall prevail.

### **ROUNDING**

In this Prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

### **EXCHANGE RATE CONVERSION**

Solely for your convenience, this Prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars was made at the rate of RMB0.7892 to HK\$1.0000, the exchange rate prevailing on 19 December 2014, set by the PBOC for foreign exchange transactions.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<b>Executive Directors</b>		
YU Yin (俞寅)	Room 1002, Unit 1, Building No. 5 Liu Yun Yuan Guihua City Wukang Town, Deqing Zhejiang	Chinese
ZHENG Xuegen (鄭學根)	Room 503 No. 27 Tiychang Street Wukang Town, Deqing Zhejiang	Chinese
HU Haifeng (胡海峰)	Room 601, Unit 1, Building No. 8 Yong An Residential District Wukang Town, Deqing Zhejiang	Chinese
DING Maoguo (丁茂國)	Room 301, Unit 1, Building No. 1 No. 388 North Zhiyuan Road Wukang Town, Deqing Zhejiang	Chinese
<b>Non-executive Director</b>		
PAN Zhongmin (潘忠敏) (formerly known as PAN Zhongming (潘忠明))	Room 5B801, Meidu Xian Dai City Wukang Town, Deqing Zhejiang	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<b>Independent non-executive Directors</b>		
HO Yuk Ming, Hugo (何育明)	Flat H, 6th Floor, Block 3 Kai Tak Garden No. 121 Choi Hung Road Wong Tai Sin, Kowloon Hong Kong	Chinese
JIN Xuejun (金雪軍)	Room 306, Unit 3, Building No. 54 Qiu Shi Village Xi Hu District, Hangzhou City Zhejiang	Chinese
HUANG Lianxi (黃廉熙)	Room 502, Unit 1, Building No. 6 No. 68, Tian Mu Shan Road Xi Hu District, Hangzhou City Zhejiang	Chinese

**SUPERVISORS**

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
DAI Shengqing (戴勝慶)	Block 8, Du Shi Garden Wukang Town, Deqing Zhejiang	Chinese
WANG Peijun (王培軍)	Room 204, Block 9 Jin Gui Garden Wuyang Street Wuyang Community Wukang Town, Deqing Zhejiang	Chinese
SHEN Yamin (沈婭敏)	No. 119 Mao Dun Ba Dongshan Village, Renhe Town Yuhang District, Hangzhou City Zhejiang	Chinese

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

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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### **Sole Sponsor**

China Galaxy International Securities  
(Hong Kong) Co., Limited  
Unit 3501–3507, 35th Floor  
COSCO Tower, Grand Millennium Plaza  
183 Queen’s Road Central  
Sheung Wan  
Hong Kong

#### **Joint Bookrunners (in alphabetical order)**

China Galaxy International Securities  
(Hong Kong) Co., Limited  
Unit 3501–3507, 35th Floor  
COSCO Tower, Grand Millennium Plaza  
183 Queen’s Road Central  
Sheung Wan  
Hong Kong

Convoy Investment Services Limited  
Unit C, 24/F  
@ CONVOY  
169 Electric Road  
North Point  
Hong Kong

Guangdong Securities Limited  
Units 2505–06, 25/F, Low Block  
Grand Millennium Plaza  
181 Queen’s Road Central  
Hong Kong

#### **Joint Lead Managers (in alphabetical order)**

China Galaxy International Securities  
(Hong Kong) Co., Limited  
Unit 3501–3507, 35th Floor  
COSCO Tower, Grand Millennium Plaza  
183 Queen’s Road Central  
Sheung Wan  
Hong Kong

Convoy Investment Services Limited  
Unit C, 24/F  
@ CONVOY  
169 Electric Road  
North Point  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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Guangdong Securities Limited  
Units 2505–06, 25/F, Low Block  
Grand Millennium Plaza  
181 Queen’s Road Central  
Hong Kong

**Underwriters**

China Galaxy International Securities  
(Hong Kong) Co., Limited  
Unit 3501–3507, 35th Floor  
COSCO Tower, Grand Millennium Plaza  
183 Queen’s Road Central  
Sheung Wan  
Hong Kong

Convoy Investment Services Limited  
Unit C, 24/F  
@ CONVOY  
169 Electric Road  
North Point  
Hong Kong

Guangdong Securities Limited  
Units 2505–06, 25/F, Low Block  
Grand Millennium Plaza  
181 Queen’s Road Central  
Hong Kong

**Legal Advisers to the Company**

*As to Hong Kong Laws:*  
ONC Lawyers  
14–15th Floor, The Bank of East Asia Building  
10 Des Voeux Road Central  
Hong Kong

*As to PRC Laws:*  
Dacheng Law Offices  
7th floor, Building D  
No. 9, Dongdaqiao Road  
Chaoyang District  
Beijing, China

**Legal Advisers to the Sole Sponsor and  
Underwriters**

*As to Hong Kong Laws:*  
Troutman Sanders  
34th Floor, Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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*As to PRC Laws:*

Beijing DHH Law Firm  
16th Floor, CBD International Mansion  
No. 16 Jianwai Yong'an Dongli  
Chaoyang District, Beijing

**Auditors and Reporting Accountants**

KPMG  
*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central  
Hong Kong

**Industry Expert**

Ernst & Young (China) Advisory Limited  
Level 16, Ernst & Young Tower (E3)  
Oriental Plaza  
No.1 East Chang An Avenue  
Beijing 100738, PRC

**Compliance Adviser**

China Galaxy International Securities  
(Hong Kong) Co., Limited  
Unit 3501-3507, 35th Floor  
COSCO Tower, Grand Millennium Plaza  
183 Queen's Road Central  
Sheung Wan  
Hong Kong

**Receiving Bank**

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

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## CORPORATE INFORMATION

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<b>Registered office and Headquarter in the PRC</b>	No. 57–67, Dongsheng Road Lan Se Gang Wan Wukang Town Deqing Zhejiang PRC
<b>Principal place of business in Hong Kong</b>	14–15th Floor The Bank of East Asia Building 10 Des Voeux Road Central Hong Kong
<b>Company’s website</b>	www.zlkcx.com.cn (the information contained on this website does not form part of this Prospectus)
<b>Company secretary</b>	Mr. YIP Kui Wan <i>(a solicitor as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong))</i> 14–15th Floor The Bank of East Asia Building 10 Des Voeux Road Central Hong Kong
<b>Authorized representatives (for the purpose of the Listing Rules)</b>	Mr. YU Yin Room 1002, Unit 1, Building No. 5 Liu Yun Yuan, Guihua City Wukang Town, Deqing Zhejiang PRC  Mr. YIP Kui Wan 14–15th Floor, The Bank of East Asia Building 10 Des Voeux Road Central Hong Kong



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## CORPORATE INFORMATION

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<b>Authorized representative (for the purpose of Part 16 of the Companies Ordinance)</b>	Mr. YIP Kui Wan 14–15th Floor, The Bank of East Asia Building 10 Des Voeux Road Central Hong Kong
<b>Audit committee</b>	Mr. HO Yuk Ming, Hugo ( <i>Chairman</i> ) Mr. JIN Xuejun Ms. HUANG Lianxi
<b>Remuneration and appraisal committee</b>	Mr. JIN Xuejun ( <i>Chairman</i> ) Mr. YU Yin Mr. HO Yuk Ming, Hugo
<b>Nomination committee</b>	Ms. HUANG Lianxi ( <i>Chairman</i> ) Mr. JIN Xuejun Mr. YU Yin
<b>Loan approval committee</b>	Mr. HU Haifeng ( <i>Chairman</i> ) Mr. ZHENG Xuegen Mr. DING Maoguo Mr. HUANG Chenjiang Ms. XIA Jing
<b>H Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17th Floor, Hopewell Centre 183 Queen’s Road East, Wanchai Hong Kong
<b>Principal banker</b>	Bank of China Deqing Gui Hua Cheng Sub-branch Nos. 245 to 253 South Quyuan Road Wukang Town, Deqing Zhejiang PRC

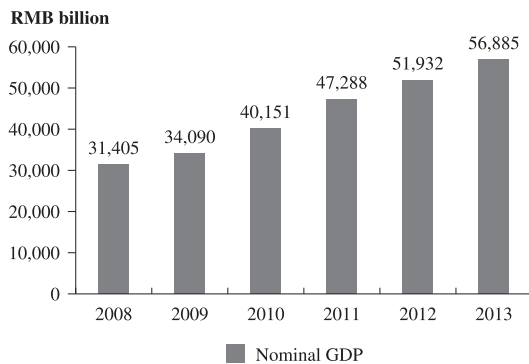
## INDUSTRY OVERVIEW

*The information in this section has been derived from an independent report prepared by EY Advisory. The industry report prepared by EY Advisory is based on information from its database, publicly available sources, industry reports, data obtained from interviews and other sources. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, affiliates, advisors or representatives, or any other party involved in the Global Offering. We, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, affiliates, advisors or representatives, and any other party involved in the Global Offering make no representation as to the completeness, accuracy or fairness of such information and accordingly such information should not be unduly relied upon.*

### MACRO ENVIRONMENT IN CHINA

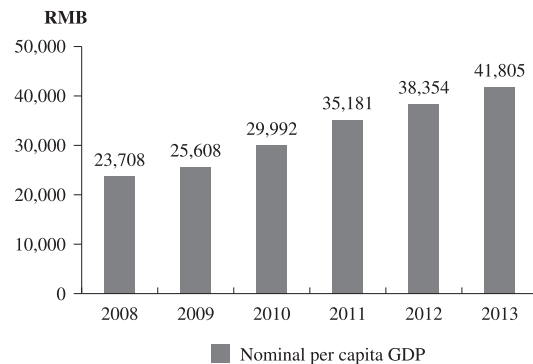
According to the *National Bureau of Statistics*, China's nominal GDP increased from RMB31,404.5 billion for the year ended 31 December 2008 to RMB56,884.5 billion for the year ended 31 December 2013, representing a CAGR of 12.6%. During this period, China's nominal per capita GDP rose from RMB23,708 for the year ended 31 December 2008 to RMB41,805 for the year ended 31 December 2013, representing a CAGR of 12.0%. In 2010, China surpassed Japan to become the world's second-largest economy behind the United States.

**China's Nominal GDP  
(2008–2013)**



Source: the National Bureau of Statistics

**China's Nominal Per Capita GDP  
(2008–2013)**



Source: the National Bureau of Statistics

### CHINA'S FINANCING AND BANKING ENVIRONMENT

China's financing industry, particularly the banking industry, has experienced robust growth in the last decade along with China's overall economic growth. While the banking industry remains the backbone of China's financing industry, some non-banking institutions in China, including microfinance companies, guarantee companies and pawnshops, have also achieved rapid growth and are able to offer flexible, expedient and diversified financial services to SMEs to meet their financing needs.

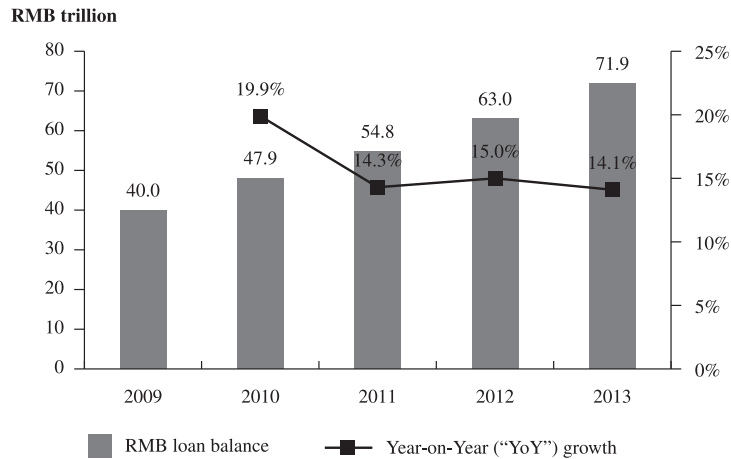
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## INDUSTRY OVERVIEW

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According to the PBOC, the total RMB loan balance of banking institutions increased from RMB40.0 trillion as of 31 December 2009 to RMB71.9 trillion as of 31 December 2013, representing a CAGR of 15.8%. During the period from 2009 to 2013, the total RMB loan balance of China's banking institutions experienced the fastest growth between 2009 and 2010 with a YoY growth rate of 19.9%. The following chart illustrates the total RMB loan balance of banking institutions from 2009 to 2013:

**Total RMB Loan Balance of Banking Institutions (2009–2013)**



Sources: the PBOC, National Bureau of Statistics and EY Advisory

### CHINA'S SME AND MICROENTERPRISE SECTOR

SMEs and microenterprises have become the most vibrant force in China's market economy, greatly contributing to job creation and economic growth in China. The continuous, healthy development of the SME and microenterprise sector is vital to China's continued social and economic development. In addition, according to *EY Advisory*, SMEs and microenterprises are growing faster than large enterprises in terms of loan balance from 2012 to 2013.

Notwithstanding the importance of SMEs and microenterprises to China's social and economic growth, the financing needs of SMEs and microenterprises have been largely underserved by traditional financial institutions, which refer to the institutions under the supervisions of CBRC, CSRC or the China Insurance Regulatory Commission (中國保險監督管理委員會) and subject to banking laws, securities laws or insurance laws, mainly due to their lack of bank credit ratings and collateral acceptable to traditional financial institutions.

To support the development of micro and small enterprises, in 2013, the PRC Government issued *Opinions of the General Office of the State Council on the Implementation of Financial Support for the Development of Micro and Small Enterprises* (國務院辦公廳關於金融支持小微企業發展的實施意見) and *Guiding Opinions of the China Banking Regulatory Commission on Better Servicing the Financial Needs of Micro and Small Enterprises* (中國銀監會關於進一步做好小微企業金融服務工作的指導意見), to ensure that the growth rate for loans granted to micro and small enterprises be not lower than the average growth rate of all types of loans and the increase in loan amount for micro and small enterprises be not lower than that of the previous year.

The RMB loan balance for micro and small enterprises increased from RMB9.9 trillion as of 31 December 2011 to RMB13.2 trillion as of 31 December 2013, with a YoY growth rate of 16.6% in 2012 and 14.1% in 2013, showing an overall trend of stable and rapid growth.

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## INDUSTRY OVERVIEW

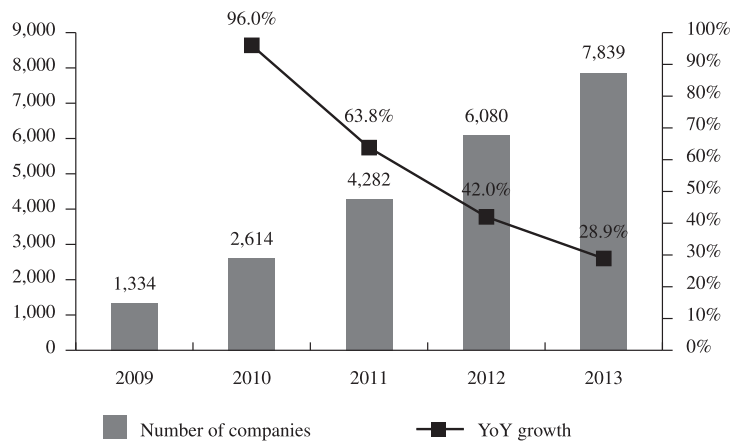
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### THE MICROFINANCE INDUSTRY IN CHINA

Since 2008, the microfinance industry in China has gradually transitioned from a stage of explosive expansion to steady growth. In May 2008, the CBRC and PBOC jointly issued the *Guiding Opinions*, pursuant to which microfinance companies have been granted legal status and become a platform for private capital to serve SMEs, microenterprises and individuals. As a result, the microfinance industry experienced rapid expansion from 2008 to 2010. Both the number of microfinance companies and the number of their employees almost doubled in 2010 compared with those of 2009, and the growth rate for paid-in capital and loan balance from 2009 to 2010 exceeded 110% and 150%, respectively. Starting 2011, considering that the original private lending capital had already made its way through formal supervised channels, the growth of China's microfinance industry slowed to an average rate of approximately 30% to 40% by 2013 in terms of the numbers of companies and employees, paid-in capital and loan balance.

According to the *PBOC* and *EY Advisory*, as of 31 December 2013, there were a total of 7,839 microfinance companies in China, 1,759 more companies than the 6,080 microfinance companies in China as of 31 December 2012, and with a total paid-in capital of approximately RMB713 billion. The following charts illustrate the development of microfinance industry in China from 2009 to 2013 in terms of number of companies, paid-in capital and loan balance:

**Number of Microfinance Companies in China (2009–2013)**

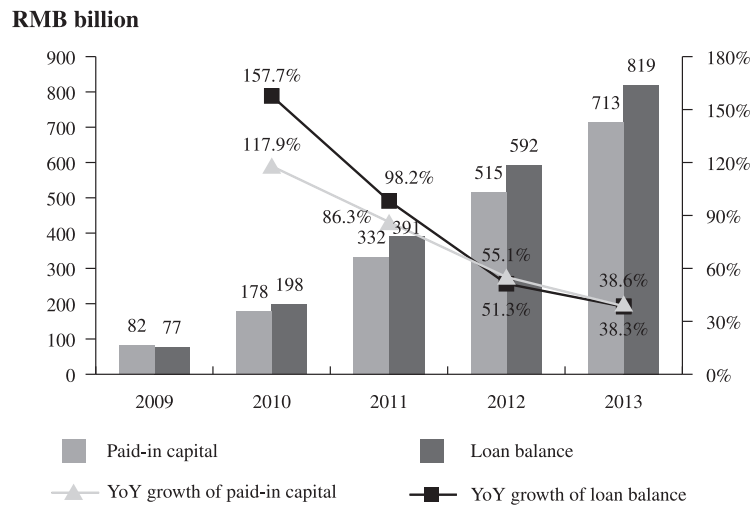


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Sources: the *PBOC* and *EY Advisory*

## INDUSTRY OVERVIEW

### Paid-in Capital and Loan Balance of Microfinance Industry in China (2009–2013)



Sources: the PBOC and EY Advisory

The development of the microfinance industry varies among different geographical regions in China. According to *EY Advisory*, SMEs in Jiangsu and Zhejiang are most economically active, which creates a strong demand for the financial services provided by local and regional microfinance companies. As of 31 December 2013, the loan balance of microfinance companies in Jiangsu and Zhejiang accounted for approximately 14% and 11% of the total national loan balance, respectively.

### MACRO ENVIRONMENT IN ZHEJIANG AND DEQING

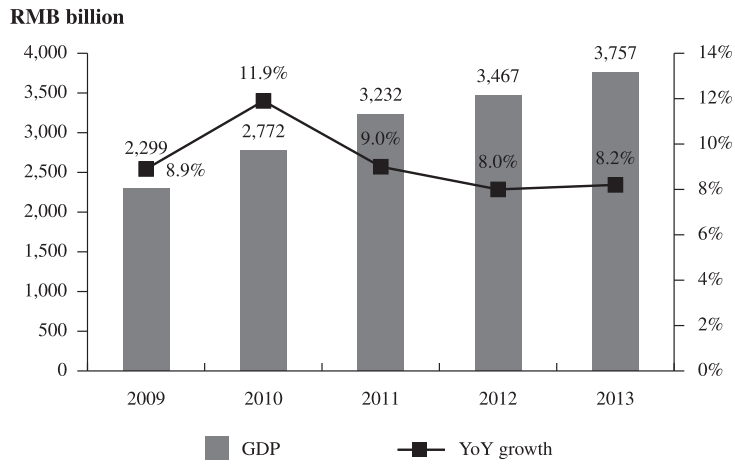
According to the *National Bureau of Statistics*, Zhejiang had an overall GDP of approximately RMB3,757 billion and YoY growth rate of 8.2% for the year ended 31 December 2013. For the same period, Zhejiang's per capita income for both urban and rural residents were the highest in China, leading at 140% and 180% of the national average, respectively. Per capita disposable income for its urban residents ranked, for 13 consecutive years, third out of 31 provinces and cities just behind Shanghai and Beijing.

Economic growth in Deqing, a county in the prefecture-level city of Huzhou in Zhejiang, was slightly faster than that in Zhejiang as a whole, driven in part by its high-tech and AFR businesses. According to the *Bureau of Statistics of Deqing County*, Deqing's GDP was RMB33.4 billion for the year ended 31 December 2013, with YoY growth rate of 9.6% based on calculation of comparable prices. From 2009 to 2013, Deqing's GDP grew at a CAGR of 13.2%, which was slightly higher than that of Zhejiang. Deqing's per capita GDP exceeded RMB77,000 in 2013, and was placed among the nation's top 100 counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). Deqing has maintained a healthy environment for entrepreneurial development, particularly of high-tech companies, and has been recognized for its technological advancements. It was named a "national technological advanced county (全國科技工作先進縣)" and was one of the first "technological outstanding counties (浙江省首批科技強縣)," "science and technology demonstration counties (浙江省技術創新示範縣)" and "financial innovation demonstration county (金融創新示範縣)" in Zhejiang. The industrial output value of Deqing's high-tech industry grew at a CAGR of approximately 27% from 2009 to 2013, surpassing the overall industrial output value of Deqing as a whole. For the year ended 31 December 2013, per capita disposable income for urban residents in Deqing was RMB36,796, and that of rural residents was RMB19,570, representing nominal increases of 10.2% and 10.8%, compared with those of the year ended 31 December 2012, respectively. In addition, the per capita income for Deqing's rural residents was higher than that of Zhejiang as a whole in 2013.

## INDUSTRY OVERVIEW

The following charts set forth the GDP and YoY growth rate of Zhejiang and Deqing from 2009 to 2013:

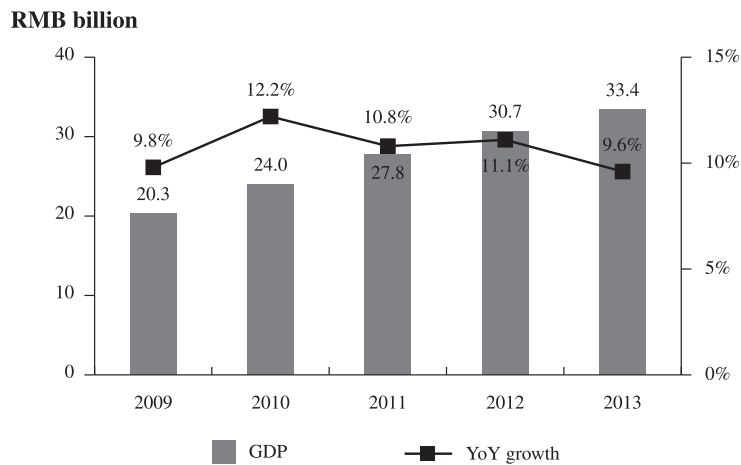
**Zhejiang's GDP and YoY Growth <sup>Note</sup> (2009–2013)**



Sources: the National Bureau of Statistics, 2013 Zhejiang Economy and Social Development Statistical Bulletin and EY Advisory

Note: The YoY growth rate of Zhejiang's GDP represents the adjusted amount published by the Bureau of Statistics of Zhejiang Province.

**Deqing's GDP and YoY Growth <sup>Note</sup> (2009–2013)**



Sources: Deqing County's Economic and Social Development Statistical Bulletin, Huzhou Statistical Yearbook and EY Advisory

Note: Deqing's GDP growth rate is the adjusted amount published by the Bureau of Statistics of Deqing County, differing from the annual growth rate.

### SME AND MICROENTERPRISE SECTOR IN ZHEJIANG AND DEQING

#### *SME and Microenterprise Sector in Zhejiang*

SMEs and microenterprises contribute significantly to Zhejiang's economy. Although SMEs above the designated size only accounted for approximately 4% of the total industrial enterprises, they accounted for nearly 50% of Zhejiang's industrial output value and constituted a major economic force.

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## INDUSTRY OVERVIEW

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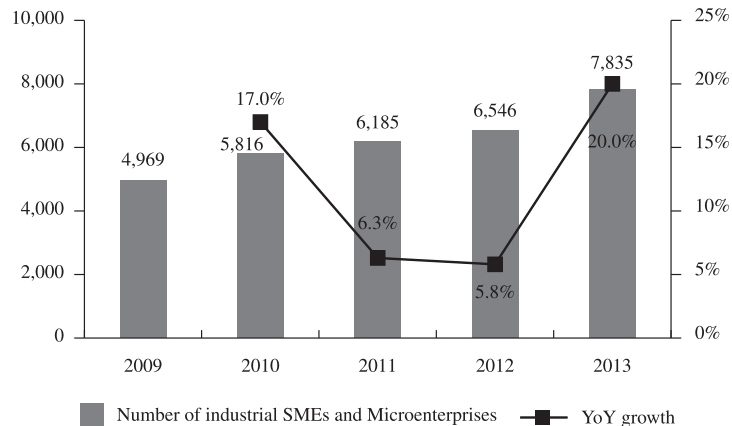
As of 31 December 2013, Zhejiang had 885,200 industrial units below the designated size, which refers to the annual business revenue equivalent to and above RMB20 million, with 7.7 million employees. The number of SMEs and microenterprises below the designated size, including self-employed businesses, and the number of employees of SMEs and microenterprises are growing as a percentage of all industrial companies and all employees of industrial companies in Zhejiang, respectively, and increased from 93.3% and 45.9%, respectively, as of 31 December 2009 to 96.2% and 52.8%, respectively, as of 31 December 2013.

Furthermore, AFR businesses in Zhejiang have undergone major restructuring since 2003 in line with national-level policies. The emergence of new agricultural business entities has accelerated the transfer of rural land, fostered growth of a significant number of large-scale agricultural business entities, and played an important role in promoting mass production as well as the standardization and mechanization of agricultural production. Such new agricultural business entities mainly comprise of leading agricultural enterprises, professional farmers' cooperatives and large-scale professional farmers, which are gradually becoming the driving force of modern agricultural development in Zhejiang.

### *SME and Microenterprise Sector in Deqing*

The YoY growth rate of the number of SMEs and microenterprises in Deqing fluctuated in the past five years. The SME and microenterprises sector in Deqing experienced a period of rapid growth between 2009 and 2010, during which the number of registered SMEs and microenterprises increased by approximately 17%. The total number of SMEs and microenterprises in Deqing was 7,853 as of 31 December 2013. The following chart illustrates the number of industrial SMEs and microenterprises in Deqing from 2009 to 2013:

**Number of Industrial SMEs and Microenterprises in Deqing<sup>Note</sup> (2009–2013)**



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Sources: the Trade and Industry Bureau of Deqing County and EY Advisory

Note: The figure was collected from the Trade and Industry Bureau of Deqing County according to companies' registered capital which is a different statistical caliber from national and provincial bureau of statistics.

In addition, Deqing is a pilot county in Zhejiang for urban-rural integration, development of rural property rights, and residential and medical insurance reform. Meanwhile, recognition of rural house site rights confirms that such rights can be collateralized for loans, which not only opens up new financing channels for AFR businesses, but also provides new opportunities for microfinance companies by introducing new types of acceptable collateral.

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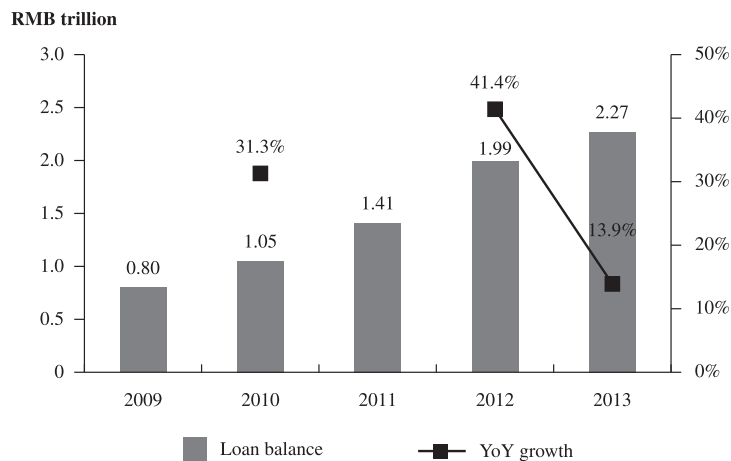
## INDUSTRY OVERVIEW

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Despite the importance of SMEs, microenterprises and AFR businesses to the economic development of Zhejiang and Deqing, such enterprises and businesses experience significant difficulty in obtaining financing due to the nature of their businesses. According to a survey conducted by the Survey Office of the National Bureau of Statistics in Zhejiang, 77.8% of the micro and small enterprises in Zhejiang have applied for bank loans, and 58.7% of those enterprises were denied. The reasons for their difficulty to obtain financing include, among others, (i) lack of bank credit ratings; (ii) lack of acceptable collateral; (iii) additional charges by banks; and (iv) long recovery period for AFR businesses and low short-term return rates.

According to *EY Advisory*, there is a strong demand for loans by SMEs and microenterprises in Zhejiang and Deqing. As of 31 December 2013, the loan balance of SMEs and microenterprises in Zhejiang was RMB2.3 trillion, with YoY growth rate of 31.3% in 2010 and a CAGR of 26.8% from 2011 to 2013. The following chart illustrates the loan balance of SMEs and microenterprises in Zhejiang from 2009 to 2013:

**Loan Balance of SMEs and Microenterprises in Zhejiang (2009–2013)**



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Sources: Zhejiang branch of CBRC and EY Advisory

Note: Because related National Bureau of Statistics redefined the standard of SMEs in 2011, the statistical caliber of the loan balance of SMEs in Zhejiang is different before and after the year of 2011 and as a result, the data is for reference only.

As of 31 December 2013, there were approximately one million micro and small enterprises with loan facilities in Zhejiang, representing an increase by approximately 92,000 from the beginning of 2013. Zhejiang ranked first in China in terms of the number of SMEs, total loan balance and the number of new loans in the year of 2013. According to the *Financial Office of Deqing Country*, as of 31 December 2013, the total loan balance of SMEs from banking institutions in Deqing was RMB10.5 billion, representing an increase of RMB1.4 billion, or 15.4%, compared to that of 2012.

The Zhejiang government has issued several policies for the purpose of facilitating financing for SMEs, microenterprises and AFR businesses to encourage their development. These policies include the *Measures of the Compensation for the Risk of Financial Institutions' lending to Micro and Small Enterprises* (浙江省小企業貸款風險補償辦法), the *Opinions of the General Office of People's Government of Zhejiang Province on Promoting Re-innovation of Micro and Small Enterprises* (浙江省



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人民政府辦公廳關於促進小型微型企業再創新優勢的若干意見) and the Circular of the Finance Department of Zhejiang Province on Printing and Issuing the Administration Measures of Interest Subsidies for Agricultural Industrialization (關於印發省財政農業產業化貼息資金管理辦法的通知).

The local government in Deqing has also made detailed plans in accordance with provincial guidelines. In June 2013, the Deqing County Bureau of Science and Technology and the Deqing Rural Commercial Bank jointly issued the *Implementation Plan for Conducting Credit Loan Business for Deqing High-tech Micro and Small Enterprises* (關於開展德清縣科技型小微企業信用貸款業務的實施方案). Pursuant to such implementation plan, a capital pool was established and then leveraged by the Micro and Small Loan Center of Deqing Rural Commercial Bank to grant a total amount of RMB40.0 million in loans without collateral and guarantees to high-tech micro and small enterprises. Further, in September 2013, the Deqing Commission of Economy and Information Technology published the *Working Program for the Scaling and Upgrading of Deqing Micro and Small Enterprises 2013* (2013年德清縣小微企業上規升級工作方案) to support the development of micro and small enterprises into larger enterprises.

### THE MICROFINANCE INDUSTRY IN ZHEJIANG AND DEQING

As of 30 June 2014, there were 330 microfinance companies in Zhejiang. According to *EY Advisory*, the microfinance industry in Zhejiang is highly fragmented and the top five microfinance companies in Zhejiang only accounted for 6.1% of the total market share in terms of loan balance as of 30 June 2014. Microfinance companies in Zhejiang also face intense market competition from traditional financial institutions.

The loan balance of microfinance companies in Zhejiang increased from approximately RMB14.4 billion as of 31 December 2009 to approximately RMB91.4 billion as of 30 June 2014. The loan balance of microfinance companies in Deqing also experienced steady growth during the same period and increased from approximately RMB316 million as of 31 December 2009 to approximately RMB2,430 million as of 30 June 2014. The average interest rate charged by microfinance companies in Deqing for the years ended 31 December 2012 and 2013 and the six months ended 30 June 2014 was 18.9%, 16.8% and 16.1%, respectively.

#### *Entry Barriers to the Microfinance Industry*

The main barriers to enter the microfinance industry include:

- obtaining approvals: establishment and development of a microfinance company are subject to the supervision by local government in various aspects, such as the minimum amount of registered capital, requirements for promoters, county-level expansion and limit on establishing branches outside the registered county; and
- in-depth local knowledge: microfinance companies provide services that mainly target local SMEs, AFR customers and self-employed businesses that usually lack credit histories, collateral and risk control capabilities. At the same time, these customers prefer simple loan procedures and short lending terms for loans. The unique features of local customers require lenders to be familiar with the local economy, development of key local industries, the background of the customers and/or their owners as well as the guarantors' reputation.

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## INDUSTRY OVERVIEW

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### *Challenges Faced by the Microfinance Industry*

The main challenges for the microfinance industry include:

- limited sources of capital: banks, as the main financing vehicles for microfinance companies aside from their own registered capital, lend money cautiously and are restricted by the financial leverage applicable to microfinance companies as allowed by local financial bureaus;
- limited business model: most microfinance companies operate under a limited business model, since such companies can only conduct their business in their registered county and provide homogenous loan services, resulting in fierce competition and price wars. As a result, the potential for business growth for microfinance companies may be limited;
- intense competition: banks, private lending institutions and other institutions also provide loans with unique features and advantages;
- lack of subsidies: microfinance companies are not traditional financial institutions as defined by the *Guiding Opinions*, and thus cannot enjoy the tax incentives and subsidies available for financial institutions; and
- early mover advantage: as the market capacity for microfinancing in county-level areas is relatively limited, companies that have entered the market early have an early mover advantage and have gained control of most of the market resources.

### *Regulatory Environment*

The microfinance industry in China is subject to extensive national and local regulations and is guided by national policies. Released in 2008, the *Guiding Opinions* clarified, among other things the definition of microfinance companies, registered capital, funding sources, use of funds and regulatory requirements. From a regulatory point of view, the *Guiding Opinions* delegated the discretionary power to provincial level authorities to formulate their own policies within the scope of their authorities and in line with local economic conditions and national policies. For more details, see “Regulatory Overview — Regulations in the Microfinance Industry — Regulatory Authorities of the Microfinance Industry — National regulatory authorities.”

In recent years, many provinces and cities have promoted the development of the microfinance industry by utilizing their discretionary power to relax restrictions on microfinance companies. For example, in 2011, Zhejiang issued the *Some Opinions of the General Office of People’s Government of Zhejiang Province on Further Promoting the Reform and Development of Microfinance Companies* (浙江省人民政府辦公廳關於深入推進小額貸款公司改革發展的若干意見), which promotes development of the microfinance industry by:

- increasing the shareholding percentage of the main promoter and its related shareholder(s) from 10% as specified in the *Guiding Opinions* to 30%, which motivates shareholders of microfinance companies to invest in the companies’ long-term development;

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## INDUSTRY OVERVIEW

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- increasing the leverage ratio to allow a microfinance company that serves SMEs and AFR customers, operates lawfully and has a sound risk control system and reasonable interest rate level to borrow up to 100% of its net capital, which increases such microfinance company's business scale and resolves its financing problems; and
- permitting microfinance companies that have quality operations, are in compliance with regulatory requirements and are evaluated as outstanding microfinance companies for two consecutive years, to conduct credit asset transfer and related businesses with banking financial institutions and local financial asset trading platforms upon approval by the provincial government authorities that supervise microfinance companies.

For more information on the regulatory environment, see “Regulatory Overview.”

### *Competition Landscape*

Competition within the microfinance industry in Zhejiang is increasingly intense. As of 31 December 2013, the number of microfinance companies in Zhejiang reached 314. The total registered capital of microfinance companies in Zhejiang also increased rapidly with a CAGR of 45.9% from 2009 to 2013 along with the increase in the number of microfinance companies. The average registered capital per microfinance company increased from approximately RMB137 million in 2009 to approximately RMB208 million in 2013. The average loan balance per microfinance company increased from RMB137.1 million as of 31 December 2009 to RMB286.6 million as of 31 December 2013.

The microfinance industry in Deqing has also seen rapid growth in the past five years. As of 30 June 2014, there were five microfinance companies in Deqing, which were established in 2008, 2009, 2011, 2012 and early 2014. The loan balance of microfinance companies in Deqing increased significantly from approximately RMB316 million as of 31 December 2009 to approximately RMB1,729 million as of 31 December 2013. Annual aggregate loans also increased significantly from RMB1,621 million for the year ended 31 December 2010 to RMB4,792 million for the year ended 31 December 2013, almost tripling over the last three years. According to *EY Advisory*, the average overdue ratio of all microfinance companies in Deqing was 0.4% and 0.5% as of 31 December 2013 and 30 June 2014, respectively.

Apart from competition among microfinance companies, commercial banks, insurance companies, finance corporations and intermediary loan companies also compete with microfinance companies by providing loans with unique features and advantages and these companies.

### *Key Market Players in the Microfinance Industry*

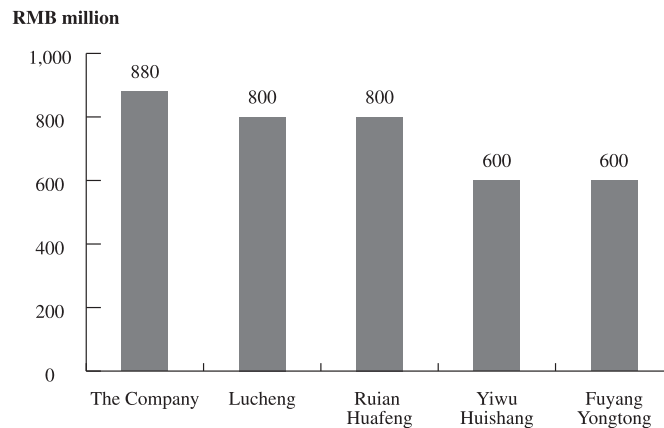
In terms of registered capital, the top five microfinance companies in Zhejiang were the Company, Wenzhou Lucheng Jiexin Microfinance Company Limited (溫州鹿城捷信小額貸款股份有限公司) (“Lucheng”), Ruian Huafeng Microfinance Company Limited (瑞安華峰小額貸款股份有限公司) (“Ruian Huafeng”), Yiwu Huishang Microfinance Company Limited (義烏市惠商小額貸款股份有限公司) (“Yiwu Huishang”) and Fuyang Yongtong Microfinance Company Limited (富陽市永通小額貸款有限公司) (“Fuyang Yongtong”) as of 30 June 2014. In terms of loan balance, the top five microfinance companies in Zhejiang were Ruian Huafeng, the Company, Zhuji Haibo Microfinance Company Limited (諸暨市海博小額貸款股份有限公司) (“Zhuji Haibo”), Yiwu Huishang and Hangzhou Yuhang District Qiantang Microfinance Company Limited (杭州市餘杭區錢塘小額貸款股份有限公司) (“Yuhang

## INDUSTRY OVERVIEW

Qiantang”) as of 30 June 2014. Although the registered capital of Alibaba Microfinance Co., Ltd. has reached RMB600 million as of 30 June 2014, due to its e-commerce platform and the particularity of its clients and geographic coverage, it will not be included for comparison with the other microfinance companies in Zhejiang.

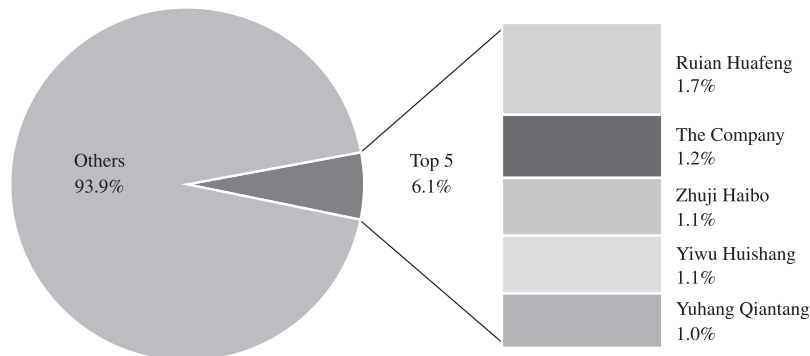
The following charts illustrate the rankings of microfinance companies in Zhejiang in terms of registered capital and loan balance as of 30 June 2014:

### Ranking of Microfinance Companies in Zhejiang in terms of Registered Capital as of 30 June 2014



Sources: Microfinance Union of Zhejiang Province, company homepages and expert interviews

### Market Share of Microfinance Companies in Zhejiang in terms of Loan Balance as of 30 June 2014



Sources: Microfinance Union of Zhejiang Province, company homepages, expert interviews and EY Advisory

As of 30 June 2014, the five microfinance companies in Deqing were the Company, Deqing Meidu Microfinance Company Limited (德清美都小額貸款股份有限公司) (“Deqing Meidu”), Deqing Shenghua Microfinance Company Limited (德清昇華小額貸款股份有限公司) (“Zhejiang Shenghua”), Deqing Dehua Microfinance Company Limited (德清德華小額貸款股份有限公司) (“Deqing Dehua”) and Deqing Jinhui Microfinance Company Limited (德清金匯小額貸款有限公司) (“Deqing Jinhui”).

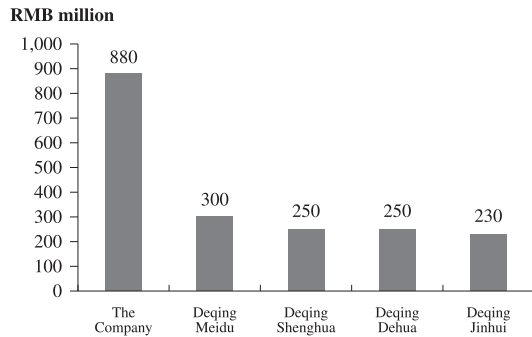
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## INDUSTRY OVERVIEW

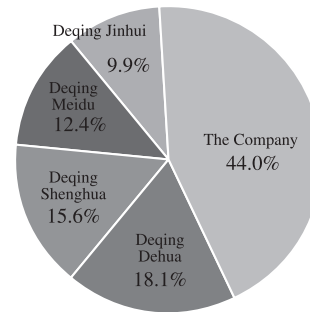
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The following charts illustrate the rankings of microfinance companies in Deqing in terms of registered capital and loan balance as of 30 June 2014, respectively:

**Ranking of Microfinance Companies  
in Deqing in terms of Registered Capital  
as of 30 June 2014**



**Market Share of Microfinance Companies  
in Deqing in terms of Loan Balance  
as of 30 June 2014**



Source: the Financial Office of Deqing County

### ***Future Prospects of the Microfinance Industry***

EY Advisory expects that long-term growth of microfinance industry in Zhejiang will be relatively stable but at a relatively high rate in the near future, which will be similar to that experienced in 2013, due to the following reasons:

- The growth momentum will be driven by both global and domestic macroeconomic development due to the export oriented economy, as well as future prospects of SMEs and microenterprises, specifically in AFR businesses and high-tech industries;
- The industry is gradually evolving from quantity growth to quality growth as intense competition from both the microfinance industry and other industries prevents potential investors from entering, and local authorities strive to minimize risks by controlling the speed at which the industry develops; and
- The monetary policy in China is expected to remain neutral to moderate based on the economic strategy of central government to restructure the economy from being investment driven to consumption driven. It is unlikely for the government to promote scalable stimulus programs which are usually supported by moderate monetary policy.

According to *EY Advisory*, based on the considerations above, the loan balance of the microfinance industry in Zhejiang is expected to continue to grow at an average rate of approximately 15% to 20% over the next five years, reaching a total outstanding loan balance of RMB178.8 billion to RMB186.6 billion by the end of 2017.

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## INDUSTRY OVERVIEW

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In addition, EY Advisory expects that the growth rate of the outstanding loan balance of microfinance companies in Deqing will be generally in line with that of Zhejiang, reaching an overall market size of approximately RMB3,436 million to approximately RMB3,585 million in 2017, due to the following reasons:

- Historically, the economic development of Deqing, including its industrialization and growth of its financial institutions, has always been on par with average growth in other geographic areas in Zhejiang; and
- The future prospects of AFR businesses and high-tech industries and the urban-rural reform in Deqing have helped Deqing to significantly outperform other counties in Zhejiang, which provides a competitive edge for the microfinance industry's future growth in Deqing.

### SOURCE OF INFORMATION

We appointed an Independent Third Party, EY Advisory, to conduct a customized and detailed analysis of the microfinance industry in China in order to evaluate the existing market scale and future market potential, and provide an objective and fair overview of China's microfinance industry in its report.

EY Advisory is an independent global consulting company which has extensive international network with more than 8,700 professionals in over 90 countries, including about 350 professionals of transaction advisory service department in China. EY Advisory provides services including commercial due diligence, market assessment, market penetration and growth strategy and competitive analysis. EY Advisory has extensive experience in providing market entry strategy for many multinational finance service institutions and industry analysis for local financial companies.

EY Advisory primarily adopted the top-down research method, assisted by information collected through the bottom-up research method to prepare its report. It conducted primary research and secondary research and used its internal database as a major data source for its report. Primary research involves visits to observers from microfinance companies and banks, China's national or regional associations, governmental or semi-official agencies and other sectors, and interviews with different stakeholders. Secondary research relates to employment of professional analysts to collect information from various publications. EY Advisory seeks to ensure the accuracy of the projections included in its report by conducting both quantitative and qualitative analyses on the market size and growth trends, and using data from government authorities, industry public information and industry interviews, cross-checked against historical market information, as the basis for its projections.

EY Advisory used various sources of information, the accuracy of which was verified, and analyzed and compared with each interviewee's information and opinion to avoid bias. We paid EY Advisory RMB450,000 for its research services, which we believe reflects the prevailing market rate. Except for EY Advisory's report, we have not appointed any other party to prepare any other research report for the Listing. We prepared this section of this Prospectus based on EY Advisory's report so as to provide our prospective investors with a comprehensive description of our industry.

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## REGULATORY OVERVIEW

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*A summary of certain major laws and regulations in relation to our business is set forth below. Information contained in this section should not be construed as a comprehensive summary of laws or regulations applicable to us.*

### REGULATIONS ON COMPANY ESTABLISHMENT AND FOREIGN INVESTMENT

#### *The PRC Company Law*

The *PRC Company Law* governs the establishment, operation, management and dissolution of corporate entities in the PRC, which was promulgated by the Standing Committee of the NPC (全國人民代表大會常務委員會) (the “SCNPC”) on 29 December 1993 and came into effect on 1 July 1994. The *PRC Company Law* was subsequently amended for the first time at the 13th Session of the Ninth SCNPC on 25 December 1999, amended for the second time at the 11th Session of the Tenth SCNPC on 28 August 2004, revised for the third time at the 18th Session of the Tenth SCNPC on 27 October 2005, and revised for the fourth time at the Sixth Session of the Twelfth SCNPC on 28 December 2013. The newly amended *PRC Company Law* has been promulgated and effective from 1 March 2014. The *PRC Company Law* stipulates that companies established in the PRC are either limited liability companies or joint stock companies and it applies to both PRC domestic companies and wholly or partly foreign invested companies within the territory of the PRC. However, where the *PRC Company Law* is silent on matters related to foreign invested enterprises (the “FIEs”), such matters may be addressed by specific PRC laws and regulations governing the FIEs. According to the laws and regulations governing the FIEs, a PRC domestic company such as the Company may apply to become a FIE upon the initial public offering of H shares.

#### *The Foreign Investment Provisions*

In 1995, the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會) and the Ministry of Foreign Trade and Economic Cooperation (對外經濟貿易部) jointly promulgated the *Provisions on Guiding Foreign Investment* (指導外商投資方向暫行規定, the “Provisional Foreign Investment Provisions”) and the *Catalogue for the Guidance of Foreign Investment* (外商投資產業指導目錄) (the “Foreign Investment Catalogue”), classifying all foreign investment projects into four categories: encouraged, permitted, restricted and prohibited.

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”), restating the four categories of foreign investment projects. The *Foreign Investment Provisions* came into force on 1 April 2002 and the *Provisional Foreign Investment Provisions* were simultaneously repealed. The *Foreign Investment Catalogue* has been revised several times since it was first promulgated, with the most significant revisions taking place in 2002, 2004, 2007 and 2011. The version of the *Foreign Investment Catalogue* currently in effect was jointly promulgated by the NDRC and the MOFCOM on 24 December 2011 and came into effect on 30 January 2012.

The purpose of the *Foreign Investment Provisions* and the *Foreign Investment Catalogue* is to direct foreign investment into certain priority industry sectors while restricting or prohibiting investment in other sectors. If the industry in which the investment is to occur falls into the encouraged category, foreign investment can be conducted through the establishment of a wholly foreign owned enterprise. If

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restricted, foreign investment may be conducted through the establishment of a wholly foreign owned enterprise if certain requirements are met or in some cases must be conducted through the establishment of a joint venture enterprise, with varying minimum shareholdings for the Chinese party depending on the particular industry. If prohibited, foreign investment of any kind is not allowed. Any industry not falling into any of the encouraged, restricted and prohibited categories is classified as a permitted industry for foreign investment. Our PRC Legal Advisers advised us that 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, financial companies, trust companies, and currency brokerage companies;
- Insurance companies (in the case of life insurance companies, the proportion of foreign investment shall not exceed 50%);
- Securities companies (limited to underwriting of A shares, underwriting and transaction of B shares, H shares, and government and corporate bonds, with the proportion of foreign investment not exceeding one third), and securities investment fund management companies (with the proportion of foreign investment not exceeding 49%);
- Insurance brokerage companies;
- Futures companies (with Chinese parties as controlling shareholders).

Pursuant to *National Economy Industry Classification Catalogue* (國民經濟行業分類 (GB/4754-2011)), 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 IN THE MICROFINANCE INDUSTRY

#### *Regulatory Authorities of the Microfinance Industry*

##### **National regulatory authorities**

As of the date of this Prospectus, there was no nationwide administrative regulatory authority for the microfinance industry at state level. According to *the Guiding Opinions*, jointly issued by the CBRC and the PBOC on 4 May 2008, any provincial government that is able to assign a department, financial work office or other similar agencies to take charge of the supervision and administration of microfinance companies and which is willing to assume the responsibility of risk management of microfinance companies may formulate pilot rules and measures in relation to the incorporation of microfinance companies on a county basis within the province, autonomous region or municipality directly under the PRC Government.

##### **Local regulatory authority in Zhejiang**

All provinces, autonomous regions, and municipalities directly under the PRC Government must appoint their own regulatory authority for the microfinance industry. Currently, the microfinance industry in the PRC is primarily regulated by the financial work offices of the provincial government of the relevant provinces, autonomous regions and municipalities directly under the PRC Government.



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Whereas at present we only operate within the region of Zhejiang and pursuant to *Implementation Opinions of the General Office of the People's Government of Zhejiang Province on the Pilot Operation of Microfinance Companies* (浙江省人民政府辦公廳關於開展小額貸款公司試點工作的實施意見) issued by the General Secretary of People's Government of Zhejiang Province (浙江省人民政府辦公廳) on 2 July 2008, the Financial Office is primarily responsible for the administration, supervision and regulation of the microfinance companies.

### ***Regulatory Policies of the Microfinance Companies***

#### **National Guiding Opinions**

The *Guiding Opinions* has provided guidance on pilot operation of microfinance companies and has specified the incorporation, capital source, capital use and regulatory policies of the microfinance companies.

Pursuant to the *Guiding Opinions*:

- to establish a microfinance company, an applicant applies to the supervising authority of the provincial government, and, upon approval must comply with registration formalities to obtain all necessary business licences, approvals and certificates;
- if a microfinance company is a limited liability company, its registered capital must be at least RMB5.0 million; and if it is a joint stock company, its registered capital must be at least RMB10.0 million. No single natural person, legal entity, other social organization and their respective affiliated parties can hold in excess of 10% of the total registered capital of the company;
- the funds of a microfinance company mainly come from the capital contribution 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;
- according to relevant laws and regulations, the funds obtained by a microfinance company from banking financial institutions may not exceed 50% of its net capital;
- the balance of loan of a single borrower may not exceed 5% of the net capital of a microfinance company;
- a microfinance company must conduct its operations according to market-oriented principles and lift the ceiling on the loan interest rate, which may not exceed that set by judicial department, and set the floor at 0.9 times the PBOC Benchmark Rate. The specific floating range must be determined by the microfinance company based on market-oriented principles;
- No founder (being natural person, legal entities and other social organizations) of the microfinance companies and no natural person (who is nominated as a director, supervisor or senior management of microfinance companies) shall have a criminal or bad credit record;

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- a microfinance company shall, according to relevant provisions, set up prudent and normative asset classification and provision system, accurately classify the assets, make full provision for allowance for doubtful accounts, and guarantee that its adequacy ratio of provision for asset losses always remains above 100% in order to fully cover all risks;
- 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 that credit system with information about the borrower, loan amount, guarantee and repayment, and other business information; and
- the microfinance company shall establish a sound corporate governance structure and credit management system and strengthen internal control.

According to Article 71 of the *PRC Legislation Law* (中華人民共和國立法法) which provides that “the ministries and commissions of the State Council, the People’s Bank of China, the State Audit Administration as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with laws as well as the administrative regulations, decisions and orders of the State Council and within the limits of their power, formulate rules. Matters governed by the rules of departments shall be those for the enforcement of the laws or the administrative regulations, decisions and orders of the State Council” and Article 76 of the same, which provides that “the rules of departments shall be promulgated by orders signed by the heads of the departments,” our PRC Legal Advisers advised us that the *Guiding Opinions* is not an administrative regulation as defined in the *PRC Legislation law*.

According to *Working Rules for Official Documents of the Communist Party and Governmental Institutions* (黨政機關公文處理工作條例) (the “Working Rules”), official documents issued by the Communist Party and governmental agencies are instruments with particular legal effect and of standard forms to exercise leadership, perform administrative duties and deal with administrative affairs. Official documents are important instruments by which the Communist Party and governmental agencies publish and implement the guidelines and policies of the Party and State, promulgate rules and regulations, supervise, coordinate and discuss work-related matters, seek instructions and responses to requests, report relevant affairs, communicate and exchange opinions.

According to the *Working Rules*, the main types of official documents include, among others, orders and opinions. Orders are issued to promulgate administrative rules and regulations, announce implementation of important mandatory measures, approve the grant of and promotion in titles, and grant awards to relevant entities and individuals. Opinions are issued to contribute opinions and analyses on important issues and propose resolutions.

In the event of selective application of rules in conflict, our PRC Legal Advisers advised us that in accordance with the *Circular of the Supreme People’s Court on Printing and Issuing the Summary of the Symposium on Issues Concerning Applicable Legal Norms for the Trial Of administrative Cases* (最高人民法院關於印發《關於審理行政案件適用法律規範問題的座談會紀要》的通知) (the “Circular”), the *Guiding Opinions* are not superior to other normative documents issued by provincial governments (including the provincial regulatory policies and measures applicable to microfinance companies) in terms of legal hierarchy.

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*Opinions of the State Council on Further Supporting the Sound Development of Small and Micro Enterprises* (國務院關於進一步支持小型微型企業健康發展的意見) was issued by the State Council on 10 April 2012. They provide that the restriction on the percentage of equity interest held by a single shareholder in a microfinance company can be relaxed where it is appropriate.

### *Local Regulatory Policies in Zhejiang*

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 also issued various regulatory policies and measures for the purpose of supervising and managing microfinance companies in their respective supervising regions.

Given that our business is confined within the region of Zhejiang, the review of laws and regulations at local level is to be focused on regulations issued by applicable Zhejiang authorities.

*Implementation Opinions of the General Office of the People's Government of Zhejiang Province on the Pilot Operation of Microfinance Companies* (浙江省人民政府辦公廳關於開展小額貸款公司試點工作的實施意見) is issued by the General Secretary of People's Government of Zhejiang Province (浙江省人民政府辦公廳) on 2 July 2008 to empower the Financial Office primarily responsible for the administration, supervision and regulation of the microfinance companies, coordinating with other governmental authorities, and promoting the development of the microfinance companies.

*Interim Measures of Zhejiang Province for the Administration of Pilot Operation of Microfinance Companies* (浙江省小額貸款公司試點暫行管理辦法) (the "Measures") was jointly formulated by the Financial Office, Zhejiang branch of AIC, Zhejiang Banking Supervision Bureau and PBOC Hangzhou Bureau on 14 July 2008, pursuant to the relevant laws and regulations of the State in order to regulate and strengthen the administration of microfinance companies providing financing services for SMEs and farmers, to guard against and control financial risks, and to expedite the progress of microfinance business.

*Interim Measures of Zhejiang Province for the Administration of Pilot Registration of Microfinance Companies* (浙江省小額貸款公司試點登記管理暫行辦法) was issued by Zhejiang branch of AIC on 23 July 2008 which prescribed the registration procedures and formalities of the microfinance companies.

*Some Opinions of the General Office of People's Government of Zhejiang Province on Promoting the Sound Development of Microfinance Companies* (浙江省人民政府辦公廳關於促進小額貸款公司健康發展的若干意見) was promulgated by the General Secretary of People's Government of Zhejiang Province on 31 May 2009, which allowed the microfinance companies that have satisfied certain requirements and conditions to increase the total share capital of the companies half a year earlier than previously authorized date and permitted the maximum shareholding of the main promoter to be increased from 20% up to 30% of the total shares of the company.

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*Operating Rules of Zhejiang Province for the Capital Increase and Share Issuance of Microfinance Companies* (關於浙江省小額貸款公司增資擴股的操作細則) was prescribed by the Financial Office on 7 September 2009, which gave instruction in relation to the application materials, procedures and formalities of capital increase of the microfinance companies.

*Notice on Approval of the Qualifications of Senior Executive of Microfinance Companies* (關於做好小額貸款公司高管人員任職資格核准工作的通知) was issued by the Financial Office on 16 November 2009 which required the replacement of senior executive such as directors and managers to be verified and approved by the Financial Office by submitting the relevant application materials to the Financial Office.

*Notice on Operating Rules of Zhejiang Province for the Share Transfer of Microfinance Companies* (關於浙江省小額貸款公司股權轉讓的操作細則的通知) was prescribed by the Financial Office on 25 October 2010, which stipulated the procedures and formalities in respect of transfer of shares of the microfinance companies by the shareholders.

*Some Opinions of the General Office of People's Government of Zhejiang Province on Further Promoting the Reform and Development of Microfinance Companies* (浙江省人民政府辦公廳關於深入推進小額貸款公司改革發展的若干意見) was issued by the General Secretary of People's Government of Zhejiang Province on 31 October 2011 which have lowered the threshold and relaxed the requirements with regard to the maximum shareholding of the main promoter, the ceiling of the registered share capital, debt to capital ratio, external investment of the shareholders and establishment of branches.

*Circular on Printing and Issuing the Operating Rules of Zhejiang Province for Loans to Substantial Institutional Shareholders of Microfinance Companies* (關於印發浙江省小額貸款公司向主要法人股東定向借款操作細則的通知) was issued by the Financial Office on 6 February 2012 which prescribed the lending precondition and requirements of the institutional shareholders of the microfinance companies in respect of borrowing quotas, term and interest rate of the loan.

*Circular on Printing and Issuing the Operating Rules of Zhejiang Province for Inter-institution Lending Among Microfinance Companies* (關於印發浙江省小額貸款公司同業調劑拆借資金操作細則的通知) was issued by the Financial Office on 6 February 2012, which stipulated that Financial Bureau of different cities under Zhejiang is responsible for supervising the capital supply of among microfinance companies and prescribing the lending precondition, the application and approval procedures and risk control requirement of the capital supply. Further, it requested the total capital supply from microfinance companies, banking institution and shareholders shall not exceed the net capital of microfinance companies and prescribed the guideline for setting the term and interest rate of the capital supply.

*Notice on Interim Measures of Zhejiang Province for the Supervision and Administration of Microfinance Companies* (浙江省小額貸款公司監督管理暫行辦法的通知) was stipulated by the General Secretary of People's Government of Zhejiang Province on 19 September 2012, which further provided that the Financial Office is responsible of the administration and supervision of the incorporation, capital source, capital use and formulating regulatory policies of the microfinance companies and the supervision will be focused on the direction of the application of loan capital, financing condition, share structure and registered capital of the microfinance companies, the performance of business and financial management.

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*Circular on Printing and Issuing the Pilot Operating Rules of Zhejiang Province for Risk Supervision and Administration of Microfinance Companies* (關於印發《浙江省小額貸款公司風險監管處置細則(試行)》的通知) was issued by the Financial Office on 20 February 2013 and took effect on 20 March 2013, which formulated specific supervision rules and punitive measures in relation to the risk management and control of microfinance companies.

*Notice of the Financial Work Office of the People's Government of Zhejiang Province on Further Regulating Review and Approval Matters of Microfinance Companies* (浙江省金融辦關於進一步規範小額貸款公司審核事項的通知) was issued by the Financial Office on 3 June 2013, which delegated the authorizing power from the Financial Office to financial work offices at the municipal level in respect of the issues such as the transfer of shares which is accumulatively less than 25% of the shares within a year by the shareholders who have been holding the to-be-transferred shares in excess of two years and the verification of the qualification of directors and senior management other than the chairman of the board and general manager.

Key contents of the above regulatory policies are listed as follows:

- to establish a microfinance companies, an applicant applies to supervising authority of the provincial government, and, upon approval, must comply with registration formalities to obtain all necessary business licences, approvals and certificates. If a microfinance company is a limited liability company, its registered capital must be at least RMB50 million; and if it is a joint stock company, its registered capital shall be no less than RMB80 million. No single natural person, legal entity, other social organization and their respective affiliated parties other than the main promoters of the microfinance company provided that the microfinance company incorporated as a joint stock company is allowed to hold in excess of 10% of the total registered share capital of the company. The main promoter is however allowed to hold up to 30% of the share capital of the company provided that he does not and shall not invest in other microfinance companies in the same county. It is also provided that with the approval from the relevant government authorities, the shareholding ceiling of the main promoter along with other connected shareholders can be lifted;
- the source of fund of a microfinance company shall mainly come from the capital contribution by its shareholders. The fund can also be borrowed from financial institutions with bank loan interest rate for the corresponding period. In addition, fund may be borrowed from majority institutional shareholders and other microfinance companies with the authorization of the governing authorities;
- a microfinance company shall only borrow bank loans up to a certain percentage, usually 50%, of its net capital for conducting loan business; however, a microfinance company that serves SME and AFR customers, operates lawfully and has a sound risk control system and reasonable interest rate level may borrow a total amount not exceeding 100% of its net capital from (i) banking financial institutions and (ii) subject to the approval from the competent regulatory authorities, institutional shareholders and other microfinance companies within the city;
- a microfinance company may operate loan business, management consulting business and other approved businesses;

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- a microfinance company shall not operate business other than authorised nor shall it operate beyond its authorised region. It shall not set up any branches or subsidiaries unless authorised by the Financial Office;
- the directors of the microfinance company shall hold a college diploma or above and have working experience in the area of finance for at least three years. The chairman of the board and the senior managers of the microfinance company shall hold a college diploma or above and have at least two-year working experience in a commercial bank or at least five-year working experience in a business environment;
- provided that a microfinance company is a joint stock limited liability company, the requirements of its main promoter is that it must have a sound business record with a registered share capital of at least RMB50 million, and remain profitable for the past three years with an accumulative profit for no less than RMB15 million and the debt-to-asset ratio below 70%;
- 70% of outstanding loan balance of the microfinance company shall be applied to borrowers of a single account whose balance of the loan is no more than RMB1.0 million as well as borrowers engaged in agricultural activities such as farming and breeding, while the rest may be applied to other borrowers; provided that loans to any of such borrowers shall not exceed 5% of the net capital;
- the percentage of outstanding loan balance of the microfinance company applied to business loans (經營性貸款) with a term longer than two months shall be kept above 70%;
- no loans shall be granted to the shareholders of the microfinance company. The aggregate amount of the outstanding loan balance of the microfinance company granted to the connected parties (who are defined as either the direct relatives (直系親屬) of individual shareholders or the parent company, subsidiaries, shareholders and/or senior executives of the institutional shareholders) shall be kept below 5% of the registered capital;
- there shall be no business transaction with connected guarantee companies, pawnshops, auction companies or consignment shops;
- the senior executive and any other related staff of the microfinance company shall not participate in any form of private lending directly or indirectly nor be engaged in any illegal business conducts such as acting as the guarantor for clients against the rules of the microfinance company;
- the microfinance company shall not illegally act as a guarantor of any loans;
- the shares of a microfinance company is transferable, but unless otherwise provided, the main promoters' shares are generally locked up for three years since the date of its establishment and for other shareholders, the lock-up period is two years. In addition, the shares held by directors and senior management is not transferable while they are in position;
- a microfinance company shall establish and refine the corporate governance structure and the internal organizational structure;

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- a microfinance company shall (i) establish a stringent loan assessment system, recruit or engage relevant experts in economics, laws or technology, strengthen evaluation capabilities by drawing on the advanced project evaluation system, and intensify inspection on risk assessment for guaranteed projects; (ii) lay more emphasis on reliable long-term customer groups, and accumulate full and accurate customer information in order to provide a reliable source of information for project evaluation; (iii) carry out the efficient decision-making process to guard against blindness in this respect; (iv) intensify the follow-up work on the projects, refine the mechanism involving ex ante assessment, in-process monitoring, and ex post recourse and disposal regarding guaranteed enterprises; and (v) strengthen internal monitoring, guard against ethical risks, and ensure legitimate operations;
- a microfinance company must set up a risk control and management system, and, according to the relevant provisions on financial enterprises, establish a prudent and normative asset classification system and provision system, accurately divide the quality of asset, make full provision for doubtful accounts, and guarantee that its provision for asset losses adequate ratio is sound.

The listed regulatory policies are regional normative documents, and are neither laws nor administrative regulations. The microfinance company shall comply with the above requirements in the regulatory policies when operating its business. The Financial Office, which is responsible for the supervision and administration of microfinance companies, has the authority to interpret, determine and waive the compliance of any of the above requirements.

Failure to comply with the above requirements without a waiver or exemption may subject the microfinance company to (i) warning, (ii) punishment on its senior executive, (iii) disqualification for financial subsidies or even repayment of the financial subsidies previously enjoyed, (iv) restriction on business operation, (v) suspension of pilot operating license, and (vi) ultimately the abolishment of pilot operating license.

*Circular on Printing and Issuing the Measures of Zhejiang Province for the Administration of Annual Appraisal of Microfinance Companies* (關於印發《浙江省小額貸款公司年度考核評價管理辦法》的通知) (the “Notice on Annual Appraisal Measures”) was issued by the Financial Office on 25 January 2010, which set up various appraisal standards concerning the performance and management of the microfinance companies. The microfinance companies are therefore ranked differently according to the results of the appraisal which would then be taken into account when the applicable authorities decide whether to allow the microfinance company to expand its business scale, be transformed into a county bank, or enjoy certain incentives and benefits. Our PRC Legal Advisers advised us the *Notice on Annual Appraisal Measures* is a normative document which serves as a guideline on the appraisal of performance of the microfinance companies, and is not a compulsive and enforceable provisions made in rules of local departments with the authorization of laws and administrative rules of Zhejiang, nor is it regulating a matter subject to authorization by the decisions and orders of the State Council or to macro-control by the central government of the PRC, for rules of market activities that need to be unified nationwide or for foreign trade investment. We were accredited as a Level A Outstanding Microfinance Company of Zhejiang for the year of 2012 and a Level A Plus Outstanding Microfinance Company of Zhejiang for the year of 2013.

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Pursuant to *Supervisory Guidance on the Offshore Offering of Stocks by Joint Stock Limited Companies, Listing Submission Documents and Approval Procedures (CSRC Notice [2012] No.45)* (《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督指引》中國證券監督委員會公告[2012] 45號), joint stock companies may offer shares for subscription to offshore specific or non-specified investors upon the approval of the CSRC and their shares may be listed overseas.

As advised by our PRC Legal Advisers, our Company has acquired all the necessary regulatory and internal approvals for the Global Offering and Listing. Please see “Appendix VI — Statutory and General Information” for more details. In particular, our Company has obtained the Shareholders’ approval and CSRC approval for the Global Offering and Listing on 19 May 2014 and 5 November 2014, respectively.

### ANTI-MONEY LAUNDERING LAWS AND REGULATIONS

Financial institutions established within the territory of the PRC must comply with the requirements related to anti-money laundering stipulated in the *Anti-money Laundering Law of the People’s Republic of China* (中華人民共和國反洗錢法) (the “AML Law”), the *Provisions on Anti-money Laundering of Financial Institutions* (金融機構反洗錢規定), which were promulgated by the PBOC and were effective from 1 January 2007, and the *Measures on Administration of Identification of Clients 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紀錄保存管理辦法), which were jointly promulgated by the PBOC, the CBRC, the CSRC and the China Insurance Regulatory Commission (中國保險監督管理委員會) and were effective from 1 August 2007.

According to the *AML Law*, financial institutions established within the territory of the PRC and special non-financial institutions that are required by relevant regulations to perform obligations of anti-money laundering are under the anti-money laundering regime. Under the *AML Law*, financial institutions include policy banks, commercial banks, credit cooperatives, postal savings and remittance institutions, trust investment companies, securities companies, futures brokerage companies and insurance companies established in the PRC to engage in financial-related business, as well as other institutions that are determined and made known as such by the administrative department in charge of anti-money laundering under the State Council to engage in financial business. Under the *AML Law*, the scope of special non-financial institutions that shall perform obligations of anti-money laundering, and the said obligation shall be defined, the specific measures for supervision over such institutions shall be formulated, by the administrative department in charge of anti-money laundering under the State Council in conjunction with other competent authorities under the State Council.

According to the *Detailed Rules for Anti-money Laundering Investigations (for Trial Implementation)* (中國人民銀行反洗錢調查實施細則(試行)), *Notice of the People’s Bank of China on Issuing the Off-site Anti-money Laundering Supervision Measures (for Trial Implementation)* (反洗錢非現場監管辦法(試行)) and the *Notice of the People’s Bank of China on Issuing the Administrative Measures for the On-site Inspections for Anti-money Laundering (for Trial Implementation)* (反洗錢現場檢查管理辦法(試行)), when the PBOC formulated relevant specific supervision measures, we and other institutions engaged in the credit financing and micro and small loan businesses were not defined as financial institutions or special non-financial institutions that are required to comply with the anti-money laundering regulations.



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The PBOC has not yet formulated, in conjunction with other competent authorities under the State Council, the scope of special non-financial institutions that are required to perform the obligations of anti-money laundering.

As such, we are not subject to the anti-money laundering regime in the PRC, as confirmed by our PRC Legal Advisers.

### REGULATIONS ON TAX

#### *PRC Enterprise Income Tax*

On March 2007, the NPC passed the *EIT Law* (中華人民共和國企業所得稅法) with effect from 1 January 2008. On 6 December 2007, the State Council enacted the *Implementation Rules 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) which also became effective as of 1 January 2008.

The *EIT Law* and its implementation rules adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoke any previous tax exemption, reduction and preferential tax treatments applicable to foreign-invested enterprises.

#### *PRC Business Tax*

Pursuant to the *PRC Provisional Regulations on Business Tax* (中華人民共和國營業稅暫行條例) which was last amended on 10 November 2008 and took effect on 1 January 2009, and its implementation regulations which was last amended on 28 October 2011, all entities or individuals providing services as prescribed in these regulations, transferring intangible assets or selling immovable properties within the territory of the PRC are required to pay business tax. The amount of business tax payable is calculated as turnover multiplied by the prescribed tax rates. The rate of business tax for those engaging in the finance and insurance industry, transfer of intangible assets and sale of immovable properties is 5%.

### REGULATIONS ON EMPLOYMENT

#### *The Labor Contract Law*

The *Labor Contract law of the PRC* (中華人民共和國勞動合同法) (the “Labor Contract Law”) was promulgated by the SCNPC on 29 June 2007 and came into effect on 1 January 2008. The *Labor Contract Law* is primarily aimed at the regulation of the rights and obligations of the employee and employer, including matters in respect of the establishment, performance and termination of labor contract.

Under the *Labor Contract Law*, an employer must pay an employee double his salary for each month under the circumstance where the employer fails to enter into a written contract with the employee for more than one month but less than a year; where such period exceed one year, the parties are deemed to have entered into a non-fixed term labor contract. Where an employee has been working for an employer for a consecutive period of 10 years or more, a non-fixed term labor contract shall be concluded unless the employee requests the conclusion of a fixed term labor contract. Employees must adhere to the regulations concerning commercial secrets and non-competition. The amount of

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## REGULATORY OVERVIEW

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compensation an employer may seek from an employee for breach of the agreed service term may not exceed the training expense paid by the employer. An employee may have his labor contract terminated if the employer fails to pay social insurance premiums for the employee in accordance with the laws.

### *Employment Promotion*

The *Law of the PRC on Employment Promotion* (中華人民共和國就業促進法) (the “Law on Employment Promotion”) was promulgated by the SCNPC on 30 August 2007 and came into effect on 1 January 2008. The *Law on Employment Promotion* contains provisions on policy support, fair employment, employment service and management, and vocational education and training. More particularly, the *Law on Employment Promotion* states explicitly that employment discrimination should be eliminated, and the employees discriminated by acts in violation of the provisions may file a lawsuit with the People’s Court. It also provides that public employment service agencies established by the Government at the county level or above should provide free service to employees, including consultation of employment policies and regulations, vocational training and price guidance for market wages.

In addition, the *Law on Employment Promotion* perfects an employment and unemployment registration system, stipulating that employers must complete employment registration with public employment service agencies after employees have been recruited; while employees who are individual operators or engaged in temporary jobs may registered with community public service agencies and shall be entitled to applicable support policies upon registration.

### REGULATIONS ON SOCIAL INSURANCE

As required under *Regulation of Insurance for Labor Injury* (工傷保險條例) which was amended on 8 December 2010 and took effect from 1 January 2011, *Provisional Insurance Measures for Maternity of Employees* (企業職工生育保險試行辦法) which were promulgated on 14 December 1994 and took effect from 1 January 1995, *Regulation of Unemployment Insurance* (失業保險條例) which were promulgated on and took effect from 22 January 1999 and *Interim Provisions on Registration of Social Insurance* (社會保險登記管理暫行辦法) which was promulgated on and took effect from 19 March 1999, enterprises are required to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance. An enterprise that fails to make social insurance contributions in accordance with the relevant regulations may be ordered to rectify the non-compliance and pay the required contribution with the stipulated deadline. If the enterprise fails to rectify the non-compliance by the stipulated deadline set out by the government authorities, it can be assessed a late fee by the relevant authority in the rate of 0.2% of the amount overdue per day from the original due date.

In addition, on 28 October 2010, SCNPC promulgated the *PRC Social Insurance Law* (中華人民共和國社會保險法), which became effective on 1 July 2011, to clarify the contents of the social insurance system in the PRC. According to the *PRC Social Insurance Law*, employees within the PRC must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay the social insurance premiums for such employees. Employees from rural areas working in urban cities and foreigners working in the PRC shall also participate in social insurance.

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## REGULATORY OVERVIEW

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### REGULATIONS ON HOUSING PROVIDENT FUND

Pursuant to the *Regulations on Management of Housing Provident Fund* (住房公積金管理條例), which became effective on 3 April 1999 and was amended on 24 March 2002, enterprises in the PRC must register with housing provident fund management center, maintain housing provident fund accounts with designated banks for their employees, and deposit into the fund an amount not less than 5% of each employee's average monthly salary in the previous year.

### REGULATIONS ON DIVIDEND DISTRIBUTION

The principal laws and regulations governing distribution of dividends paid by PRC domestic and foreign invested enterprises include The *PRC Company Law*. Accordingly, FIEs in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, FIEs are required to set aside at least 10% of their after-tax profit each year, if any, to fund certain reserve funds. Until such time as the accumulated reserve funds reach and remain above 50% of the enterprise's registered capital amount, these reserves are not distributable as cash dividend.

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## HISTORY AND DEVELOPMENT

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### OUR BUSINESS HISTORY

#### *Introduction*

As of 30 June 2014, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to *EY Advisory*. In addition, we were the second largest licensed microfinance company in Zhejiang in terms of outstanding loans as of 30 June 2014, according to the same source. Established in August 2011 as a pilot enterprise for the provision of small loan in Deqing, we have since then significantly expanded our equity base and achieved significant and rapid business growth during the Track Record Period. Since our establishment, we have been accredited as a Superior Private Enterprise in Service Industry in 2011\* (2011年度服務業優勝民營企業) by the People's Government of Deqing\* (德清縣人民政府), a Level A Outstanding Microfinance Company of Zhejiang in 2012\* (2012年度浙江省A級優秀小額貸款公司) by the Financial Office, a Superior Private Enterprise in Service Industry in Deqing for the year 2013\* (德清縣2013年度服務業優勝企業) by the People's Government of Deqing\* (德清縣人民政府) and a Level A Plus Outstanding Microfinance Company of Zhejiang in 2013\* (2013年度浙江省A+級優秀小額貸款公司) by the Financial Office.

Our Predecessor Company was initially established as a limited liability company in the PRC with a registered capital of RMB200 million by Puhua Energy as the principal Promoter, together with seven corporate shareholders and 15 individual shareholders, utilizing their own funds. Since its inception up to 31 March 2014, our Predecessor Company underwent a number of capital increases, as a result of which its registered capital increased from RMB200 million to RMB750 million, and its shareholder base expanded to include six corporate shareholders (including Puhua Energy) and 44 individual shareholders. Shortly thereafter in April 2014, our Predecessor Company was converted into our Company (a joint stock company with limited liability), and our registered capital was further increased to RMB880 million through the conversion of our Predecessor Company's then net assets value as of 31 March 2014 into Domestic Shares. On 28 April 2014, our company name was changed from Deqing Zuoli Kechuang Micro-finance Company Limited\* (德清佐力科創小額貸款有限公司) to our present name.

#### *Business Milestones*

August 2011	Our Predecessor Company was established as a pilot enterprise for the provision of small loan in Deqing
February 2012	Accredited as a Superior Private Enterprise in Service Industry in 2011* (2011年度服務業優勝民營企業) by the People's Government of Deqing* (德清縣人民政府)
March 2012	The registered capital of our Predecessor Company increased from RMB200 million to RMB320 million
July 2013	Accredited as a Level A Outstanding Microfinance Company of Zhejiang in 2012* (2012年度浙江省A級優秀小額貸款公司) by the Financial Office
December 2013	The registered capital of our Predecessor Company increased from RMB320 million to RMB510 million

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## HISTORY AND DEVELOPMENT

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December 2013	The accumulative amount of loans advanced by the Company as of 31 December 2013 reached RMB3 billion
February 2014	Accredited as a Superior Private Enterprise in Service Industry in Deqing for the year 2013* (德清縣2013年度服務業優勝企業) by the People's Government of Deqing* (德清縣人民政府)
March 2014	The registered capital of our Predecessor Company increased from RMB510 million to RMB750 million
April 2014	The Company was converted into a joint stock company with limited liability from our Predecessor Company and our registered capital reached RMB880 million
August 2014	Accredited as a Level A Plus Outstanding Microfinance Company of Zhejiang in 2013* (2013年度浙江省A <sup>+</sup> 級優秀小額貸款公司) by the Financial Office
November 2014	Accredited as an Industrial and Commercial Enterprise of Zhejiang with Level AA Credit Rating* (浙江省工商企業信用AA級“守合同重信用”單位) by the Market Supervision Administration of Deqing* (德清縣市場監督管理局)

### OUR CORPORATE HISTORY

#### *Establishment of Our Predecessor Company*

With the approval of the Financial Office, on 18 August 2011, our Predecessor Company was established in the PRC as a limited liability company with an initial registered capital of RMB200 million, all of which was contributed in cash. Puhua Energy was the principal Promoter of our Predecessor Company and contributed 20.00% of its registered capital. Puhua Energy was, at the time of our establishment, and remained to be as of the Latest Practicable Date, wholly owned by Zuoli Holdings, further details of both of which are set out in the section headed “Relationship with Controlling Shareholders.” The remaining 80.00% of the initial registered capital of our Predecessor Company was contributed as to 10.00% by Mr. Shen Detang (沈德堂), a former director of our Predecessor Company and a connected person, with the balance of 70.00% held by a total of seven corporate shareholders and 14 individuals. Out of this 70.00% of registered capital, approximately 17.00% were held by our connected persons (including Mr. Zhang who then held 4% of our equity interest), and the remaining 53.00% were held by Independent Third Parties. None of these seven corporate shareholders and 14 individual shareholders held more than 5.00% of the equity interest in our Predecessor Company on his/her/its own.

A shareholders' meeting of our Predecessor Company was convened on 18 March 2012, pursuant to which it was resolved that the registered capital of our Predecessor Company be increased from RMB200 million to RMB320 million. The additional capital was contributed in cash by certain of the then existing shareholders of our Predecessor Company and three individual Independent Third Parties. As a result of the capital increase, our Predecessor Company was owned as to 30.00% by Puhua Energy, 10.00% by Mr. Shen Detang, and the balance of 60.00% by a total of seven corporate shareholders and 17 individual shareholders, out of which 14.44% were held by our connected persons (including Mr.

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## HISTORY AND DEVELOPMENT

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Zhang who then held approximately 3.50% of our equity interest), and the remaining 45.56% were held by Independent Third Parties. None of these seven corporate shareholders and 17 individual shareholders held more than 5.00% of the equity interest in our Predecessor Company on his/her/its own. The above capital increase was approved by the Financial Office in March 2012 and was completed on 30 March 2012.

On 15 November 2013, several transfers of equity were conducted among five of the then existing shareholders of our Predecessor Company (including Mr. Shen Detang) and six Independent Third Parties, pursuant to which an aggregate of approximately 21.13% of the equity interest in our Predecessor Company was transferred at an aggregate consideration of RMB85.95 million. The consideration for the equity transfers were all arrived at after arm's length negotiation between the parties, taking into the account of the audited net assets value of our Predecessor Company as of 30 September 2013 of approximately RMB392 million. The above equity transfers were completed by 9 December 2013, as a result of which our Predecessor Company was owned as to 30.00% by Puhua Energy, 10.00% by Beihu Construction, one of the Promoters, and the balance of 60.00% held by a total of four corporate shareholders and 21 individual shareholders, out of which approximately 14.44% were held by our connected persons (including Mr. Zhang who then held approximately 3.50% of our equity interest) and 45.56% were held by Independent Third Parties. None of these four corporate shareholders and 21 individual shareholders held more than 5.00% of the equity interest in our Predecessor Company on his/her/its own.

Shortly thereafter on 17 December 2013, a shareholders' meeting of our Predecessor Company was convened and resolved to increase the registered capital of our Predecessor Company from RMB320 million to RMB510 million. The additional capital was contributed in cash by (i) some of the then existing shareholders; (ii) one Director, one Supervisor and a senior management member of our Predecessor Company; and (iii) ten individual Independent Third Parties. As a result of the capital increase, our Predecessor Company was owned as to 30.00% by Puhua Energy, 8.24% by Beihu Construction, with the balance of 61.76% held by a total of four corporate shareholders and 34 individual shareholders, out of which 14.91% were held by our connected persons (including Mr. Zhang who then held approximately 2.20% of our equity interest) and 46.85% by Independent Third Parties. None of these four corporate shareholders and 34 individual shareholders held more than 5.00% of the equity interest in our Predecessor Company on his/her/its own. The above capital increase was approved by the Financial Office in December 2013 and was completed on 30 December 2013.

A shareholders' meeting of our Predecessor Company was convened on 17 March 2014, pursuant to which it was resolved that the registered capital of our Predecessor Company be further increased from RMB510 million to RMB750 million. The additional capital was contributed in cash by (i) some of the then existing shareholders; (ii) Mr. Yu and his cousin, Mr. Shen and a Director; and (iii) six individual Independent Third Parties. As a result of the capital increase, our Predecessor Company was owned as to 30.00% by Puhua Energy, 10.00% by Mr. Yu, 5.93% by Mr. Li Weizhong (李衛忠), who is an Independent Third Party, and 5.60% by Beihu Construction, with the balance of 48.47% held by a total of four corporate shareholders and 42 individual shareholders, out of which 15.54% were held by our connected persons (including Mr. Zhang and Mr. Shen who then held approximately 2.19% and 2.70%, respectively, of our equity interest) and 32.93% by Independent Third Parties. None of these four corporate shareholders and 42 individual shareholders held more than 5.00% of the equity interest in our Predecessor Company on his/her/its own. The above capital increase was approved by the Financial Office in March 2014 and was completed on 31 March 2014.

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### *The Company*

In April 2014, our Predecessor Company was converted into a joint stock company with limited liability with a registered capital of RMB880 million, through the conversion of our Predecessor Company's then net assets value of approximately RMB903 million as of 31 March 2014 into 880 million Domestic Shares with a nominal value of RMB1.00 per Domestic Share. On 28 April 2014, our company name was changed from Deqing Zuoli Kechuang Micro-finance Company Limited\* (德清佐力科創小額貸款有限公司) to our present name. The following sets forth our shareholding structure upon completion of the conversion and up to the Latest Practicable Date:

<u>Shareholder</u>	<u>Number of Domestic Shares in our Company held by the Shareholder</u>	<u>Approximate percentage of total share capital of our Company</u>
Puhua Energy (Notes 1, 2) . . . . .	264,000,000	30.00%
Mr. Yu (Notes 2, 3) . . . . .	88,000,000	10.00%
Beihu Construction (Note 4) . . . . .	49,280,000	5.60%
Mr. Shen (Notes 1, 2) . . . . .	23,760,000	2.70%
Mr. Zhang (Note 2) . . . . .	19,301,040	2.19%
Other Directors, former directors of our Predecessor Company, Supervisors, senior management, and/or their respective associates (Note 5) . . . . .	51,465,920	5.85%
Other corporate and individual Shareholders (Note 6) . . . . .	<u>384,193,040</u>	<u>43.66%</u>
Total . . . . .	<u><u>880,000,000</u></u>	<u><u>100.00%</u></u>

*Notes:*

- (1) Puhua Energy is a wholly owned subsidiary of Zuoli Holdings, and Zuoli Holdings is held as to about 32.04% by Deqing Yintian and 5.52% by Dingsheng Investment, respectively. Deqing Yintian is wholly owned by Mr. Y Yu, and he is deemed to be interested in the Shares held by Puhua Energy, being a corporation indirectly controlled by him. Dingsheng Investment is wholly owned by Mr. Shen.
- (2) By virtue of the Acting in Concert Agreement, each of Puhua Energy, Mr. Y Yu, Mr. Yu, Mr. Shen and Mr. Zhang is deemed to be a Controlling Shareholder.
- (3) Mr. Yu, our executive Director, held 10.00% of the issued share capital of our Company as of the Latest Practicable Date.
- (4) Beihu Construction is a limited liability company established in the PRC on 24 May 1995 with a current registered capital of RMB50.08 million and one of the Promoters. The approved business scope of Beihu Construction includes architecture and construction, blueprint designing, equipment installation, interior and exterior decoration and wholesale and retail of construction materials. As of the Latest Practicable Date, Beihu Construction was held by two individual shareholders, both of which being Independent Third Parties. Beihu Construction held approximately 5.60% of the issued share capital in the Company as of the Latest Practicable Date, and is an Independent Third Party.
- (5) The interests held by other Directors, former directors of our Predecessor Company, Supervisors, senior management, and/or their respective associates (excluding Controlling Shareholders) include:
  - a. Ms. Shen Yamin, our Supervisor, held about 1.54% of the issued share capital in the Company;
  - b. Mr. Hu Haifeng, our executive Director, held about 1.21% of the issued share capital in the Company;

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## HISTORY AND DEVELOPMENT

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- c. Mr. Yu Chao is a former director of our Predecessor Company and accordingly is a connected person of our Company. He held about 0.88% of the issued share capital in the Company. Mr. Yu Chao is also a former supervisor of the Company and a cousin of Mr. Yu;
  - d. Mr. Ding Maoguo, our executive Director and Chief Financial Officer, held about 0.50% of the issued share capital in the Company;
  - e. Mr. Zheng Xuegen, our executive Director, held about 0.34% of the issued share capital in the Company;
  - f. Ms. Xia Jing, a member of our senior management, held about 0.34% of the issued share capital in the Company;
  - g. Mr. Qiu Weiguo, one of the former directors of our Predecessor Company and a connected person of our Company, held about 1.05% of the issued share capital in the Company;
  - h. The indirect interest of Mr. Pan Zhongmin (our non-executive Director) held through Bangni Fiber is included in “Other corporate and individual Shareholders”; and
  - i. The indirect interest of Mr. Tang Hairong (a former director of our Predecessor Company and a connected person of our Company) held through Jinyan Import & Export is included in “Other corporate and individual Shareholders”. Mr. Tang Hairong is also a former supervisor of our Company.
- (6) Our other corporate and individual Shareholders comprised (i) four corporate Shareholders, who held approximately 9.72% of the issued share capital in the Company in aggregate; and (ii) 34 individual Shareholders, who held approximately 33.94% of the issued share capital in the Company in aggregate (including Mr. Yu Cheng (俞成), a cousin of Mr. Yu and a connected person of the Company, who held 0.50% of the issued share capital of the Company and an employee Shareholder who held 0.87% of the issued share capital in the Company) as of the Latest Practicable Date. Save as Mr. Yu Cheng, Bangni Fiber and Jinyan Import & Export, which are our connected persons, all of these Shareholders are Independent Third Parties. Save as Mr. Li Weizhong (李衛忠) who held 5.93% of the issued share capital of the Company, none of these corporate and individual Shareholders held more than 5.00% of the issued share capital in the Company.
- (7) Some percentage figures above have been rounded to two decimal places. Any discrepancies in the table above between totals and sums of amounts listed in it are due to rounding.

### ACTING IN CONCERT AGREEMENT

As of the Latest Practicable Date, Puhua Energy directly held 30.00% of the issued share capital in our Company. It is one of the Controlling Shareholders and is a wholly owned subsidiary of Zuoli Holdings. Mr. Yu, our Chairman, is the son of Mr. Y Yu. As Mr. Y Yu, Mr. Yu, Mr. Shen and Mr. Zhang share the same vision in respect of the long-term development and business objectives of the Company, they together with Puhua Energy entered into the Acting in Concert Agreement on 28 April 2014 to align their shareholding interests of the Company.

Pursuant to the Acting in Concert Agreement, Mr. Y Yu, Mr. Yu, Mr. Shen, Mr. Zhang and Puhua Energy jointly and severally undertook that, during the period they remain in control of the Company, they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders of the Company (and of its subsidiaries, if any in the future) based on such decisions.

As such, Mr. Y Yu (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu, Mr. Shen (by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang and Puhua Energy, are entitled to exercise and control the exercise of approximately 33.48% of our entire issued share capital upon the completion of the Global Offering (assuming the Over-allotment Option is not



## HISTORY AND DEVELOPMENT

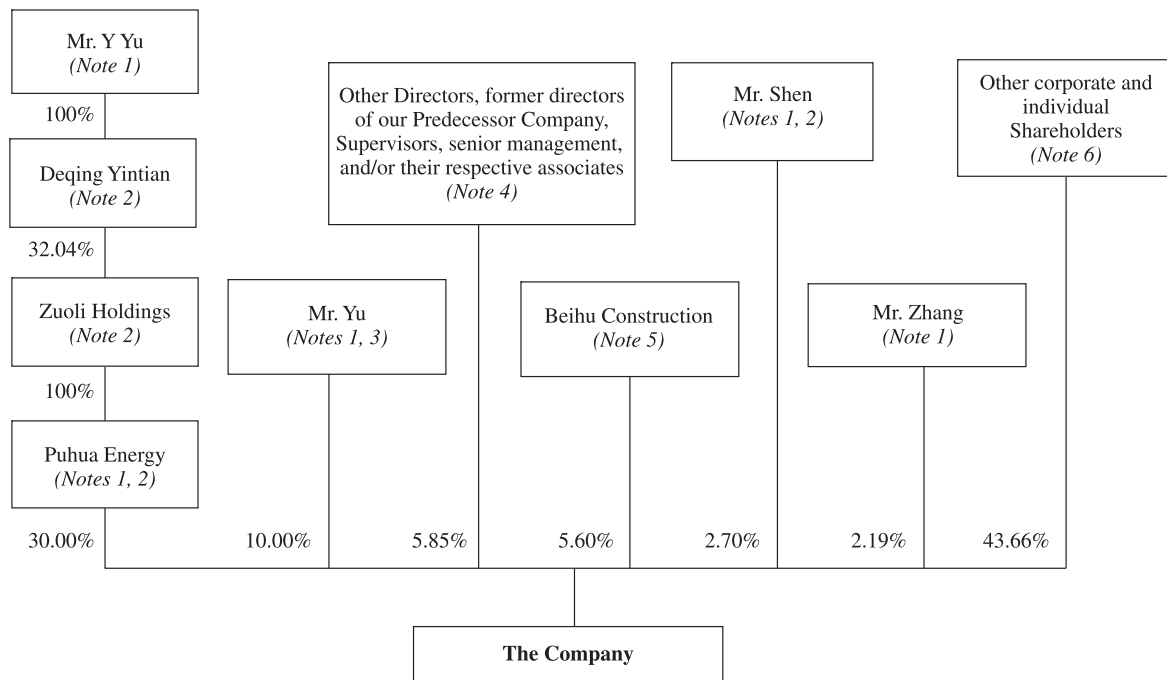
exercised). Each of Mr. Y Yu, Deqing Yintian, Zuoli Holdings, Puhua Energy, Mr. Yu, Mr. Shen, Dingsheng Investment and Mr. Zhang are together regarded as our Controlling Shareholders as defined under Rule 19A.14 of the Listing Rules.

We have been advised by our PRC Legal Advisers that the relevant undertakings by the abovementioned parties under the Acting in Concert Agreement are legal, valid and enforceable under the applicable PRC laws.

### CORPORATE STRUCTURE

Other than the conversion of the Predecessor Company into the Company, the Company did not undergo any reorganization for the purpose of Listing prior to completion of the Global Offering.

The following diagram sets out the shareholding and corporate structure of the Company as of the Latest Practicable Date:



*Notes:*

- (1) By virtue of the Acting in Concert Agreement, each of Puhua Energy, Mr. Y Yu, Mr. Yu, Mr. Shen and Mr. Zhang is deemed to be a Controlling Shareholder.
- (2) Puhua Energy is a wholly owned subsidiary of Zuoli Holdings, and Zuoli Holdings is held as to about 32.04% by Deqing Yintian and 5.52% by Dingsheng Investment. Deqing Yintian is wholly owned by Mr. Y Yu, and he is deemed to be interested in the Shares held by Puhua Energy, being a corporation indirectly controlled by him. Dingsheng Investment is wholly owned by Mr. Shen.
- (3) Mr. Yu, our executive Director, held 10.00% of the issued share capital of our Company as of the Latest Practicable Date.

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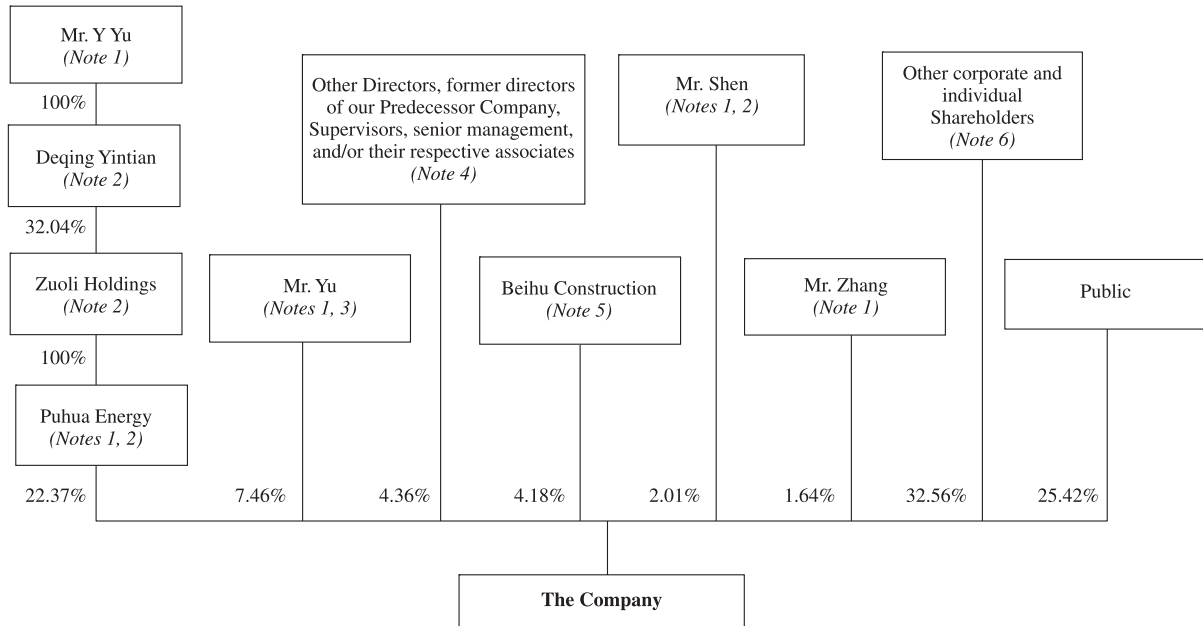
## HISTORY AND DEVELOPMENT

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- (4) The interests held by other Directors, former directors of our Predecessor Company, Supervisors, senior management, and/or their respective associates (excluding Controlling Shareholders) include:
- a. Ms. Shen Yamin, our Supervisor, held about 1.54% of the issued share capital in the Company;
  - b. Mr. Hu Haifeng, our executive Director, held about 1.21% of the issued share capital in the Company;
  - c. Mr. Yu Chao is a former director of our Predecessor Company and accordingly is a connected person of our Company. He held about 0.88% of the issued share capital in the Company. Mr. Yu Chao is also a former supervisor of the Company and a cousin of Mr. Yu;
  - d. Mr. Ding Maoguo, our executive Director and Chief Financial Officer, held about 0.50% of the issued share capital in the Company;
  - e. Mr. Zheng Xuegen, our executive Director, held about 0.34% of the issued share capital in the Company;
  - f. Ms. Xia Jing, a member of our senior management, held about 0.34% of the issued share capital in the Company;
  - g. Mr. Qiu Weiguo, one of the former directors of our Predecessor Company and a connected person of our Company, held about 1.05% of the issued share capital in the Company;
  - h. The indirect interest of Mr. Pan Zhongmin (our non-executive Director) held through Bangni Fiber is included in “Other corporate and individual Shareholders”; and
  - i. The indirect interest of Mr. Tang Hairong (a former director of our Predecessor Company and a connected person of our Company) held through Jinyan Import & Export is included in “Other corporate and individual Shareholders”. Mr. Tang Hairong is also a former supervisor of our Company.
- (5) Beihu Construction is a limited liability company established in the PRC on 24 May 1995 with a current registered capital of RMB50.08 million and one of the Promoters. The approved business scope of Beihu Construction includes architecture and construction, blueprint designing, equipment installation, interior and exterior decoration and wholesale and retail of construction materials. As of the Latest Practicable Date, Beihu Construction was held by two individual shareholders, both of which being Independent Third Parties. Beihu Construction directly held approximately 5.60% of the issued share capital in the Company as of the Latest Practicable Date, and is an Independent Third Party.
- (6) Our other corporate and individual Shareholders comprised (i) four corporate Shareholders, who held approximately 9.72% of the issued share capital in the Company in aggregate; and (ii) 34 individual Shareholders, who held approximately 33.94% of the issued share capital in the Company in aggregate (including Mr. Yu Cheng (俞成), a cousin of Mr. Yu and a connected person of the Company, who held 0.50% of the issued share capital of the Company and an employee Shareholder holding 0.87% of the issued share capital in the Company) as of the Latest Practicable Date. Save as Mr. Yu Cheng, Bangni Fiber and Jinyan Import & Export, which are our connected persons, all of these Shareholders are Independent Third Parties. Save as Mr. Li Weizhong (李衛忠) who held 5.93% of the issued share capital of the Company, none of these corporate and individual Shareholders held more than 5.00% of the issued share capital in the Company.
- (7) Certain percentage figures included in this diagram have been subject to rounding adjustments. Accordingly, the percentage figures may not add up to 100.

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The following diagram sets out the shareholding and corporate structure of the Company immediately after the Global Offering (assuming that the Over-allotment Option is not exercised):



*Notes:*

- (1) By virtue of the Acting in Concert Agreement, each of Puhua Energy, Mr. Y Yu, Mr. Yu, Mr. Shen and Mr. Zhang is deemed to be a Controlling Shareholder.
- (2) Puhua Energy is a wholly owned subsidiary of Zuoli Holdings, and Zuoli Holdings is held as to about 32.04% by Deqing Yintian and 5.52% by Dingsheng Investment. Deqing Yintian is wholly owned by Mr. Y Yu, and he is deemed to be interested in the Shares held by Puhua Energy, being a corporation indirectly controlled by him. Dingsheng Investment is wholly owned by Mr. Shen.
- (3) Mr. Yu, our executive Director, will hold about 7.46% of the issued share capital of the Company immediately following completion of the Global Offering.
- (4) Immediately following completion of the Global Offering, the interests to be held by other Directors, former directors of our Predecessor Company, Supervisors, senior management, and/or their respective associates (excluding Controlling Shareholders) include:
  - a. Ms. Shen Yamin, our Supervisor, will hold about 1.15% of the issued share capital in the Company;
  - b. Mr. Hu Haifeng, our executive Director, will hold about 0.90% of the issued share capital in the Company;
  - c. Mr. Yu Chao is a former director of our Predecessor Company and accordingly is a connected person of our Company. He will hold about 0.65% of the issued share capital in the Company. Mr. Yu Chao is also a former supervisor of the Company and a cousin of Mr. Yu;
  - d. Mr. Ding Maoguo, our executive Director and Chief Financial Officer, will hold about 0.37% of the issued share capital in the Company;
  - e. Mr. Zheng Xuegen, our executive Director, will hold about 0.25% of the issued share capital in the Company;

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## HISTORY AND DEVELOPMENT

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- f. Ms. Xia Jing, a member of our senior management, will hold about 0.25% of the issued share capital in the Company;
  - g. Mr. Qiu Weiguo, one of the former directors of our Predecessor Company and a connected person of our Company, will hold about 0.78% of the issued share capital in the Company;
  - h. The indirect interest of Mr. Pan Zhongmin (our non-executive Director) held through Bangni Fiber is included in “Other corporate and individual Shareholders”; and
  - i. The indirect interest of Mr. Tang Hairong (a former director of our Predecessor Company and a connected person of our Company) held through Jinyan Import & Export is included in “Other corporate and individual Shareholders”. Mr. Tang Hairong is also a former supervisor of our Company.
- (5) Beihu Construction is a limited liability company established in the PRC on 24 May 1995 with a current registered capital of RMB50.08 million and one of the Promoters. Its approved business scope includes architecture and construction, blueprint designing, equipment installation, interior and exterior decoration and wholesale and retail of construction materials. Beihu Construction will directly hold approximately 4.18% of the issued share capital in the Company immediately following the completion of the Global Offering.
- (6) Our other corporate and individual Shareholders comprises (i) four corporate Shareholders, who will hold approximately 7.25% of the issued share capital in the Company in aggregate; and (ii) 34 individual Shareholders, who will hold approximately 25.31% of the issued share capital in the Company in aggregate (including Mr. Yu Cheng (俞成), a cousin of Mr. Yu and a connected person of the Company, who will hold 0.37% of the issued share capital of the Company and an employee Shareholder who will hold 0.65% of the issued share capital in the Company) immediately following completion of the Global Offering. Save as Mr. Yu Cheng, Bangni Fiber and Jinyan Import & Export, which are our connected persons, all of these Shareholders are Independent Third Parties. None of them will hold more than 5.00% of the issued share capital in the Company.
- (7) Certain percentage figures included in this diagram have been subject to rounding adjustments. Accordingly, the percentage figures may not add up to 100.

### LOCK-UP ARRANGEMENT

The Domestic Shares held by our Promoters constitute promoter shares as defined in the *PRC Company Law*. By virtue of the *PRC Company Law*, the Shares issued by our Company prior to the Global Offering, including the Domestic Shares held by our Promoters (including but not limited to those held by Bangni Fiber, the equity interest of which was held as to 75.50% by our non-executive Director), are not transferrable within one year of the Listing Date.

Each of our Directors, Supervisors and senior management members holding Domestic Shares in our Company directly or indirectly has given, among others, the following undertakings relating to the lock-up arrangement of the Domestic Shares in our Company:

- (a) in respect of our Directors, Supervisors and senior management members, (i) the Domestic Shares in our Company held by him/her directly or indirectly shall not be transferrable within one year of the Listing Date; and (ii) within six months from his/her ceasing to hold office in our Company, he/she shall not transfer any Domestic Shares in our Company held by him/her directly or indirectly;
- (b) in respect of our Directors and senior management members, the Domestic Shares in our Company held by him/her directly or indirectly shall not be transferrable during the period when he/she holds office in our Company; and

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## HISTORY AND DEVELOPMENT

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- (c) in respect of our Supervisors, in each year during the period when he/she holds office in our Company, (i) his/her transfer of Domestic Shares in our Company held by him/her directly shall not exceed 25% of the total number of Domestic Shares in our Company held by him/her directly; and (ii) his/her transfer of Domestic Shares in our Company held by him/her indirectly shall not exceed 25% of the total number of Domestic Shares in our Company held by him/her.

The above undertakings are subject to the compliance with the changes made to the applicable laws and regulations from time to time, or can be waived or amended upon the obtaining of waiver or approval from the competent authority.

### COMPLIANCE WITH THE RELEVANT PRC LAWS AND REGULATIONS

As advised by our PRC Legal Advisers, the establishment and each change in shareholding of the Company have obtained necessary approval and registration and have complied with relevant PRC legal requirements.

**OVERVIEW**

As of 30 June 2014, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to *EY Advisory*. In addition, we were the second largest licensed microfinance company in Zhejiang in terms of outstanding loans as of 30 June 2014, according to the same source. We are dedicated to serving customers in Deqing, a county in Huzhou, Zhejiang with robust commercial and agricultural activities, by providing financing solutions with flexible terms through quick and comprehensive loan assessment and approval processes. Our long-term commitment to serve the local market and our strong capital base have enabled us to build a broad customer base that, in line with our business scale, has expanded since our inception in August 2011. As of 30 June 2014, we had a registered capital of RMB880.0 million and gross outstanding loans of RMB1,064.5 million, serving a total of over 1,200 customers. According to our license, we are currently only permitted to conduct business operation in Deqing.

Our key customers primarily consist of customers engaged in agricultural businesses, customers engaged in rural development activities, and/or customers residing in rural areas, or AFR (三農), and SMEs and microenterprises in various industries. These customers generally lack sufficient business scale and/or do not possess acceptable collateral to obtain credit from commercial banks. We provide various loan products to meet the diverse needs of our target customers. During the Track Record Period, our loans ranged in size from RMB10,000 to RMB25.0 million, with a term generally ranging from two months to one year. As a privately owned and dedicated microfinance company, we are able to deliver quick, convenient and efficient financing solutions to our customers to meet their needs for quick access to funds. We also enjoy a higher degree of flexibility in terms of capital requirements and lending restrictions compared to commercial banks, which allows us to target certain groups of customers, such as SMEs and microenterprises in the start-up and growth phases, and individuals in the agricultural, industrial and service sectors, to broaden our customer base.

Deqing has experienced robust economic development and growth in recent years. The local fiscal revenue increased from RMB1.3 billion for the year ended 31 December 2008 to RMB3.1 billion for the year ended 31 December 2013, representing a CAGR of 18.1%. Deqing's per capita GDP exceeded RMB77,000 in 2013, and the county was placed among the nation's top 100 counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has helped to cultivate the local financial services sector. In addition, Deqing has been designated as a "technological outstanding county (科技強縣)" as well as a "financial innovation demonstration county (金融創新示範縣)" by the Zhejiang provincial government.

As the largest microfinance company in Zhejiang in terms of registered capital, we believe we enjoy strong government support, including our potential to launch new and innovative loan products and to expand our geographical coverage by setting up branches in the remaining areas of Huzhou. In addition, Deqing has been designated as a "technological outstanding county" as well as a "financial innovation demonstration county" by the Zhejiang provincial government. Deqing county government has also implemented several policies to prompt the development of innovative financing, such as "Special Fund for Financial Development (金融發展專項基金)." We believe that, by taking advantage of these supportive policies, we will be able to achieve continuous business growth and offer diversified and innovative loan products to better service our existing and new customers.

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We provide financing solutions to customers who typically require funds on short notice without compromising the integrity of our risk management. We strictly adhere to the policy of “separation of application investigation and approval (審貸分離).” Our customer relationship managers are responsible for the investigation and verification of customers’ application materials and the facts contained therein, the value of collateral or pledge and creditworthiness of such customers and their guarantors. To facilitate our loan assessment and approval process, we proactively implement comprehensive and effective risk management procedures and measures through three tiers of assessment and approval processes according to loan size. After the loan is granted, we conduct post-loan grant reviews on a regular basis to monitor our customers’ interest payment patterns, as well as their business operations or the value of collateral or pledge. We believe that this “separation of application investigation and approval” policy has ensured the effectiveness of our risk management and risk control efforts. The continued improvement of our risk management capability has helped us to effectively handle the challenges brought on by the recent slowdown of economic growth in China and to manage our overall risks. As a result, we did not have overdue loans as of 31 December 2011, and we had overdue loans of RMB10.9 million, RMB0.8 million and RMB1.0 million as of 31 December 2012 and 2013 and 30 June 2014, respectively, accounting for 2.3%, 0.1% and 0.1% of our gross outstanding loans as of the same dates. As of 31 October 2014, only RMB475,000 of the overdue loans outstanding as of 30 June 2014 had not been recovered. The average overdue loan ratio of all microfinance companies in Deqing was 0.4% and 0.5% as of 31 December 2013 and 30 June 2014, respectively, according to *EY Advisory*.

During the Track Record Period, we experienced significant revenue growth mainly driven by our increasing capital base, effective interest rate pricing and strong customer demand. Our gross outstanding loans increased from RMB218.0 million as of 31 December 2011 to RMB469.7 million as of 31 December 2012, and to RMB541.3 million as of 31 December 2013. Our gross outstanding loans further increased to RMB1,064.5 million as of 30 June 2014. Our net interest income was RMB7.8 million for the period from 18 August 2011 to 31 December 2011 and increased from RMB62.7 million for the year ended 31 December 2012 to RMB78.5 million for the year ended 31 December 2013. Our net interest income was RMB37.0 million and RMB65.6 million for the six months ended 30 June 2013 and 2014, respectively. Our profit for the period/year was RMB0.3 million for the period from 18 August 2011 to 31 December 2011 and increased from RMB26.2 million for the year ended 31 December 2012 to RMB51.6 million for the year ended 31 December 2013. Our profit for the period was RMB24.5 million and RMB46.0 million for the six months ended 30 June 2013 and 2014, respectively.

### OUR COMPETITIVE STRENGTHS

*We are the largest licensed microfinance company in Zhejiang in terms of registered capital.*

As of 30 June 2014, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to *EY Advisory*. In addition, we were the second largest licensed microfinance company in Zhejiang in terms of outstanding loans as of 30 June 2014, according to the same source. Our principal customers are SMEs, microenterprises and individuals in the agricultural, industrial and service sectors in Deqing. Our long-term commitment to serve the Deqing market has enabled us to build a broad customer base that, in line with our business scale, has expanded since our inception in August 2011. We were accredited as a Level A Plus Outstanding Microfinance Company of Zhejiang, the top accreditation standard, on an annual evaluation by the Financial Office for the year of 2013. As of 30 June 2014, we had a registered capital of RMB880.0 million and gross outstanding loans

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of RMB1,064.5 million, serving a total of over 1,200 customers. Our gross outstanding loans increased from RMB218.0 million as of 31 December 2011 to RMB469.7 million as of 31 December 2012, and to RMB541.3 million as of 31 December 2013. Our gross outstanding loans further increased to RMB1,064.5 million as of 30 June 2014. We recorded net interest income of RMB7.8 million, RMB62.7 million, RMB78.5 million, RMB37.0 million and RMB65.6 million for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, respectively.

We have strong access to capital, which enables us to offer various loan products that meet the diverse needs of our target customers. With our diversified and broad customer base, we are able to optimize our risk management by reducing our reliance on a limited number of customers or a single industry. In addition, benefiting from our large business scale and quality service, we occupied 44.0% of market share in Deqing in terms of outstanding loans as of 30 June 2014. As the largest microfinance company in Deqing primarily serving local SMEs, microenterprises and individuals in Deqing, we believe we also are able to benefit from local governmental policies in relation to organizational structure, product innovation and business expansion.

***We possess in-depth local knowledge and expertise in a strong market.***

Deqing has experienced robust economic development and growth in recent years. The local fiscal revenue increased from RMB1.3 billion for the year ended 31 December 2008 to RMB3.1 billion for the year ended 31 December 2013, representing a CAGR of 18.1%. Deqing's per capita GDP exceeded RMB77,000 in 2013, and the county was placed among the nation's top 100 counties in terms of comprehensive strength in economic, social condition, environmental and government management aspects (綜合實力百強縣). A number of high-technology, bio-pharmaceutical and innovative enterprises have either selected Deqing as their headquarters or conducted business in Deqing, which has helped to cultivate the local financial services sector. In addition, Deqing has been designated as a "technological outstanding county" as well as a "financial innovation demonstration county" by the Zhejiang provincial government. Deqing county government has also implemented several policies to prompt the development of innovative financing. For example, Deqing county government has set up a "Special Fund for Financial Development (金融發展專項基金)" and provides RMB50.0 million per year to support the development of the local financing industry and local economy, particularly the development of local microfinance companies. We believe that, by taking advantage of these supportive policies, we will be able to achieve continuous business growth and offer diversified and innovative loan products to better service our existing and new customers. Having focused on the Deqing market since our inception, we have established close relationships with a large number of SMEs, microenterprises and individuals in the agricultural, industrial and service sectors by providing them with convenient, short-term financing solutions. Our in-depth knowledge and expertise of the local market and credit environment has enabled us to: (i) have a market share of 44.0% in Deqing in terms of outstanding loans as of 30 June 2014; and (ii) manage credit risks and hence maintain a low overdue loan ratio.

***We maintain sound and effective risk management practices and are dedicated to enhancing our risk control procedures.***

Risk management is critical to the success of our business. We proactively implement comprehensive and effective risk management procedures and measures and strictly adhere to the policy of "separation of application investigation and approval." Our customer relationship managers are



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responsible for the investigation and verification of customers' application materials and the facts contained therein, the value of collateral or pledge and creditworthiness of such customers and their guarantors. Our customer relationship managers have both in-depth knowledge and industry experience to evaluate and assess the creditworthiness of our customers and their guarantors as well as the value of collateral or pledge. We also established three tiers of assessment and approval processes according to loan size. The assessment and approval process is carried out by our management team. We believe that this "separation of application investigation and approval" policy has ensured the effectiveness of our risk management and risk control efforts.

The continued improvement of our risk management capability has helped us to effectively handle the challenges brought on by the recent slowdown of economic growth in China and to manage our overall risks. As a result, we did not have overdue loans as of 31 December 2011, and we had overdue loans of RMB10.9 million, RMB0.8 million and RMB1.0 million as of 31 December 2012 and 2013 and 30 June 2014, respectively, accounting for 2.3%, 0.1% and 0.1% of our gross outstanding loans as of the same dates. The average overdue loan ratio of all microfinance companies in Deqing was 0.4% and 0.5% as of 31 December 2013 and 30 June 2014, respectively, according to *EY Advisory*. We believe that the risk management practices and risk control procedures we have in place enable us to minimize our exposure to losses even in the event of a default by any of our customers.

*We have the ability to offer competitive and diverse loan products to a wide range of customers.*

We provide various loan products to meet the diverse needs of our target customers. During the Track Record Period, our loans ranged in size from RMB10,000 to RMB25.0 million, with a term generally ranging from two months to one year. We also enjoy a higher degree of flexibility in terms of capital requirements and lending restrictions compared to commercial banks. For example, we are able to provide loans to individuals of non-traditional businesses such as e-commerce operators and online retailers, who have repayment ability but may not otherwise be able to obtain loans from banks due to general lack of collateral, such as land use rights and building ownership rights. This flexibility allows us to target certain groups of customers, such as SMEs and microenterprises in the start-up and growth phases, and individuals in the agricultural, industrial and service sectors, to broaden our customer base.

We are dedicated to providing SME, microenterprise and individual customers in the agricultural, industrial and service sectors with diverse financing solutions. As of 30 June 2014, we had various loan products that catered to the varying needs of individuals as well as SMEs and microenterprises in the start-up, growth and mature phases. Our loan products include our Technology-Enterprise Credit Loan (科技型企業信用貸款) that we offer to technology enterprises, and Fast Loans (快貸通) that we offer to AFR customers, e-commerce operators and online retailers as well as certain underserved groups of customers, including young entrepreneurs with college degree, veterans and persons with disabilities. We believe that our diverse product offerings enable us to establish long-term relationships with existing customers and attract new customers.

*Our capable and visionary management team and experienced personnel have in-depth industry experience coupled with localized market knowledge and intelligence that ensures the successful development of our business.*

Our experienced and visionary management team is fundamental to our success. We are led by a team of highly experienced professionals who collectively have an average experience of more than 10 years in the banking and financing industries, specifically in the fields of risk management, financing

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product design, business operation and marketing. Mr. Yu, our Chairman, and Mr. Zheng Xuegen, an executive Directors of the Company, have in-depth understanding of the local market. Mr. Hu Haifeng, our general manger and also an executive Director of the Company, has been working in the banking and financing industries for more than 20 years. We believe that our senior management members possess the leadership skills, industry knowledge and in-depth understanding of short-term financing markets in China that are required to formulate sound business strategies, anticipate and seize growth opportunities, and ensure our continued success.

Our employees regularly receive professional training. Moreover, a majority of our customer relationship managers have worked in sizable commercial banks or other financial or accounting institutions, possess extensive experience in business, finance and risk management, and have been with us since our inception. We have a performance-based corporate culture, which incentivizes our employees to provide customers with high-quality services. We believe that our ability to retain professional and motivated personnel has also contributed to our success.

### OUR BUSINESS STRATEGIES

#### *Further penetrate local market and expand the geographical coverage of our business through replication of our business model in strategic locations*

We plan to continue to expand our business in Deqing, in particular, by building a customer referral network to increase our market penetration of the AFR sector in order to further expand our customer base. In addition, the General Office of the People's Government of Zhejiang Province issued the *Circular on the Pilot Reform of Urban and Rural System in Deqing* (浙江省人民政府辦公廳關於在德清縣開展城鄉體制改革試點的通知) (the "Circular") issued on 13 March 2014, which aims at establishing a unified system of planning and construction in urban and rural areas, promoting the reform of property rights in rural areas and creating a mechanism for transforming county economies into urban economies. Pursuant to the *Circular*, along with the reform of property rights, the transfer of rural house site use right, rural construction land use right and contractual management right to rural land may be allowed. As a result, such land use right and contractual management right, which currently cannot be accepted as collateral due to its non-transferrable nature, will be acceptable as collateral after the reform. We expect to benefit from the reform and expand our collateralized loan business.

Moreover, by leveraging our strong capital base, we plan to expand our coverage and improve our network operating efficiency. Subject to the approval of the relevant government authorities, we plan to extend our geographical reach through serving customers outside of Deqing, setting up branches in counties other than Deqing, or strategic acquisitions of other microfinance companies or financial institutions, depending on the market conditions and our business development strategies. We plan to carry out loan business in the remaining areas of Huzhou and expand gradually into other major cities in Zhejiang, such as Hangzhou City and Jiaxing City, in the next three to five years.

#### *Introduce innovative loan and loan-related products*

We will continue to promote innovation as part of our business model and product offerings in order to accelerate the development of our business. Our long-term goal is to optimize our overall customer structure and expand our core customer base among SMEs, microenterprises and individuals in the agricultural, industrial and service sectors. In order to better serve e-commerce operators and online retailers as well as other customers who need quick access to financing, we entered into a cooperative

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agreement in May 2014 with Bank of China, Deqing Branch and introduced a product “Loan on Your Palm,” or “Zhang Shang Tong (掌上通),” in August 2014. Pursuant to the cooperative agreement, we are required to ensure that we have sufficient funds in our account at Bank of China, Deqing Branch before we grant loans to our “Loan on Your Palm” customers. Such customers are able to borrow and repay their loans or make inquiries through online banking and mobile banking platform provided and maintained by the Bank of China at their convenience during the term of such loan. Recognizing electronic banking as an important means of retaining existing customers and attracting new customers, we will further expand our electronic channels to complement our physical branch, enhance user experience and reduce our overall operating costs.

### *Optimize capital structure to improve our return on equity*

Currently, a microfinance company is only permitted to obtain bank borrowings up to a certain percentage, usually 50%, of its net capital for conducting its loan business, subject to adjustments according to local regulations and rules. As a result, the scale of our business depends, to a large extent, on the amount of our registered capital. As of 30 June 2014, we had a registered capital of RMB880.0 million and had outstanding bank borrowings of RMB160.0 million, indicating a ratio of only 18.2%. As such, depending on the needs of our business development, we have the flexibility to further increase our leverage by obtaining more bank borrowings in accordance with our capital base and utilizing other financing instruments when permitted by law or government policy. In addition, we can also engage in alternative debt financing activities, including assets securitization and bond issuance, subject to government approval. We believe that by appropriately increasing our leverage, our return on equity will be improved.

### *Enhance corporate governance and strengthen risk management efforts*

We are committed to maintaining a comprehensive risk management and internal control system that enhances our overall strategy and long-term strategic position while addressing various quantifiable risks, including credit risks, market risks, operational risks, liquidity risks, strategic risks and reputational risks. To pursue sustainable development at a reasonable risk level, we plan to:

- expand and improve our risk management and portfolio management systems as well as strengthen risk management for target customers to enhance our proactive risk management capability and minimize our risks;
- enhance the organizational structure, policies and procedures of our internal control and ensure its independence;
- promote product innovation by following the principles of risk control, cost consideration, increased transparency and sufficient risk compensation capability;
- broaden the application of our risk management policies to cover comprehensive loan products for SMEs, microenterprises and individuals, as well as electronic channels and other areas of our strategic focus; and
- establish an independent post-loan grant management department in order to better monitor the risk profile of our loan portfolio.

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### OUR BUSINESS ACTIVITIES

During the Track Record Period, we offered different types of loan products to our SME, microenterprise and individual customers in Deqing, Zhejiang, in order to meet their short-term financing needs. We are dedicated to serving local customers, primarily focusing on AFR customers. We offer financing solutions with flexible terms generally ranging from two months to one year through a quick and comprehensive loan assessment and approval process.

Our loans range in size from RMB10,000 to RMB25.0 million depending on the type of loan products and according to our risk tolerance and return requirements. Our source of revenue is the interest we receive from the loans we grant. We recorded net interest income of RMB7.8 million, RMB62.7 million, RMB78.5 million, RMB37.0 million and RMB65.6 million for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, respectively.

During the Track Record Period, we financed our operations primarily through a combination of capital contributions from Shareholders and bank borrowings. Currently, according to relevant laws and regulations, a microfinance company is only permitted to obtain bank borrowings up to a certain percentage, usually 50%, of its net capital for conducting its loan business. As a result, the scale of our business depends, to a large extent, on the amount of our registered capital. As of 30 June 2014, we had a registered capital of RMB880.0 million and had outstanding bank borrowings of RMB160.0 million from Bank of China, Deqing Branch.

Due to the increase in our capital base and strong demand for financing by our customers, our gross outstanding loans increased substantially from RMB218.0 million as of 31 December 2011 to RMB469.7 million as of 31 December 2012, and to RMB541.3 million as of 31 December 2013. Our gross outstanding loans further increased to RMB1,064.5 million as of 30 June 2014. The following table sets forth our registered capital, gross outstanding loans and advances to customers, and leverage ratio as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Registered capital				
(RMB in thousands) . . . . .	200,000	320,000	510,000	880,000
Gross outstanding loans and advances to customers (RMB in thousands) . .	217,970	469,690	541,315	1,064,515
Leverage ratio <sup>(1)</sup> . . . . .	1.09	1.47	1.06	1.21

*Note:*

(1) Represents the balance of the gross outstanding loans and advances to customers divided by registered capital.

### *Principal Loan Products*

Depending on whether a guarantor, collateral or pledge is provided, we classify our loan products into the following four categories:

- *Unsecured loans:* loans based solely on borrowers' credit;

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- *Guaranteed loans:* loans backed by guarantors but not secured by collateral or pledge;
- *Collateralized loans:* loans secured in whole or in part by collateral, primarily land use rights and ownership rights in buildings or equipment. Prior to granting a collateralized loan, we and the borrower register our security interest in the collateral with the relevant government authority; and
- *Pledged loans:* loans secured in whole or in part by pledge, such as the equity interest and bond. Prior to granting a pledged loan, depending on the type of pledge, we and the borrower register our security interest in the pledge with the relevant government authority. For certain type of pledge, such as bank's acceptance bill (承兌匯票), we keep custody of such pledge.

We offer various loan products with various and flexible terms that are tailored to the needs of different customer groups. When marketing our loan products, we also categorize our loans as following, which may be any one or the combination of our loan products described above:

### **Enterprise loans**

Our enterprise loans, which include loans granted to sole proprietors, consist of:

- *Agriculture loans (農業貸款):* loans that we offer to agricultural, forestry, animal husbandry and fishery enterprises, which ranged in size from RMB50,000 to RMB25.0 million with interest rates ranging from 12.0% to 22.8% during the Track Record Period;
- *Technology enterprises credit loans (科技型企業信用貸款):* unsecured loans that we offer to technology enterprises, which ranged in size from RMB1.6 million to RMB10.0 million with interest rates ranging from 15.0% to 24.0% during the Track Record Period; and
- *Loans for other SMEs and microenterprises (其他中小微企業貸款):* loans that we offer to SMEs and microenterprises other than the enterprises targeted in the above two products, which ranged in size from RMB50,000 to RMB9.0 million with interest rates ranging from 12.0% to 24.4% during the Track Record Period.

For our business entity customers, we generally require guarantors who are either the owner, controlling person, shareholder or third party of the borrower to provide a personal guarantee. The borrowers and their guarantors are jointly and severally liable for the loan repayment and the interest payment.

### **Individual loans**

Our individual loans include:

- *Individual business loans (個人經營性貸款):* loans that we offer to individuals who use such loans to operate their business, which ranged in size from RMB20,000 to RMB10.0 million with interest rates ranging from 8.4% to 26.2% during the Track Record Period;

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- *Individual consumption loans (個人消費貸款)*: loans that we offer to individuals for consumer purchases, such as purchase of cars, which ranged in size from RMB20,000 to RMB1.0 million with interest rates ranging from 6.0% to 24.0% during the Track Record Period;
- *Individual start-up loans (個人創業貸款)*: loans that we offer to individuals who wish to start up their own businesses, which ranged in size from RMB20,000 to RMB6.0 million with interest rates ranging from 9.6% to 26.2% during the Track Record Period; and
- *Other individual loans (其他個人貸款)*: loans that we offer to individuals for other purposes, such as student loans, which ranged in size from RMB10,000 to RMB57,500 with interest rates ranging from 5.4% to 6.9% during the Track Record Period.

For our individual customers, we generally require the customer's spouse to act as the joint borrower and require guarantors who are third parties of the borrower to provide a personal guarantee. The borrowers and their guarantors are jointly and severally liable for the loan repayment and the interest payment.

Our customers are mainly SMEs, microenterprises and individuals in the agricultural, industrial and service sectors. Such customers usually lack suitable collateral, either because they do not own any property that can serve as security interest to secure financing, or any assets that they do own have already been conveyed as collateral to banks or other financial institutions. We may consider granting unsecured loans or guaranteed loans to these customers upon assessing their repayment capability based on our credit evaluation results. However, our ability to recover the repayments from the customers of unsecured loans and guaranteed loans may be limited if such customers default. See "Risk Factors — Risks Relating to Our Business and Industry — Generally, we rely on the creditworthiness of our customers and/or their guarantors, rather than on collateral or pledge, which may limit our ability to recover from defaulting customers."

### *New Products*

We began to offer a new product, Fast Loans (快貸通), to our customers in April 2014. Fast loans allow customers to draw down, repay and re-draw loans advanced to them with an authorized credit amount in an expedient way during the term of such loan, which is usually less than six months. The target customers for Fast Loans are AFR customers, e-commerce operators and online-retailers, as well as certain underserved groups of customers, including young entrepreneurs with college degree, veterans and persons with disabilities. The credit limit for each loan is RMB500,000. We offer one-off competitive interest rates and fee waivers, where applicable, for Fast Loans. By offering Fast Loans, we expect to attract specific type of customers within short period of time, broaden our customer base and enhance our brand awareness.

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In order to further expand our core customer base among SMEs, microenterprises and individuals in the agricultural, industrial and service sectors, we introduced a product “Loan on Your Palm”, or “Zhang Shang Tong (掌上通)” in August 2014. We adopt similar business process, including acceptance of loan application, conducting due diligence, assessments and approvals, and signing loan contracts, to all of our customers, including our “Loan on Your Palm” customers, except that such customers are able to draw down and repay their loans or make inquiries through online banking and mobile banking platform provided and maintained by the Bank of China. Similar to our other products, we derive profits from “Loan on Your Palm” by charging interests on such product.

In order to develop our “Loan on Your Palm” product and utilize the clearing system of Bank of China, Deqing Branch, we entered into a cooperative agreement in May 2014 with Bank of China, Deqing Branch, which has a term of one year and will be automatically renewed for another year if neither of the parties terminates. The key terms of the cooperative agreement include:

- We are required to ensure that we have sufficient funds in our account at Bank of China, Deqing Branch before we grant loans to our “Loan on Your Palm” customers;
- When the balance of our account falls under RMB50,000, we will be notified by Bank of China, Deqing Branch;
- Our borrowers, signing their loan contract with us, will be able to draw down and repay their loans granted by us or make inquiries through online banking and mobile banking platform provided and maintained by the Bank of China at their convenience during the term of such loan;
- The limit of loan amount to be drawn down from the online banking and mobile banking is RMB400,000 and RMB100,000 per day, respectively; and
- We are required to pay an annual fee of RMB238 for each “Loan on Your Palm” customer account opened at Bank of China, Deqing Branch.

As of 31 October 2014, the balance of our account at Bank of China, Deqing Branch, was RMB493,158.0.

### *Interest Rate*

We consider a number of factors in determining the interest rates that we charge on a loan, including the credit and type of the borrower, whether the loan is secured or unsecured, the value of collateral or pledge, the quality of the guarantee, and the use and term of the loan. We do not charge additional administration fees or handling charges besides interests.

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For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2014, our average interest rate for loans was 20.2%, 18.4%, 17.2% and 15.6%, respectively. The decline in our average interest rate during the Track Record Period was primarily: (i) in line with the market trend of the average interest rate charged by microfinance companies in Deqing, decreasing from 18.9% in 2012 to 16.8% in 2013 and further to 16.1% in the first half of 2014; (ii) due to, in line with our enlarged capital base, the increased percentage of loans of an amount over RMB5 million granted during the Track Record Period, of which we charged a relatively lower interest rate compared to our other loans ranging from RMB500,000 to RMB5 million, given that such customers are relatively more established and financially stronger; and (iii) as a result of focusing more on serving customers with stronger repayment ability in 2013 and for the six months ended 30 June 2014, of which we charged a lower interest rate, after an increase in overdue loan ratio to 2.3% in 2012.

Pursuant to the *Interim Measures of Zhejiang Province for the Administration of Pilot Operation of Microfinance Companies* (浙江省小額貸款公司試點暫行管理辦法) jointly promulgated by the Financial Office, Zhejiang branch of AIC, Zhejiang Banking Supervision Bureau and Hangzhou branch of PBOC on 14 July 2008, 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 of the PRC on 13 August 1991, the interest rates charged by microfinance companies may not exceed four times the interest rate charged by commercial banks for comparable loans, which is generally comparable to the PBOC Benchmark Rate. During the Track Record Period, the interest rates that we charged for each loan were below the applicable interest rate ceiling.

### ***Customer Base***

During the Track Record Period, we primarily served SMEs, microenterprises and individuals in the agricultural, industrial and service sectors in Deqing. For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2014, we served over 200, 700, 450 and 250 customers, respectively.

During the Track Record Period, some of our customers entered into more than one loan transactions with us for a relevant year/period. 8.7%, 10.5%, 18.0% and 19.5% of our customers entered into two loan transactions and 5.2%, 4.2%, 14.3% and 9.2% of our customers entered into three loan transactions or more with us for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013 and the six months ended 30 June 2014, respectively. We have internal control measures in place to ensure that the aggregate amount of any outstanding loans that have been provided to any such customer does not exceed the overall credit limit determined for such customers according to their repayment ability and does not exceed 5% of our relevant net capital.



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The following table sets forth the number of our loans by size for the periods indicated:

	Period from 18 August to					
	31 December		Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014	
Up to RMB500,000. . . . .	76	304	254	147	138	
Over RMB500,000 to RMB1 million (inclusive). . . . .	127	449	288	146	65	
Over RMB1 million to RMB5 million (inclusive). . . . .	53	67	150	83	129	
Over RMB5 million. . . . .	25	52	62	38	61	
<b>Total gross outstanding loans and advances to customers. . . . .</b>	<b>281</b>	<b>872</b>	<b>754</b>	<b>414</b>	<b>393</b>	

For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2014, 72.2%, 86.4%, 71.9% and 51.7% of our loan contracts were of loan size up to RMB1.0 million, respectively.

### LOAN PORTFOLIO

Our outstanding loans increased significantly during the Track Record Period, due primarily to our enlarged capital base. For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, the total amount of loans we granted was RMB500.9 million, RMB1,158.4 million, RMB1,386.6 million, RMB788.0 million and RMB1,219.3 million, respectively.

#### *Loan Portfolio by Security*

The following table sets forth our loan portfolio by security as of the dates indicated:

	As of 31 December						As of 30 June	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Unsecured loans <sup>(1)</sup> . . . . .	45,680	21.0	6,150	1.3	41,750	7.7	28,850	2.7
Guaranteed loans. . . . .	154,640	70.9	383,340	81.6	418,460	77.3	910,570	85.5
Collateralized loans . . . . .	17,650	8.1	62,600	13.3	78,705	14.5	124,095	11.7
Pledged loans. . . . .	—	—	17,600	3.8	2,400	0.5	1,000	0.1
<b>Total gross outstanding loans and advances to customers</b>	<b>217,970</b>	<b>100.0</b>	<b>469,690</b>	<b>100.0</b>	<b>541,315</b>	<b>100.0</b>	<b>1,064,515</b>	<b>100.0</b>

*Note:*

- (1) Our unsecured loans are usually of small amount, with short term, and granted to customers who have good credit histories upon assessing the risks involved in the loans during our credit evaluation process.

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

	Period from 18 August to 31 December				
	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
<b>By security</b>					
Unsecured loans . . . . .	65	32	49	31	3
Guaranteed loans . . . . .	190	793	639	348	320
Collateralized loans . . . . .	26	36	55	28	67
Pledged loans . . . . .	—	11	11	7	3
<b>Total</b> . . . . .	<b>281</b>	<b>872</b>	<b>754</b>	<b>414</b>	<b>393</b>

### Unsecured loans

During the Track Record Period, we granted unsecured loans to both individual and enterprise customers. As of 31 October 2014, we had unsecured loans of RMB0.5 million, none of which was overdue. The following table sets forth the details of our unsecured loans by customer type for the periods indicated:

	Period from 18 August to 31 December				
	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
Individuals . . . . .	64	25	31	20	2
Enterprises . . . . .	1	7	18	11	1
<b>Total</b> . . . . .	<b>65</b>	<b>32</b>	<b>49</b>	<b>31</b>	<b>3</b>

We carefully assess the risks involved in our unsecured loans during our credit evaluation process. The customers of our unsecured loans, even though they are unable to provide guarantors and/or collateral, are typically individuals who have good credit histories and demonstrate solid repayment ability and legitimate purpose of financing. For enterprises customers, in addition to technology enterprises we grant Technology-Enterprise Credit Loan (科技型企業信用貸款) to respond to certain promotional government policies for supporting the development of the technology sector in Deqing, we typically select enterprises who have sound financial conditions evidenced by their healthy cash flows, debt-to-asset ratio and historical profit-making status. We did not have any overdue unsecured loans as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, and did not incur any individually assessed impairment loss as of the same dates.

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### Guaranteed loans

During the Track Record Period, a substantial majority of our loans were guaranteed loans. The following tables set forth the details of the outstanding balance and the number of guaranteed loans by guarantor type as of the dates and for the periods indicated, respectively:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>By the nature of guarantor</b>				
Individual guarantor . . . . .	82,440	319,540	298,660	553,220
Enterprise guarantor . . . . .	72,200	63,800	119,800	357,350
<b>Total</b> . . . . .	<b>154,640</b>	<b>383,340</b>	<b>418,460</b>	<b>910,570</b>
<b>By guarantor's relationship with the Company</b>				
Connected person guarantor <sup>(1)</sup> . . . . .	5,750	5,550	8,000	5,000 <sup>(2)</sup>
Independent third party guarantor . . . . .	148,890	377,790	410,460	905,570
<b>Total</b> . . . . .	<b>154,640</b>	<b>383,340</b>	<b>418,460</b>	<b>910,570</b>
<b>By the guarantee status among borrowers</b>				
Cross guarantee among the borrowers . . . . .	—	2,000	5,600	12,000
Non-cross guarantee . . . . .	154,640	381,340	412,860	898,570
<b>Total</b> . . . . .	<b>154,640</b>	<b>383,340</b>	<b>418,460</b>	<b>910,570</b>
<b>By the number of loans a single guarantor guarantees</b>				
Common guarantor <sup>(3)</sup> . . . . .	79,350	225,150	292,310	601,700
— Common guarantor guaranteeing for different borrowers . . . . .	79,350	193,150	168,930	479,270
— Common guarantor guaranteeing for a single borrower . . . . .	—	32,000	123,380	122,430
Non-common guarantor . . . . .	75,290	158,190	126,150	308,870
<b>Total</b> . . . . .	<b>154,640</b>	<b>383,340</b>	<b>418,460</b>	<b>910,570</b>

*Notes:*

- (1) Included (i) our Shareholders, (ii) former directors of our Predecessor Company, and (iii) relatives of our Shareholders and former directors of our Predecessor Company during the Track Record Period.
- (2) All of such guaranteed loans had been repaid and the relevant guarantees had been released as of the Latest Practicable Date. We did not grant any loan guaranteed by connected persons for the period from 1 July 2014 to the Latest Practicable Date.
- (3) Referred to the guarantors who guaranteed more than one loan for either a single borrower who obtained more than one loan or different borrowers.

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The aggregate value of loans guaranteed by each of the top five guarantors in terms of value of loans guaranteed as of 31 December 2011, 2012 and 2013 and 30 June 2014 was RMB67.0 million, RMB60.0 million, RMB120.0 million and RMB345.0 million, respectively. None of such top five guarantors was 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 for the periods indicated:

	Period from 18 August to 31 December	Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2014	
	RMB'000	RMB'000	RMB'000	RMB'000	
<b>By the value of loans guaranteed by the top five guarantors</b>					
The first largest guarantor . . . . .	20,000	16,000 <sup>(1)</sup>	37,000 <sup>(1)</sup>	180,000 <sup>(1)</sup>	
The second largest guarantor . . . . .	17,000	16,000 <sup>(1)</sup>	26,000	87,000 <sup>(1)</sup>	
The third largest guarantor . . . . .	10,000 <sup>(1)</sup>	16,000 <sup>(1)</sup>	25,000	27,000	
The fourth largest guarantor . . . . .	10,000	6,000 <sup>(1)</sup>	16,000	26,000	
The fifth largest guarantor . . . . .	10,000 <sup>(1)</sup>	6,000 <sup>(1)</sup>	16,000	25,000	
<b>Total</b> . . . . .	<b>67,000</b>	<b>60,000</b>	<b>120,000</b>	<b>345,000</b>	

Note:

(1) Represents loans guaranteed by state-owned companies or investment holding companies.

	Period from 18 August to 31 December	Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014
	<b>By the nature of guarantor</b>				
Individual guarantor . . . . .	138	740	573	307	282
Enterprise guarantor . . . . .	52	53	66	41	38
<b>Total</b> . . . . .	<b>190</b>	<b>793</b>	<b>639</b>	<b>348</b>	<b>320</b>
<b>By guarantor's relationship with the Company</b>					
Connected person guarantor . . . . .	7	15	34	20	9
Independent third party guarantor . . . . .	183	778	605	328	311
<b>Total</b> . . . . .	<b>190</b>	<b>793</b>	<b>639</b>	<b>348</b>	<b>320</b>
<b>By the guarantee status among borrowers</b>					
Cross guarantee among the borrowers . . . . .	7	6	25	11	10
Non-cross guarantee . . . . .	183	787	614	337	310
<b>Total</b> . . . . .	<b>190</b>	<b>793</b>	<b>639</b>	<b>348</b>	<b>320</b>
<b>By the number of loans a single guarantor guarantees</b>					
Common guarantor . . . . .	124	576	469	218	184
— Common guarantor guaranteeing for different borrowers . . . . .	112	500	334	144	122
— Common guarantor guaranteeing for a single borrower . . . . .	12	76	135	74	62
Non-common guarantor . . . . .	66	217	170	130	136
<b>Total</b> . . . . .	<b>190</b>	<b>793</b>	<b>639</b>	<b>348</b>	<b>320</b>

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We typically apply the same due diligence process to our loan customers, including those of our guaranteed loans, where our primary focus is on assessing the standalone creditworthiness and repayment ability of the borrowers themselves. For guaranteed loans, in addition to due diligence on the borrowers, we also generally follow similar review and assessment process to assess the creditworthiness of such guarantors. We require guarantee from such borrowers primarily for the purpose of exerting an additional, intrinsic cost of default as well as an additional positive pressure on the borrowers to honor their repayment obligations, and less for the purpose of ensuring that the borrowers have additional funding resources for loan repayment or as an additional avenue for our loan collection in the event of default.

During the Track Record Period, majority of the guarantors were individual guarantors and such individual guarantors are typically made up of controlling shareholders, business associates, friends and families, while the enterprise guarantors are typically made up of state-owned investment holding company, enterprises with sufficient assets and of sound financial condition, group companies with established operating history and third party financial guarantee companies. If there is any cross guarantee, we will take into consideration the aggregate amount such party guarantees when determining the maximum amount that such party may guarantee. We had guaranteed loans of RMB2.0 million, RMB5.6 million and RMB12.0 million as of 31 December 2012 and 2013 and 30 June 2014, respectively, where there were cross guarantees being provided among the borrowers.

When the head of our business and marketing department reviews a guaranteed loan application, the head will check whether the guarantor provided by the borrower has guaranteed other loans granted by us and calculate the aggregate amount of the outstanding loans guaranteed by such guarantor, if any. We will assess the common guarantor's financial condition and repayment ability to determine the maximum amount that such guarantor may guarantee and decide whether to accept such guarantor to guarantee a new loan. After assessment of guarantor creditworthiness, in order to increase our protection, we may also request for additional guarantors to be provided for a single loan. Such common guarantors are typically (i) wealthy individuals with established social status and good credit histories, (ii) state-owned investment holding company which is often the common shareholder of local state-owned enterprises, or (iii) professional financial guarantee companies.

During the Track Record Period, a majority of the common guarantors guaranteeing for different borrowers, other than the state-owned investment holding companies and professional financial guarantee companies, were either (i) friends, or enterprises controlled by the friends of, the individual borrowers, or (ii) friends, or enterprises controlled by the friends of the controlling persons, of the enterprise borrowers (collectively, the "common guarantors who are friends with the borrowers"). Some of the common guarantors guaranteeing for different borrowers were family members of or in business relationship with the individual borrowers or controlling persons of the enterprise borrowers (the "common guarantors in business relationship with the borrowers"). The common guarantors who are friends with the borrowers included those who lived in the same village with the borrowers and who were friends with the individual borrowers or controlling persons of the enterprise borrowers, under which circumstances the common guarantors knew the borrowers well. The common guarantors in business relationship with the borrowers included those who were customers or suppliers of the borrowers and familiar with the borrowers, under which circumstances when temporary liquidity needs arose to the borrowers, such customers or suppliers agreed to act as guarantors to support each other's business operations. During the Track Record Period, we did not provide any considerations, incentives or rebates to the common guarantors and we granted loans directly to the borrowers, rather than through the guarantors. As advised by our PRC Legal Advisers, (i) in respect of the abovementioned common guarantor arrangement, we are in compliance with the relevant PRC laws, rules and regulations, and (ii)

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any illegal act of the abovementioned guarantors, including their illegal acquisition of consideration from borrowers, would not invalidate the guarantees provided by such guarantors in favor of the Company.

We had guaranteed loans of RMB79.4 million, RMB193.2 million, RMB168.9 million and RMB479.3 million as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, where there were common guarantors guaranteeing for different borrowers involved, of which RMB25.0 million, RMB11.0 million, RMB39.1 million and RMB55.1 million as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, had at least two guarantors. Among our guaranteed loans with common guarantors guaranteeing for different borrowers as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively: (i) RMB51.7 million, RMB189.9 million, RMB104.6 million and RMB209.7 million were loans guaranteed by individuals; and (ii) RMB6.7 million, RMB3.3 million, RMB2.3 million and RMB2.6 million were loans guaranteed by professional financial guarantee companies. Among our guaranteed loans with common guarantors guaranteeing for different borrowers as of 31 December 2013 and 30 June 2014, respectively, RMB37.0 million and RMB267.0 million were loans guaranteed by state-owned investment holding company, while no state-owned investment holding company acted as common guarantor as of 31 December 2011 and 2012. The amount of guaranteed loans with common guarantors guaranteeing for different borrowers increased to RMB479.3 million as of 30 June 2014 primarily because we were able to further diversify our customer base to include more customers with state-owned background as a result of our increased capital strength.

In addition, we did not have any overdue guaranteed loans as of 31 December 2011, 2012 and 2013 and had one overdue guaranteed loan of RMB500,000 as of 30 June 2014, which was recovered in July 2014.

### Collateralized loans

During the Track Record Period, the security interest in the collateral of all of our collateralized loans was registered. During the Track Record Period, our collateralized loans were mainly secured by building ownership rights and land use rights. Some of our customers also used ownership rights for equipment as collateral to secure collateralized loans. As of 31 December 2011, 2012 and 2013 and 30 June 2014, the loan-to-value ratio of our collateralized loans was 77.8%, 48.3%, 76.1% and 61.0%, respectively. The following tables set forth the details of the outstanding balance and the number of collateralized loans by collateral type as of the dates and for the periods indicated, respectively:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>By the nature of collateral</b>				
Land use rights . . . . .	8,000	47,000	71,000	91,000
Building ownership rights . . . . .	9,650	15,100	7,655	33,045
Equipment . . . . .	—	500	50	50
<b>Total . . . . .</b>	<b>17,650</b>	<b>62,600</b>	<b>78,705</b>	<b>124,095</b>
<b>By the priority of secured right on the collateral</b>				
First priority . . . . .	17,650	62,600	37,345	61,415
Second priority . . . . .	—	—	17,360	35,580
Third and lower priority . . . . .	—	—	24,000	27,100
<b>Total . . . . .</b>	<b>17,650</b>	<b>62,600</b>	<b>78,705</b>	<b>124,095</b>

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	Period from 18 August to					
	31 December		Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014	
<b>By the nature of collateral</b>						
Land use rights . . . . .	2	13	14	8	6	
Building ownership rights . . . . .	24	20	37	17	60	
Equipment . . . . .	—	3	4	3	1	
<b>Total . . . . .</b>	<b>26</b>	<b>36</b>	<b>55</b>	<b>28</b>	<b>67</b>	

<b>By the priority of secured right on the collateral</b>						
First priority . . . . .	21	36	27	17	27	
Second priority . . . . .	1	—	25	11	35	
Third and lower priority . . . . .	4	—	3	—	5	
<b>Total . . . . .</b>	<b>26</b>	<b>36</b>	<b>55</b>	<b>28</b>	<b>67</b>	

### Pledged loans

During the Track Record Period, we also granted a small amount of pledged loans secured by pledge including rights (權利), acceptance bills (承兌匯票) and chattels (動產). The following tables set forth the details of the outstanding balance and the number of pledged loans by pledge type as of the dates and for the periods indicated, respectively:

	As of 31 December			As of 30 June	
	2011	2012	2013	2014	
	RMB'000	RMB'000	RMB'000	RMB'000	
<b>By the nature of pledge</b>					
Rights (權利) . . . . .	—	16,600	2,400	1,000	
Acceptance bills (承兌匯票) . . . . .	—	—	—	—	
Chattels (動產) . . . . .	—	1,000	—	—	
<b>Total . . . . .</b>	<b>—</b>	<b>17,600</b>	<b>2,400</b>	<b>1,000</b>	

	Period from 18 August to									
	31 December		Year ended 31 December				Six months ended 30 June			
	2011		2012		2013		2013		2014	
	Registered	Unregistered	Registered	Unregistered <sup>(1)</sup>	Registered	Unregistered <sup>(1)</sup>	Registered	Unregistered <sup>(1)</sup>	Registered	Unregistered <sup>(1)</sup>
<b>By the nature of pledge</b>										
Rights (權利) . . . . .	—	—	5	—	3	—	1	—	1	—
Acceptance bills (承兌匯票) <sup>(1)</sup> . . . . .	—	—	—	5	—	7	—	5	—	1
Chattels (動產) <sup>(1)</sup> . . . . .	—	—	—	1	—	1	—	1	—	1
<b>Total . . . . .</b>	<b>—</b>	<b>—</b>	<b>5</b>	<b>6</b>	<b>3</b>	<b>8</b>	<b>1</b>	<b>6</b>	<b>1</b>	<b>2</b>

*Note:*

(1) The registration of acceptance bills and chattels as pledge is not required under relevant PRC laws and regulations.

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### *Loan Portfolio by Industry*

During the Track Record Period, our customers included enterprises and individuals who operated in the agricultural, industrial and service sectors. The following table sets forth our loan portfolio by industry as of the dates indicated:

	As of 31 December						As of 30 June	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Agricultural, forestry, animal								
husbandry and fishery . . . . .	23,900	11.0	27,250	5.8	181,200	33.5	207,300	19.5
Construction <sup>(1)</sup> . . . . .	11,000	5.1	23,550	5.0	28,500	5.2	214,000	20.1
Wholesale and retail . . . . .	—	—	13,620	2.9	37,530	6.9	117,700	11.0
Manufacturing . . . . .	24,500	11.2	49,750	10.6	42,180	7.8	106,150	10.0
Others . . . . .	12,000	5.5	32,100	6.8	16,000	3.0	66,650	6.3
Subtotal loans to enterprises . . . . .	<u>71,400</u>	<u>32.8</u>	<u>146,270</u>	<u>31.1</u>	<u>305,410</u>	<u>56.4<sup>(2)</sup></u>	<u>711,800</u>	<u>66.9<sup>(2)</sup></u>
Agricultural, forestry, animal								
husbandry and fishery . . . . .	70,720	32.4	51,400	11.0	68,155	12.6	74,065	7.0
Others . . . . .	75,850	34.8	272,020	57.9	167,750	31.0	278,650	26.1
Subtotal loans to individuals . . . . .	<u>146,570</u>	<u>67.2</u>	<u>323,420</u>	<u>68.9</u>	<u>235,905</u>	<u>43.6</u>	<u>352,715</u>	<u>33.1</u>
<b>Total gross outstanding loans and advances to customers . . .</b>	<b><u>217,970</u></b>	<b><u>100.0</u></b>	<b><u>469,690</u></b>	<b><u>100.0</u></b>	<b><u>541,315</u></b>	<b><u>100.0</u></b>	<b><u>1,064,515</u></b>	<b><u>100.0</u></b>

Notes:

- (1) Enterprise customers in construction industry include enterprises involved in municipal engineering and water conservancy construction projects.
- (2) The percentage of our outstanding loans to enterprise customers increased as of 31 December 2013 and 30 June 2014, compared to 2011 and 2012, mainly because our registered capital substantially increased in December 2013 and March 2014 and as such, we granted a larger number of loans to enterprise customers for the year ended 31 December 2013 since they are relatively more established and generally have better credit and require larger amount of loans than individual customers.

### *Maturity Profile of Loan Portfolio*

The following table sets forth the maturity profile of the original term of our loans as of the dates indicated:

	As of 31 December						As of 30 June	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Due within three months . . . . .	33,920	15.6	45,520	9.7	18,210	3.4	15,050	1.4
Due between three months and								
six months . . . . .	110,600	50.7	35,190	7.5	57,300	10.6	128,230	12.1
Due between six months and one year . .	73,400	33.7	388,930	82.8	465,705	86.0	921,135	86.5
Due more than one year <sup>(1)</sup> . . . . .	<u>50</u>	<u>0.0</u>	<u>50</u>	<u>0.0</u>	<u>100</u>	<u>0.0</u>	<u>100</u>	<u>0.0</u>
<b>Total gross outstanding loans and advances to customers . . . . .</b>	<b><u>217,970</u></b>	<b><u>100.0</u></b>	<b><u>469,690</u></b>	<b><u>100.0</u></b>	<b><u>541,315</u></b>	<b><u>100.0</u></b>	<b><u>1,064,515</u></b>	<b><u>100.0</u></b>

Note:

- (1) During the Track Record Period, all the loans we granted to our customers with a term of more than one year were student loans.



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### Loan term extension

Substantially all, with limited exceptions, of our loans are with the terms between six months and one year. Any loan with principal not been repaid in full or with unpaid interests upon maturity will be considered as overdue. Subject to our discretion, our customers may apply for a one-time term extension of their respective loan before it becomes mature. However, no matured, or overdue, loans will be considered for the term extension. Except for the extension of the loan term we grant from time to time, we do not offer rollover or recurrent loans to our customers.

When our customer applies for extension of the loan term, our business and marketing department will treat it as a new loan application and determine whether to accept the extension application considering various factors, including credit histories of the customer, reason for applying extension and ongoing principal repayment and interest payment ability. We usually only agree to extend the loan term 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. As part of the our due diligence, we would ascertain the reasons behind such loan extension by performing work including third-party checks and verification, site visits and independent checking of customer files and records before granting loan extension. Once an extension application passes the review of the business and marketing department, it will be submitted to our loan assessment committee for assessment and approval. The extension of the loan term will not be completed until the borrower and the guarantor(s) enter into the loan extension contract with us. We typically do not consider the extension application if the term of a loan has already been extended once; neither do we require the borrower to repay the principal of the loan before its term is extended.

For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013 and the six months ended 30 June 2014, we extended the payment terms of five, seven, 13 and seven loans, respectively, amounting to RMB17.0 million, RMB5.2 million, RMB30.2 million and RMB9.4 million, respectively. We did not extend the term of any loan for the period from 1 July 2014 to 31 October 2014.

### *Loan Portfolio by Exposure Size*

The following table sets forth our loan portfolio by exposure size as of the dates indicated:

	As of 31 December						As of 30 June	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Up to RMB500,000 . . . . .	16,520	7.6	65,990	14.0	18,415	3.4	33,985	3.2
Over RMB500,000 to RMB1 million (inclusive) . . . . .	83,100	38.1	259,600	55.3	120,950	22.4	67,130	6.3
Over RMB1 million to RMB5 million (inclusive) . . . . .	39,350	18.1	22,100	4.7	122,850	22.7	259,350	24.4
Over RMB5 million . . . . .	79,000	36.2	122,000	26.0	279,100	51.5	704,050 <sup>(1)</sup>	66.1 <sup>(1)</sup>
<b>Total gross outstanding loans and advances to customers . . . . .</b>	<b>217,970</b>	<b>100.0</b>	<b>469,690</b>	<b>100.0</b>	<b>541,315</b>	<b>100.0</b>	<b>1,064,515</b>	<b>100.0</b>

Note:

- (1) Due to our increased capital strength since 2013, we were able to further diversify our customer base and loan portfolio by granting loans of larger amount to more established enterprise customers.

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As of 31 December 2011, 2012 and 2013 and 30 June 2014, 63.8%, 74.0%, 48.5% and 33.9% of our gross outstanding loans were up to RMB5.0 million, respectively. We have implemented a series of loan assessment and approval processes and risk management systems to ensure effective risk control and minimize our risk exposure. See “— Business Process” and “— Risk Management” for more details.

### *Loan Portfolio by Customer Type*

The following table sets forth the breakdown of our loans to new or repeated customers as of the dates indicated:

	As of 31 December						As of 30 June	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Loans to new customers <sup>(1)</sup> . . . . .	179,420	82.3	263,850	56.2	148,750	27.5	378,710	35.6
Loans to repeated customers <sup>(2)</sup> . . . . .	38,550	17.7	205,840	43.8	392,565	72.5	685,805	64.4
<b>Total</b> . . . . .	<b>217,970</b>	<b>100.0</b>	<b>469,690</b>	<b>100.0</b>	<b>541,315</b>	<b>100.0</b>	<b>1,064,515</b>	<b>100.0</b>

*Notes:*

- (1) Represents the loans granted to our customers for the first time.
- (2) Represents the loans granted to customers who have previously obtained loans from us. For such loans, we conduct the same review, assessment and approval process as first-time new loan applications.

As of 31 October 2014, we had loans to repeated customers of RMB716.4 million, accounting for 65.9% of our outstanding loan balance at of the same date.

When considering whether to grant loans to customers, new or repeated, we assess their repayment ability based on our due diligence reviews. As a result, we may grant our repeated customers new loans without requiring them to make full repayment of their existing loans, as long as we determine that such customers have ability to repay both their existing loans and new loans based on our due diligence reviews, including the assessment of the creditworthiness of such customers.

## BUSINESS PROCESS

Our business process involves the acceptance of loan applications, conducting due diligence, assessments and approvals, the granting of loans, and post-loan grant reviews and collection. For details on our risk management and risk control policies and measures in association with our business, see “— Risk Management.”

### *Loan Application*

To apply for a loan, the customer is required to disclose in the loan application a list of information including the size, term and use of the loan, whether the loan will be guaranteed or secured, and capability of repayment. We also require the customer to provide various types of documentation, such as a copy of the identification card of the borrower and his or her spouse for individual customers, or a copy of business license of the borrower for business entities.

### *Application Acceptance and Due Diligence*

Upon receiving the loan application materials, our customer relationship manager will consider whether to accept a customer's application based on an initial review of the loan application. Our customer relationship manager is then required to: (i) collect business and financial information from the customer; (ii) conduct on-site visits and interviews with relevant third parties, (iii) conduct comprehensive reviews on the legality of proposed use of the loan, repayment capability of the customer and operation of customer's business; and (iv) reach an initial conclusion of whether to grant the loan or not. Based on the results of the due diligence review and the decision to proceed with such loan application, our customer relationship manager will prepare and submit a due diligence report for internal assessment and approval. The due diligence report typically contains the basic information and creditworthiness of a customer, analysis on such customer's repayment capability, the proposed credit amount, term and use of the loan, interest rate, repayment schedule and security, if applicable.

Most financing requests that cannot meet our basic customer eligibility requirements are screened out by our customer relationship managers in the initial customer acceptance process, and will not be further processed. Our customer relationship managers are required to attend regular training in order to improve their ability to pre-screen potential customers.

### *Assessment and Approval*

The head of our business and marketing department reviews all loan applications that pass the initial customer acceptance process. In addition, our risk management department is responsible for reviewing all the due diligence reports and conducting independent due diligence reviews when inquiries arise as to a specific loan application. Once a loan application passes the review of our risk management department, such loan application is subject to the assessment and approval of our deputy general manager, general manager or loan assessment committee, depending on the loan size. Specifically, loans up to RMB500,000 are subject to the assessment and approval of our deputy general manager and loans between RMB500,000 and RMB1.0 million (inclusive) are subject to the assessments and approvals of our deputy general manager and general manager, while loans over RMB1.0 million are subject to the assessments and approvals of our loan assessment committee, which is comprised of five of our senior management members, whose approval can ultimately be vetoed by our Chairman.

We determine the terms and conditions of a loan contract, such as pricing, principal amount, term of loan and payment terms, during the approval process. In case of guaranteed loans, our customers and their guarantors are jointly and severally liable for the repayment of the principal and the interests accrued. It typically takes us less than seven business days to complete the assessment and approval process for a loan application.

### *Granting of Loans*

We proceed with the signing of loan contracts once we approve the loan applications following the process described above. If any collateral is provided, we and the borrower will register our security interest in such collateral with the relevant government authorities before we make our funds available for drawdown. If pledge is provided, depending on the type of pledge, we and the borrower register our security interest in such pledge with the relevant government authorities before making our funds available for drawdown.

***Post-loan Grant Review and Collection***

In order to monitor the risks associated with loans, we conduct periodic reviews, which involve the participation of our deputy general manager, risk management department and customer relationship managers, on our loan portfolio. In addition, our customer relationship managers conduct on-site visits or telephone interviews with our customers, and submit reports by reviewing and evaluating the customers' financial condition, market development of the industries and regions in which the customers operate, and the source of repayment to ascertain whether the customers are expected to have any difficulty in making timely repayment.

In general, our customers are required to pay monthly interests on our loans. Moreover, in order to ensure that the repayments of the principal will be paid on time, our customer relationship managers remind customers of their loan repayment obligations ten days before the principal is due. If our customers fail to repay their principal on the due date of their loans, our customer relationship manager will send collection notes to such customers 15 days following the due date.

Depending on the defaulting customers' financial condition and taking into account our risk involved, we may take necessary legal action, including legal proceedings against the defaulting customers and guarantors, and enforcement actions, such as foreclosure on collateral or assets by court order. As advised by our PRC Legal Advisers, in the event that we bring an action in a PRC court for the foreclosure on collateral or assets of another person, the entire recovery process, including the court procedure and enforcement process, may take 18 months or more. Where it is deemed by our business and marketing department and risk management department as necessary, we may notarize the document of creditor's rights on the collateral provided by our customers before we release funds in accordance with the *Notarization Law of the PRC* (中華人民共和國公證法), which enables us to enforce our secured interest on the collateral without bringing lengthy law suits in the courts. As a result, we can realize our secured interest on the collateral on a timely basis. For legal actions taken on defaulting customers during the Track Record Period, see “— Compliance and Legal Proceedings — Legal Proceedings.”

**CUSTOMERS, SALES AND MARKETING*****Our Customers***

Our customers primarily include SMEs, microenterprises and individuals operating in the agricultural, industrial and service sectors in Deqing, Zhejiang. During the Track Record Period, a majority of our customers were AFR customers. Interest income from our top five customers accounted for less than 30% of our net interest income during the Track Record Period. Through our dedication to serve the financing needs of SME, microenterprise and individual customers in Deqing, we have been increasingly able to build long-term relationship with a number of customers. We had 32, 177, 232 and 172 repeated customers, accounting for 14.0%, 24.9%, 51.0% and 63.2% of our total customers, for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013 and the six months ended 30 June 2014, respectively. Our Directors confirm that, as of 30 June 2014, all of our top five customers were Independent Third Parties and none of our Directors, their close associates or our existing Shareholders holding more than 5% of our issued share capital, to the knowledge of our Directors, had any interest in any of our top five customers.

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### *Sales and Marketing*

We solicit our customers principally through our business and marketing department and advertisements.

#### **Our own sales channels**

Our business and marketing department consists of our customer relationship managers who receive performance-based bonus. As of the Latest Practicable Date, we had eight customer relationship managers. Our business and marketing department conducts client development activities primarily through direct on-site marketing, phone calls, public lectures and sales campaigns. In addition, we provide direct financial services to local customers by setting up a service point at the public service center of Deqing, a center established to provide convenient and expedient financial, project consulting and enterprise management services to local enterprises and individuals.

Our business and marketing personnel receive regular training that focuses on product awareness, new developments in the financing industry and local economy, risk management and professional ethics. We also require business and marketing personnel to keep abreast of the latest market conditions and regulatory environment by reading newspapers, journals and periodicals, and submit their study notes on a regular basis for the review of the head of business and marketing department.

#### **Advertisements**

We advertise our services through a number of platforms in Deqing to attract new customers. We advertise on television and billboards along highways, provide potential and existing customers with advertisement brochures when they visit our offices and distribute advertising materials at the designated service point in the public service center of Deqing to promote our business.

### **PROVISIONING POLICIES AND ASSET QUALITY**

We adopt a loan classification approach to manage our credit risk on loan portfolio. We categorize our loans by reference to the “Five-Tier Principle” set forth in the *Guidance on Provisioning for Loan Losses* (銀行貸款損失準備計提指引) issued by the PBOC on 2 April 2002. We make provisions for the anticipated level of impairment loss after categorizing the loan according to the “Five-Tier Principle.” According to the “Five-Tier Principle,” our loans are categorized as “normal,” “special mention,” “substandard,” “doubtful” or “loss” according to their levels of risk. We consider our “substandard,” “doubtful” and “loss” loans as impaired loans.

The definition of each category of loans is set forth below:

- *Normal:* Borrowers can honor the terms of their loans. There is no sufficient reason to doubt their ability to repay principal and make interest payments in full on a timely basis.
- *Special mention:* Borrowers are currently able to service their loans and interests, although repayment may be adversely affected by specific factors.

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- *Substandard:* Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and make interest payments. Losses may ensue even when collateral, pledge or guarantees are invoked.
- *Doubtful:* Borrowers cannot repay principal and make interest payments in full and significant losses will need to be recognized even when collateral, pledge or guarantees are invoked.
- *Loss:* Principal and interests 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.

We assess impairment losses either collectively or individually as appropriate. According to our accounting policies, if there is objective evidence, such as a loan being overdue, disappearance of a borrower or business disruption of an enterprise, for us to determine a particular loan as impaired, we record such loan as an impaired loan and recognize a relevant amount of impairment losses. See “Financial Information — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies, Judgments and Estimates — Impairment of financial assets” and Notes 1 and 22 under Section B of the Accountants’ Report attached as Appendix I to this Prospectus.

The following table sets forth the breakdown of our total gross outstanding loans and advances to customers by category as of the dates indicated:

	As of 31 December						As of 30 June	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Normal . . . . .	217,970	100.0	395,340	84.2	439,940	81.3	909,840	85.5
Special mention. . . . .	—	—	48,850	10.4	86,300	15.9	141,000	13.2
Substandard . . . . .	—	—	23,900	5.1	14,300	2.6	13,200	1.2
Doubtful . . . . .	—	—	1,600	0.3	600	0.1	300	0.1
Loss . . . . .	—	—	—	—	175	0.1	175	0.0
<b>Total gross outstanding loans and advances to customers . . . . .</b>	<b><u>217,970</u></b>	<b><u>100.0</u></b>	<b><u>469,690</u></b>	<b><u>100.0</u></b>	<b><u>541,315</u></b>	<b><u>100.0</u></b>	<b><u>1,064,515</u></b>	<b><u>100.0</u></b>

For “normal” and “special mention” loans, given that they are neither past due nor 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 as appropriate by an evaluation of the loss expected to be incurred on the balance sheet date.

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The following table sets forth our key operating data as of the dates or for the periods indicated:

	As of or for the period from 18 August to 31 December	As of or for the year ended December 31		As of or for the six months ended 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Impaired loan ratio</b> <sup>(1)</sup> . . . . .	—	5.4%	2.8%	1.3%
Balance of impaired loans. . . . .	—	25,500	15,075	13,675
Gross outstanding loans and advances to customers. . . . .	217,970	469,690	541,315	1,064,515
<b>Provision coverage ratio</b> <sup>(2)</sup> . . . . .	N/A	84.8%	159.7%	293.4%
Allowances for impairment losses <sup>(3)</sup> . . . . .	3,871	21,627	24,077	40,129
Balance of impaired loans. . . . .	—	25,500	15,075	13,675
<b>Provision for impairment losses ratio</b> <sup>(4)</sup> . . . . .	1.8%	4.6%	4.4%	3.8%
Balance of overdue loans . . . . .	—	10,900	775	975
Gross outstanding loans and advances to customers . . . . .	217,970	469,690	541,315	1,064,515
<b>Overdue loan ratio</b> <sup>(5)</sup> . . . . .	—	2.3%	0.1%	0.1%

*Notes:*

- (1) Represents the balance of impaired loans divided by the balance of the gross outstanding loans and advances to customers. Impaired loan ratio indicates the quality of our loan portfolio.
- (2) Represents the allowances for impairment losses on all loans divided by the balance of impaired loans. The allowances 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. Provision coverage ratio indicates the level of provisions we set aside to cover probable loss in our loan portfolio.
- (3) Allowances for impairment losses reflect our management's estimate of the probable loss in our loan portfolio.
- (4) Represents the allowances for impairment losses divided by the balance of the gross outstanding loans and advances to customers. Provision for impairment losses ratio measures the cumulative level of provisions.
- (5) Represents the overdue loans divided by the balance of the gross outstanding loans and advances to customers.

Our impaired loan balance increased to RMB25.5 million as of 31 December 2012, primarily due to an increase in loans of RMB23.9 million, which we considered “substandard,” of which RMB10.9 million were overdue as of 31 December 2012, and the remaining RMB13.0 million were not overdue as of 31 December 2012, for which we considered it prudent to make provision due to the result of our post-loan grant reviews. Our impaired loans decreased to RMB15.1 million and RMB13.7 million as of 31 December 2013 and 30 June 2014, respectively, mainly because: (i) we focused more on serving customers with stronger repayment ability in 2013 and for the six months ended 30 June 2014, of which we charged a lower interest rate after an increase in overdue loan ratio to 2.3% in 2012; (ii) we were able to subsequently recover the full overdue amount of RMB10.9 million as of 31 December 2012; and (iii) there were relatively low level of overdue amount of RMB0.8 million and RMB1.0 million as of 31

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December 2013 and 30 June 2014, respectively. As a result of the decreasing balance of our impaired loans since 2012, our provision coverage ratio, which indicates the level of provisions we set aside to cover probable loss in our loan portfolio, increased to 159.7% and 293.4% as of 31 December 2013 and 30 June 2014, respectively, from 84.8% as of 31 December 2012.

The following table sets forth a breakdown of our overdue loans by security as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured loans . . . . .	0.0	0.0	0.0	0.0
Guaranteed loans . . . . .	0.0	0.0	0.0	500
Collateralized loans . . . . .	0.0	10,900 <sup>(1)</sup>	775 <sup>(2)</sup>	475 <sup>(2)</sup>
Pledged loans . . . . .	0.0	0.0	0.0	0.0
<b>Total overdue loans . . . . .</b>	<b>0.0</b>	<b>10,900</b>	<b>775</b>	<b>975</b>

*Notes:*

- (1) Includes two overdue loans with a total amount of RMB10.0 million, whose terms were extended.
- (2) Includes one overdue loan with an amount of RMB175,000, whose term was extended.

We did not have overdue loans as of 31 December 2011. We had overdue loans of RMB10.9 million, RMB0.8 million and RMB1.0 million as of 31 December 2012 and 2013 and 30 June 2014, respectively, accounting for 2.3%, 0.1% and 0.1% of our gross outstanding loans as of the same dates. For the three overdue loans with a total amount of RMB10.9 million as of 31 December 2012, two overdue loans with an aggregate amount of RMB10.0 million were from a customer engaging in business activities relating to bioengineering technology and medical facilities. These two overdue loans were recovered in January and June 2013, respectively. The other defaulting customer with an amount of RMB900,000 was one of our AFR customers. Such overdue loan was recovered in February 2013. RMB300,000 of the overdue loans of RMB775,000 as of 31 December 2013 was recovered in March 2014. RMB500,000 of the overdue loans of RMB975,000 as of 30 June 2014 was recovered in July 2014. As of 31 October 2014, we had overdue loans of RMB475,000, of which one loan with an amount of RMB175,000 had an extended loan term prior to it being eventually overdue.

For our overdue guaranteed loans, we had never failed to locate the guarantors for our guaranteed loan customers or failed to recover the overdue loans from them during the Track Record Period and the subsequent period up to the Latest Practicable Date.

### INFORMATION TECHNOLOGY

We have installed an information technology system designated as a unified system for all microfinance companies in Zhejiang by the Financial Office. Our information technology system is critical to our operations, including transaction processing, customer services, decision-making support, risk management and accounting management. The information technology system supports our key business process, including sales and marketing management, customer information management, loan



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approval, granting of loans and loan portfolio monitoring and reporting. We utilize our information technology system to improve the efficiency and quality of our services and strengthen our risk and financial management capabilities.

### COMPETITION

Starting from May 2008, pursuant to the *Guiding Opinions*, microfinance companies have been granted legal status and become a platform for private capital and financial institutions serving SMEs, microenterprises and individuals. The main entry barriers to the microfinance industry include obtaining approvals, such as approval of establishment and approval of registered capital increase, and in-depth local knowledge. For more information on the development of microfinance industry and entry barriers of establishing a microfinance company, see “Industry Overview — The Microfinance Industry in Zhejiang and Deqing — Entry Barriers to the Microfinance Industry” and “Regulatory Overview — Regulations in the Microfinance Industry — Regulatory Policies of the Microfinance Companies — National Guiding Opinions.”

Competition in the microfinance industry in Zhejiang is increasingly intense as the microfinance industry in Zhejiang has seen rapid growth. According to *EY Advisory*, as of 31 December 2013, the number of microfinance companies in Zhejiang reached 314 and the total registered capital of microfinance companies in Zhejiang also increased rapidly with a CAGR of 45.9% from 2009 to 2013. As of 30 June 2014, the number of microfinance companies in Zhejiang further increased to 330.

As of 30 June 2014, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to *EY Advisory*. In addition, we were the second largest licensed microfinance company in Zhejiang in terms of outstanding loans as of 30 June 2014, according to the same source.

As of 30 June 2014, there were five microfinance companies in Deqing, including us. During the Track Record Period, we only served customers in Deqing. Our main competitors include local microfinance companies, rural commercial banks and private money lenders which lend to SMEs, microenterprises and individuals who have short-term financing needs. Our direct competitors are the other four microfinance companies in Deqing. We compete primarily on the basis of:

- our reputation and business scale;
- the quality and accessibility of our customer service;
- the speed of our loan approval process;
- our ability to offer easy and convenient access to funding; and
- risk management and risk control capabilities.

For more details on our competitive environment, see “Industry Overview — The Microfinance Industry in Zhejiang and Deqing — Competition Landscape.”



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As we expand into new regions and product lines, we will face competition from additional competitors. See “Risk Factors — Risks Relating to Our Business and Industry — Competition in the industry we operate is growing and could cause us to lose market share and revenue in the future.”

### INTELLECTUAL PROPERTY

We have applied for registration of the trademarks “,” “,” “佐力” and “ZUOLI” with the Trademark Bureau of the SAIC and registered the same in the Trade Marks Registry of the Intellectual Property Department in Hong Kong. Our Directors are not aware of any challenge by any third parties against our use of such trademarks in conducting our business. As of the Latest Practicable Date, we were also the registered owner of two domain names, *zlkcd.com* and *zlkcd.cn*.

### EMPLOYEES

We seek to recruit employees who share our commitment to provide high-quality customer service. The salaries of our employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees’ business skills and risk management abilities, we provide regular training to our employees.

As of the Latest Practicable Date, we had a total of 29 employees. The table below sets forth the number of our employees by function as of the Latest Practicable Date:

	<u>Number of employees</u>
Executive Directors . . . . .	4
Business and marketing . . . . .	10
Risk management and legal. . . . .	4
Finance . . . . .	3
Administration . . . . .	8
<b>Total</b> . . . . .	<b><u>29</u></b>

For additional information on certain of our employees, see “Directors, Supervisors and Senior Management” in this Prospectus.

In accordance with the applicable PRC regulations on social insurance and housing provident funds, we participate in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a maternity insurance plan, a retirement insurance plan and a housing provident fund plan for our employees. Except for the social insurance and housing provident fund contributions, we are not responsible for other employee benefits. Our staff costs for the period from 18 April 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014 were RMB0.7 million, RMB1.8 million, RMB2.1 million, RMB1.0 million and RMB1.4 million, respectively.

We have a labor union that protects our employees’ rights, assists us in attaining the economic objectives of the Company, encourages employees to participate in management decisions and assists us in mediating disputes with our employees. During the Track Record Period, we did not experience any

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material labor disputes with our employees, receive any complaints, notices or orders from relevant government authorities or third parties, or receive any claims relating to social insurance or housing provident funds.

### PROPERTIES

#### *Land Use Right*

As of Latest Practicable Date, we did not possess any land use right.

#### *Leased Properties*

As of Latest Practicable Date, we leased a property at No. 57–67, Room 201 of No. 69, and Room 201 of No. 71 Dongsheng Street, Wukang Town, Deqing, Zhejiang with an aggregate area of approximately 973 square meters from Mr. Yu, an executive Director and the Chairman of the Company.

Mr. Yu leased aforesaid property to the Company at the yearly rental of RMB515,000 for a term from 1 January 2014 to 31 December 2016. This transaction constitutes a connected transaction. For more details, see “Continuing Connected Transaction — Continuing Connected Transaction Fully Exempt from the Relevant Reporting, Announcement and Shareholders’ Approval Requirements — Tenancy Agreement between the Company and Mr. Yu.”

Our PRC Legal Advisers have confirmed that Mr. Yu is the owner of the respective properties and that Mr. Yu has obtained the valid building ownership certificate for the leased property. The lease has been registered with the local real property management bureau in May 2014.

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We are required, by the PRC social security laws and regulations, to maintain mandatory social insurance policies for our employees and make contributions to mandatory social insurance for our employees. Consistent with the industry practice in China, we do not, and are not required by PRC law to, maintain any credit insurance, business interruption insurance, third-party liability insurance or any other insurance policies. See “Risk Factors — Risks Relating to Our Business and Industry — We have no insurance coverage for our business or our bank accounts, which could expose us to significant costs and business disruption.” for more details.

### RISK MANAGEMENT

#### *Overview*

As a microfinance company dedicated to providing short-term loans to SMEs, microenterprises and individuals, credit risk is the most significant risk inherent to our business. We have developed a credit risk management system in accordance with the types and size of our loans, the types of our customers, and the local legal and economic environment. We also strictly adhere to the policy of “separation of application investigation and approval,” which has ensured 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.

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We also face risks relating to our operations and compliance. In this regard, we adopted and implemented streamlined processes and procedures to make our daily operations efficient and effective and ensure our compliance with all applicable laws and regulations.

### *Credit Risk Management*

Credit risk is the principal risk inherent to our business. Credit risk arises from a borrower's inability or unwillingness to repay its financial obligations owed to us in a timely manner. We have adopted an assessment 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.

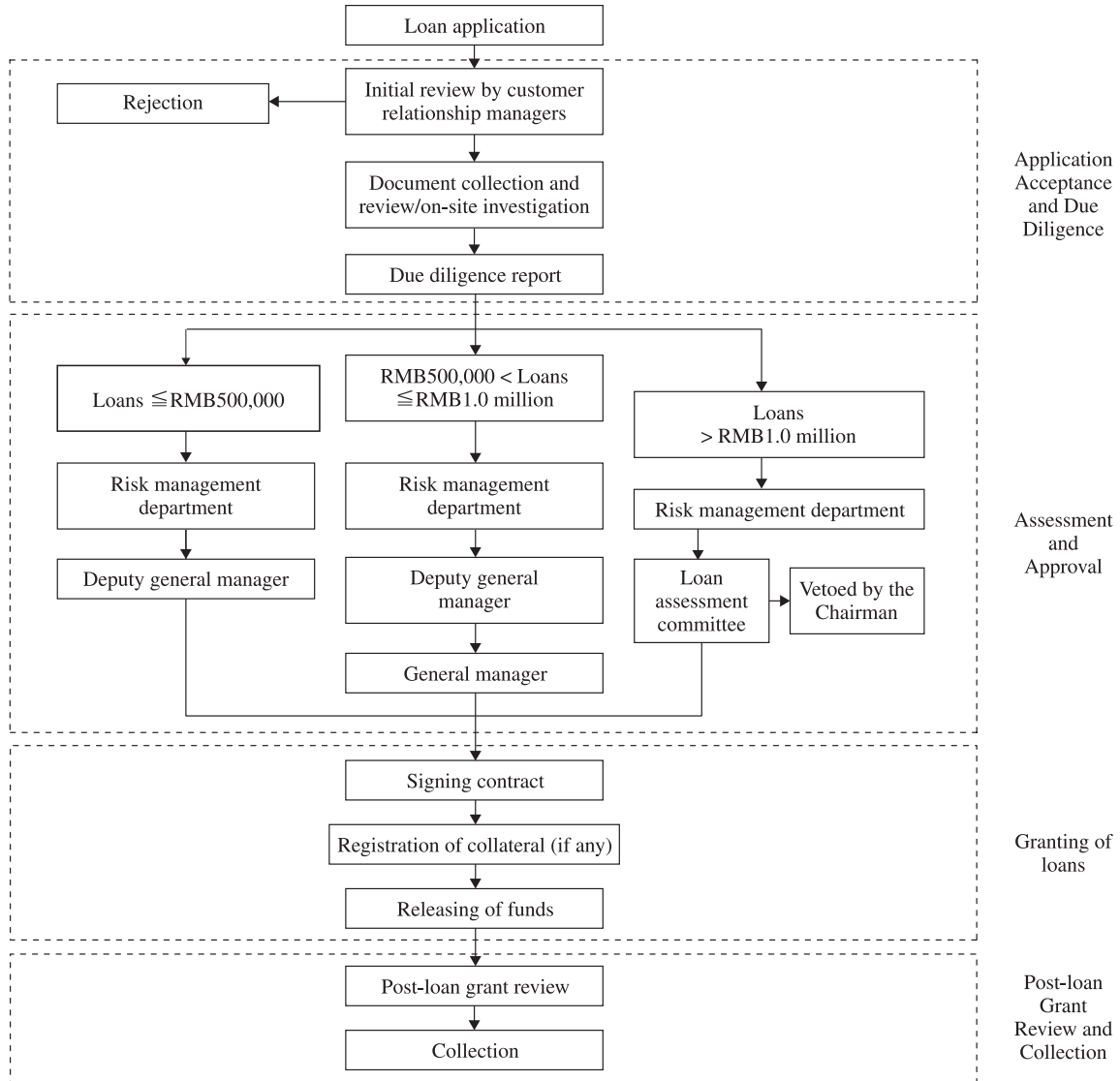
In order to reinforce the incentives for the customer relationship managers and the relevant personnel in charge of loan assessments and approvals to exercise the utmost cares to manage the credit risks involved in our business, we have also adopted a risk responsibility scheme. As advised by our PRC Legal Advisers, our current risk responsibility scheme, comprising Loan Loss Recover Rules (貸款損失追償制度) and Senior Management Risk Responsibility Rules (高級管理人員風險追究制度), was adopted in strict accordance with legal formulating procedures, and is valid and legally binding on the employees under the PRC laws and regulations.

Pursuant to the risk responsibility scheme, upon and when we write off any loss attributable to overdue loans, our customer relationship managers, risk management department and other relevant personnel in charge of loan assessments and approvals may take varying shares of responsibility for such loss under certain circumstances, including violation of our policy of “separation of application investigation and approval,” failure to adequately conduct due diligence or to do post-loan grant review, and the illegally granting of loans. In such case, our customer relationship managers and risk management department personnel will, in aggregate, share 40%, 20% and 10% of the loss if the total loss amounts to no more than RMB500,000, between RMB500,000 (exclusive) and RMB1 million (inclusive), and more than RMB1 million, respectively, calculated on a progressive basis.

Since we had not written off any loss attributable to overdue loans as of the Latest Practicable Date, our employees never had to actually share any loss under the risk responsibility scheme. In case that such loss is incurred due to an employee's fault under the above circumstances and the employee fails to share the relevant loss, we would consider taking legal action against such employee.

## BUSINESS

Our risk management procedures mainly consist of customer due diligence review, multilevel assessment and approval processes and post-loan grant reviews, with varying levels of scrutiny generally according to the amount of the loans granted. The flowchart below summarizes the key procedures of our credit risk management:



### Loan application

The credit risk management process begins with a loan application. To apply for a loan, the customer is required to disclose in the loan application a list of information including the size, term and use of the loan, whether the loan will be guaranteed or secured, and the capability of repayment. We also require the customer to provide various types of documentation, such as a copy of the identification card of the borrower and his or her spouse for individual customers, or a copy of business license of the borrower for business entities. A designated customer relationship manager will respond to the inquiries from a customer, analyzes the customer's financial needs and the financing plans, and introduces our loan products accordingly.

### **Application acceptance and due diligence**

Upon receiving the loan application materials, our customer relationship manager will consider whether to accept a customer's application based on an initial review of the loan application. Our customer relationship manager may reject a customer's application at the initial stage if such customer does not meet our basic customer eligibility requirements, such as the legality of businesses, stable income and track record for enterprise customers, as well as age, occupation and credit histories for individual customers.

The key due diligence processes after acceptance of loan applications include:

- *Two-person investigation:* we typically designate a team of two customer relationship managers to conduct customer due diligence in any loan application. Our customer relationship managers will collect materials including the financial reports, utilities bills, credit histories retrieved from the local branch of the PBOC and other materials that they deem relevant to assess the creditworthiness of such customer. Most importantly, our customer relationship managers will conduct on-site visits to inspect the business operations of the customer and the guarantor(s), the collateral and/or pledge offered. Wherever practical and relevant, we will also conduct interviews with the customer and/or any person who has personal or business relationships with such customer to have a comprehensive understanding of the customer's experience, personality and integrity. After the investigation, our customer relationship managers will prepare a due diligence report on the creditworthiness of the customer and analysis on such customer's repayment capability, the proposed credit amount, term and use of the loan, interest rate, repayment schedule, and security, if applicable;
- *Dual investigations:* our risk management department will at its discretion conduct due diligence investigations with the customer relationship managers;
- *Use of "soft information" indicators (軟指標):* we value the "soft information" we obtain during the due diligence process to help assess the creditworthiness of our customers and verify the materials provided by them. Such "soft information" includes the customer's or its controlling person's reputation, expertise, experience and credit histories from the customers' upstream and downstream counterparties and other third parties who have personal or business relationships with the customer. Due to the regional restrictions on microfinance businesses imposed by local regulatory authority, our customers currently are all domiciled in Deqing. This allows us to easily access such "soft information" and makes such "soft information" more relevant to the creditworthiness of our customers;
- *Due diligence on guarantors:* the guarantors of a loan include the controlling persons and/or third parties of enterprise customers and the spouses or friends of individual customers. We review the creditworthiness of the guarantor following the process similar to our review of a customer's creditworthiness. Review results of the guarantor form part of the basis of our conclusion of a customer's creditworthiness; and
- *Due diligence on collateral and/or pledge:* we monitor closely the volatility of the value of collateral and/or pledge provided by our customers, particularly with respect to the real property. To monitor closely the potential fluctuations in real property value, we engaged a certified public valuer, for a three-year term from 2013 to 2015, to provide us with valuation

reports of properties in Deqing and update the valuation report annually to make sure the loans we approve are consistent with the value of collateral under current market conditions. We conduct valuation of the collateral provided by our customers by making reference to such valuation reports. For the equipment provided as collateral or pledge, we consider the purchase price, the market price and the quality of the equipment to appraise their current value. For the rights (權利) and acceptance bills (承兌匯票) provided as pledge, we appraise their value by referring to the book value of such pledge. The personnel involved in the overseeing of the valuation process of the collateral and/or pledge mainly include our general manager, Mr. Hu Haifeng, and deputy general manager, Ms. Xia Jing, both having previous working experience in commercial banks or financial institutions and equipped with previous knowledge and industry experience in evaluation of collateral and/or pledge. See “Directors, Supervisors and Senior Management.”

### **Assessment and approval**

The head of our business and marketing department reviews all loan applications. In addition, our risk management department is responsible for reviewing all the due diligence reports and conducting independent due diligence reviews when inquiries arise as to a specific loan application. Once a loan application passes the review of our risk management department, such loan application will be subject to the assessment and approval of our deputy general manager, general manager or the loan assessment committee, depending on the loan size.

Our credit review focuses on evaluating the customer’s ability and willingness to pay its financial obligations when they fall due. To this end, we take advantage of the “soft information” we gather during the due diligence process to form a comprehensive understanding of a customer’s creditworthiness. We collect, organize and consider all the relevant information, including the customer’s financial conditions, the purpose of the financing, the guarantor’s financial conditions and creditworthiness, the value of collateral or pledge and the “soft information” wherever relevant to form the basis for the relevant personnel in charge of loan assessments and approvals to evaluate the customer’s creditworthiness. We generally conduct overall assessment on the credit histories and repayment ability of both our customers and their related parties, such as the owners and/or fellow subsidiaries of enterprise customers.

In relation to our collateralized loans, we have adopted risk management procedures for the evaluation of creditworthiness of the borrower, and the identification and accurate valuation of legal ownership and value of collateral. As a matter of risk management, we generally grant collateralized loans with a loan-to-value ratio ranging from approximately 60% to 80% of the market value of collateral.

Our assessment and approval processes, summarized below, vary by loan size.

#### *Loans up to RMB500,000*

The loans up to RMB500,000 are subject to assessment and approval by deputy general manager and follow a similar assessment and approval process of the loans between RMB500,000 and RMB1.0 million (inclusive).

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## BUSINESS

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### *Loans between RMB500,000 and RMB1.0 million (inclusive)*

The loans between RMB500,000 and RMB1.0 million (inclusive) are assessed and approved by both our deputy general manager and general manager. Our customer relationship managers will investigate the loan application and submit the due diligence report for review by the risk management department and deputy general manager. After such application passes the assessment of our risk management department and deputy general manager, the general manager will either assess and approve the application or, for the important and complex application, at the general manager's own discretion submit the application to the loan assessment committee for consideration.

### *Loans over RMB1.0 million*

Loans over RMB1.0 million are assessed and approved through collective decision-making. Our risk management department will review the due diligence report and the supporting documents submitted by our customer relationship managers. Such report will then be submitted to the relevant personnel in charge of loan assessments and approvals for consideration.

The loan assessment committee is authorized by the Board to assess and approve the loans over RMB1.0 million. The composition of the loan assessment committee is approved by the Board. Our loan assessment committee is comprised of five of our senior management members, namely, Mr. Zheng Xuegen, Mr. Hu Haifeng, Mr. Ding Maoguo, Ms. Xia Jing and Mr. Huang Chenjiang. See "Directors, Supervisors and Senior Management." At least three members of the loan assessment committee are required to be present at the meeting to review the due diligence report. Each committee member attending the meeting has one vote. The credit proposal will be approved by a simple majority of the committee members. The approved credit proposal will ultimately be presented to the Chairman who has the right to veto the approved proposal.

### **Rejection**

Based on the assessments results, we may: (i) approve a credit proposal as it is; (ii) amend the credit proposal as appropriate; or (iii) reject a loan application. Typically, we reject a customer's loan application for the following reasons:

- financial data not consistent with industry data, or not supported by due diligence results;
- financing purpose not verified or involving high risk;
- negative information about the borrower, its controlling persons or its products;
- unsatisfactory source of funding for the repayment;
- foreseeable difficulty in enforcing our rights on the collateral and/or pledge; and
- the industry in which the borrower operates involving high risk, such as an industry subject to tight regulations or vulnerable to the macroeconomic control by the PRC Government.

Most financing requests that cannot meet our basic customer eligibility requirements are screened out by our customer relationship managers in the initial customer acceptance process, and will not be further processed. As a result, for the period from 18 August 2011 to 31 December 2011, the years



ended 31 December 2012 and 2013 and the six months ended 30 June 2014, the number of rejected applications after initial customer acceptance process was only 5, 15, 15 and 18, respectively, representing a rejection rate for loan applications of 2.1%, 2.1%, 3.2% and 6.2%, respectively.

### **Granting of loans**

We proceed with the signing process after completing our internal assessment and approval process. We enter into a loan and guarantee agreement with the borrower and the guarantor and release funds pursuant to the loan agreement. If any collateral is provided, we and the borrower register our security interest in such collateral with the relevant government authorities before making our funds available for drawdown. If pledge is provided, depending on the type of pledge, we and the borrower register our security interest in such pledge with the relevant government authorities before making our funds available for drawdown.

### **Post-loan grant review**

We continue to monitor the borrower's ability to repay our loans after the drawdown of the loans. The customer relationship manager is responsible for reviewing the borrower's actual use of funds within ten days after the drawdown of the loans and reporting to the relevant personnel in charge of loan assessments and approvals. In order to monitor the risks associated with loans, we conduct periodic reviews, which involve the participation of our deputy general manager, risk management department and customer relationship managers, on our loan portfolio. In addition, our customer relationship managers conduct on-site visits or telephone interviews with our customers, and submit reports by reviewing and evaluating the customers' financial condition, market development of the industries and regions in which the customers operate, and the source of repayment to ascertain whether the customers are expected to have any difficulty in making timely repayments. We will examine many aspects of the business operations of the borrower including:

- the market development of the industries and regions in which the borrowers operate;
- the normal operation of the borrower's business;
- the borrower's product line and its ability to adapt to the change of the market conditions;
- the collection by the borrower of accounts receivables; and
- the changes in the borrower's inventory and accounts receivables.

We will take precautionary measures, such as the acceleration of the loan repayment or request for additional security, upon the findings of:

- steep reduction in production of the borrower's key product(s);
- continued decrease in the market share of the borrower's products;
- continued accumulation of loss;
- extended absence of the controlling person or senior management from duty;

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## BUSINESS

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- the borrower or its controlling person's indecent behavior, such as gambling;
- bad credit histories with other financial institutions or companies; and
- significant fall in the value of collateral and/or pledge.

### Collection

Our business and marketing department is responsible for the collection of overdue payments from customers. We do not engage any third-party agent to collect overdue payments from customers. In general, our customers are required to make monthly interest payments on our loans. Moreover, in order to ensure that the repayments of the principal will be paid on time, our customer relationship managers remind customers of their loan repayment obligations ten days before the principal is due.

When a customer defaults, we take proactive measures to communicate with such defaulting customer in a timely manner. If our customers fail to repay their principal on the due date of their loans, our customer relationship manager will send collection notes to such customers 15 days following the due date. In addition, we endeavor to facilitate the collection of the defaulted loan by requesting additional security. If we fail to collect repayment from such defaulting customer, our risk management department and legal department will initiate the following steps to seek collection:

- *having recourse to the guarantor*: if the repayment of the loan is guaranteed by a guarantor, we will demand the guarantor to repay the principal of the loan and any interests accrued with cash or assets in lieu thereof; or
- *disposing of the collateral or pledge*: for the loans secured by collateral or pledge, we will seek to dispose of such collateral or pledge for value and apply all or part of such value toward the repayment of the loans.

The Financial Office is primarily responsible for the administration, supervision and regulation of microfinance companies. As advised by our PRC Legal Advisers, as a microfinance company, we are subject to relevant regulations with regard to debt collection prescribed by Zhejiang provincial government and/or its delegated administrative body. Pursuant to *Circular on Printing and Issuing the Pilot Operating Rules of Zhejiang Province for Risk Supervision and Administration of Microfinance Companies* (關於印發《浙江省小額貸款公司風險監督處置細則(試行)》的通知), no loan shall be recovered by illegal means such as the use of violence or in contrary to the contract terms as well as the relevant laws and regulations.

As advised by our PRC Legal Advisers, in the event that we bring an action in a PRC court for the foreclosure on collateral or assets of another person, the entire recovery process, including the court procedure and enforcement process, may take 18 months or more. Where it is deemed by our business and marketing department and risk management department as necessary, we may notarize the document of creditor's rights on the collateral provided by our customers before we release funds in accordance with *Notarization Law of the PRC* (中華人民共和國公證法), which enables us to enforce our secured interest on the collateral without bringing lengthy law suits in the courts. As a result, we can realize our secured interest on the collateral on a timely basis. For the past enforcement on collateral, see “— Compliance and Legal Proceedings — Legal Proceedings.”

Due to our effective risk management procedures, as of 30 June 2014, we only had overdue loans of RMB1.0 million, accounting for 0.1% of our gross outstanding loans, while the average overdue loan ratio of all microfinance companies in Deqing was 0.5% as of 30 June 2014, according to *EY Advisory*.

### *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 vertical risk management system to ensure the independence of our risk management;
- establishing and continuously improving our operational procedures and internal control system, and utilizing our information technology system to monitor and control the implementation of each procedure. In particular, we have adopted and have strictly implemented measures to prevent and detect potential employee frauds, such as the two-person investigation, “separation of application investigation and approval,” multilevel assessment and approval procedure, on-site visits and inspection, and interviews conducted by our customer relationship managers with the owner or management of the customers or relevant third parties;
- implementing a performance-based compensation scheme for our employees; and
- providing ethical education and professional training to the employees, especially those responsible for assessment and approval process.

### *Legal and Compliance Risk Management*

Our business is subject to extensive and complex 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. See “Regulatory Overview” 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, significant losses may be incurred. See “Risk Factors — Risks Relating to Our Business and Industry — Our business is subject to extensive regulation and supervision by national, provincial and local government authorities, which may interfere with the way we conduct our business and may negatively impact our business and results of operations.” Our risk management department and legal department are responsible for operational compliance review, examination of the completeness of lending procedures, implementation of regulatory policies, provision of operational guidance and training to the business staff, legal matters related to asset collection, and drafting and review of contracts and other legal documents.

## BUSINESS

Our risk management department and legal department, together with our other departments involved, advise on the legal and regulatory requirements applicable to us. If required, we also consult external legal advisers on the legal compliance aspects of our operations.

### APPROVALS, LICENSES AND PERMITS

As advised by our PRC Legal Advisers that, 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 for our operations in China and all of them are in force as of the Latest Practicable Date. For details of the requisite regulatory licenses, permits and approvals, see “Regulatory Overview — Regulations in the Microfinance Industry — Regulatory Policies of the Microfinance Companies.”

### COMPLIANCE AND LEGAL PROCEEDINGS

#### *Compliance with Relevant PRC Laws and Regulations*

We have obtained various confirmations from relevant authorities to confirm our compliance status during the Track Record Period and up to the Latest Practicable Date. The following table sets forth the details of such confirmations:

Form of confirmation	Competent authority	Issue date	Contents of confirmation	Bases and/or circumstances of confirmation	If final and conclusive
Confirmation letters	Financial Office	22 May 2014 and 20 November 2014	The Company has established a sound corporate governance structure and efficient risk control and warning system, and the Company is in compliance with the relevant regulatory requirements, such as the qualification of its shareholders, directors and senior management, the percentage of shareholding of the main promoters and connected parties and minimal shareholding of its shareholders in its establishment, subsequent share transfer, share increase and its conversion into joint stock limited liability company, and the Company was not subject to any administrative or regulatory penalties during the Track Record Period.	Annual appraisal report and filing records of the authority	Yes
Tax proofs	Deqing local tax authority	25 July 2014 and 20 November 2014	The Company has claimed and submitted all the payable tax on time and in full amount and is in compliance with the relevant laws and regulation since its establishment. The Company is not subject to any penalty or dispute from the tax authority.	Tax payer's declaration forms and filing records of the authority	Yes
Confirmation letters	Huzhou branch of AIC	28 July 2014 and 19 November 2014	The Company has complied with relevant provisions in the Company Law of the PRC and the Company Registration Ordinance of the PRC since its establishment.	Registration Record	Yes
Confirmation letters	Deqing bureau of the Ministry of Human Resources and Social Security	25 July 2014, 7 August 2014 and 20 November 2014	Except for the incident of non-compliance disclosed in the table below, the Company has made contributions to the employee's social insurance in accordance with the relevant PRC laws and regulations on employment and social insurance, and the Company will not be subject to any administrative or regulatory penalties for the non-compliance.	Social insurance payment application form and filing records of the authority	Yes
Confirmation letters	Deqing housing provident funds management center	25 July 2014 and 20 November 2014	The Company has complied with the relevant PRC laws and regulations on housing provident funds.	Housing provident funds payment application form and filing records of the authority	Yes

## BUSINESS

### Statutory capital requirements and lending restrictions

The following table summarizes the key statutory capital requirements and lending restrictions applicable to us and the compliance status during the Track Record Period:

#### Key requirements

If a microfinance company is a limited liability company, its registered capital must be at least RMB50 million; if a microfinance company is a joint stock limited liability company, its registered capital must be at least RMB80 million.

A microfinance company shall only borrow bank loans up to a certain percentage, usually 50%, of its net capital for conducting loan business; however, a microfinance company that serves SME and AFR customers, operates lawfully and has a sound risk control system and reasonable interest rate level may borrow a total amount not exceeding 100% of its net capital from (i) banking financial institutions and (ii) subject to the approval from the competent regulatory authorities, institutional shareholders and other microfinance companies within the city.

#### Compliance status

To satisfy the minimum registered capital requirement, our registered capital shall be no less than the statutory limit on a daily basis. We complied with such requirement throughout the Track Record Period. Details as of year/period end are set forth as follows for illustration purpose only:

	As of 31 December			As of
				30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Registered capital . . . . .	200,000	320,000	510,000	880,000

To satisfy such requirement, the ratio of our bank borrowings to our net capital shall not exceed the statutory limit on a daily basis. We complied with such requirement throughout the Track Record Period. Details as of year/period end are set forth as follows for illustration purpose only:

	As of 31 December			As of
				30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
	(except for %)			
Interest-bearing borrowings (A) . . . . .	26,000	120,000	171,000	160,000
Registered capital <sup>Note</sup> (B) . . . . .	200,000	320,000	510,000	880,000
(A)/(B) . . . . .	13.0%	37.5%	33.5%	18.2%

*Note: The law requires us to use net capital for the purpose to calculate the leverage ratio. For a profit-making company, such as us, its net capital is more than its registered capital. Therefore, if we complied with such requirement using registered capital as a basis to calculate, we must be in compliance using net capital for the calculation.*

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## BUSINESS

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### Key requirements

70% of the outstanding loan balance of the microfinance company shall be applied to borrowers of a single account whose balance of the loan is no more than RMB1.0 million as well as borrowers engaged in agricultural activities such as farming and breeding, while the rest may be applied to other borrowers; provided that loans to any of such borrowers shall not exceed 5% of the net capital (the “Original Requirement”).

### Compliance status

For the 70% requirement, according to the result of our annual appraisal by the Financial Office, we complied with such requirement for the two years ended 31 December 2012 and 2013. According to a notice issued by the Financial Office, a microfinance company commences operation for less than six months will not be appraised during the annual appraisal of that year. As we commenced our operations in August 2011, we were not required to be evaluated for the year ended 31 December 2011, but all transaction records have been filed accordingly with the Financial Office since our establishment. In addition, according to relevant notices issued by the Financial Office, (i) for 2012, the average quarter-end ratio of our loans which were either granted to customers engaged in agricultural activities or no more than RMB1.0 million or both (the “agricultural and/or small loans”), in aggregate, to our total outstanding loans shall be at least 70%, and (ii) for 2013, each of the quarter-end ratios of our agricultural and/or small loans, in aggregate, to our total outstanding loans shall be at least 70%. Our agricultural and/or small loans, in aggregate, accounted for 83.7% and 79.2% of our total outstanding loans as of 30 September 2011 and 31 December 2011, respectively. Our agricultural and/or small loans, in aggregate, accounted for 76.9%, 68.5%, 69.0% and 75.5% of our total outstanding loans as of 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012, respectively, representing an average quarter-end ratio of 72.5%. Our agricultural and/or small loans, in aggregate, accounted for 78.4%, 70.3%, 72.8% and 70.3% of our total outstanding loans as of 31 March 2013, 30 June 2013, 30 September 2013 and 31 December 2013, respectively.

Pursuant to the *Circular on Printing and Issuing the Measures of Zhejiang Province for the Administration of Annual Appraisal of Microfinance Companies* (關於印發《浙江省小額貸款公司年度考核評價管理辦法》的通知) issued by the Financial Office on 25 January 2010, our annual appraisal shall be based on our performance throughout the calendar year. We have complied with each requirement according to the annual appraisal by the Financial Office in 2012 and 2013 and the compliance status for 2014 will be determined at the end of the year.

In light of our increased capital strength and long-term business development needs, we have first applied to the Huzhou City financial office (city level), whom after their review and approval, then passed on our application to the Financial Office for final review and approval, and obtained a confirmation letter from the Financial Office on 28 August 2014 confirming that, from 1 January 2014 onwards, the Company shall comply with the revised requirement that “the percentage of the outstanding loans of a microfinance company applied to borrowers of a single account whose balance of the loan is no more than RMB1.0 million and agriculture-related loans shall not be less than 70%,” and that the meaning of agriculture-related loans refers to the standard stipulated in the *Special Statistics System of Agriculture-related Loans* (《涉農貸款專項統計制度》) issued by PBOC and CBRC (the “Revised Requirement”). As advised by our PRC Legal Advisers, the Revised Requirement is an extended interpretation of the Original Requirement, and the interpretation of “borrowers engaged in agriculture activities such as farming and breeding” is extended as “agriculture-related loans” with reference to the definition in the *Special Statistics System of Agriculture-related Loans* (《涉農貸款專項統計制度》).

### Key requirements

### Compliance status

In particular, the *Circular on the establishment of the Special Statistics System of Agriculture-related Loans* (《關於建立〈涉農貸款專項統計制度〉的通知》(銀發[2007]246號)), which was issued by PBOC and CBRC and became effective on 25 July 2007, prescribes that agriculture-related loans (涉農貸款) included: (i) loans applied to farming, forestry, livestock raising and fishing; (ii) loans granted to farmers; (iii) loans granted to rural enterprises and other rural institutions; and (iv) loans borrowed by urban enterprises (城鎮企業) to be applied to farming, forestry, livestock raising and fishing, in order to support and promote the development of countryside and agricultural industry.

Our PRC Legal Advisers advised that given that the Financial Office is responsible for the supervision and regulation of microfinance companies in Zhejiang, including formulation and administration of relevant regulatory rules and policies as stated in “Regulatory Overview,” the Financial Office is the competent authority in interpreting the implementation of the relevant rules and regulations relating to microfinance companies in Zhejiang. As such, the Financial Office has the authority to interpret, determine and waive the compliance of the regulatory requirements relating to the Original Requirement and it also has the authority to exercise its absolute discretion to determine when and which microfinance companies in Zhejiang, including us, would be required to comply with such Revised Requirement. Given that the Financial Office is the competent authority in the regulation of microfinance companies in Zhejiang as abovementioned, our PRC Legal Advisers also advised that the confirmation letter addressed to us in relation to the Revised Requirement is applicable to us and is legally effective. Our PRC Legal Advisers also advised that in general, any microfinance companies in Zhejiang, who wish to consult or get any formal confirmation from the Financial Office regarding their business operations and/or regulatory compliance, would generally have to go through their respective municipal city level financial office first.

For reference only, if adopting the Revised Requirement, our loans which are either agriculture-related or no more than RMB1.0 million or both, in aggregate, accounted for approximately 93%, 93% and 93% of our total outstanding loans as of 31 March 2014, 30 June 2014 and 30 September 2014, respectively. As a result, we have also complied with the Revised Requirement up till 30 September 2014, the latest quarter available as of the Latest Practicable Date. We are therefore in compliance with the regulatory requirement throughout the Track Record Period.

In practice, for the 5% requirement, the net capital is made reference to the net asset or ownership equity stated in the latest available monthly management accounts, and according to the annual appraisal by the Financial Office and relevant filing records for the three years ended 31 December 2011, 2012 and 2013, we complied with such requirement.

## BUSINESS

### Key requirements

The percentage of the outstanding loan balance of the microfinance company applied to business loans (經營性貸款) with a term longer than two months shall be kept above 70% (“the business loan requirement”).

No loans shall be granted to the shareholders of the microfinance company. The aggregate amount of the outstanding loan balance of the microfinance company granted to the connected parties (who are defined as either the direct relatives (直系親屬) of individual shareholders or the parent company, subsidiaries, shareholders and/or senior executives of the institutional shareholders) shall be kept below 5% of the registered capital.

### Compliance status

According to relevant notices issued by the Financial Office, (i) for 2012, the ratio of the aggregate amount of loans with a term longer than two months to the total loans we granted for the year ended 31 December 2012 shall be at least 70%, and (ii) for 2013, the average quarter-end ratio of outstanding balance of business loans with a term longer than two months to our total outstanding loans shall be at least 70%. We have complied with such requirement according to the annual appraisal by the Financial Office in 2012 and 2013, and although our annual appraisal for 2014 will be made after 2014, we have complied with such requirement up to the latest practicable quarter and we are in compliance with such requirement throughout the Track Record Period. Details as of year/period end are set forth as follows for illustration purpose only:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
	(except for %)			
Business loans with a term more than two months (A) . . . . .	217,520	426,180	539,035	1,064,115
Total gross outstanding loans and advances to customers (B) . . . . .	217,970	469,690	541,315	1,064,515
(A)/(B) . . . . .	99.8%	90.7%	99.6%	99.9%

To satisfy such requirement, none of our loans shall be granted to our Shareholders, and the aggregate amount of our outstanding loan balance to the connected parties shall be below 5% of the registered capital on a daily basis. We complied with such requirement throughout the Track Record Period. Details of our loans granted to the connected parties as of year/period end are set forth as follows for illustration purpose only:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Loans granted to the connected parties (A) . . . . .	800 <sup>(1)</sup>	900 <sup>(2)</sup>	—	3,700 <sup>(3)</sup>
Registered capital (B) . . . . .	200,000	320,000	510,000	880,000
(A)/(B) . . . . .	0.4%	0.3%	—	0.4%

*Notes:*

- (1) Represents a loan of RMB0.8 million to Ms. Sun Pingping (孫萍萍), who is a shareholder of one of our Promoters, Huacai Chemical, and is not a connected person under the Listing Rules.
- (2) Represents a loan of RMB0.9 million to Ms. Sun Pingping (孫萍萍), who is a shareholder of one of our Promoters, Huacai Chemical, and is not a connected person under the Listing Rules.



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## BUSINESS

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### Key requirements

### Compliance status

- (3) Represents two loans with a total amount of RMB3.7 million to Mr. Yu Chunsong (俞春松), who is the father of one of our Shareholders, Mr. Yu Cheng (俞成), and is not a connected person under the Listing Rules. Among these two loans, one loan of RMB2.2 million is due in April 2015 and another loan of RMB1.5 million is due in June 2015.

We did not grant any loan to connected parties for the period from 1 July 2014 to the Latest Practicable Date.

The interest rates cannot exceed four times the PBOC Benchmark Rate pursuant to the *Interim Measures of Zhejiang Province for the Administration of Pilot Operation of Microfinance Companies* (浙江省小額貸款公司試點暫行管理辦法) issued on 14 July 2008.

To satisfy such requirement, each of our loans shall not be granted at an interest rate exceeding four times the PBOC Benchmark Rate. We complied with such requirement throughout the Track Record Period. For reference, the PBOC Benchmark Rate for loans due between six months and one year for the period from 18 August 2011 to 31 December 2011 was 6.56% and decreased to 6.31% in June 2012 and further to 6.00% in July 2012. Such rate remained unchanged for the rest of the Track Record Period. Our average interest rate for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2014 was 20.2%, 18.4%, 17.2% and 15.6%, respectively, and none of our loans during the Track Record Period was granted at an interest rate exceeding four times the PBOC Benchmark Rate.

To ensure our on-going compliance with the relevant PRC laws, rules and regulations with respect to our micro-financing business, we have implemented several internal control measures, including: (i) requiring the head of our business and marketing department to check the outstanding loan balance of repeated customers before granting a new loan to such customers, in order to make sure we comply with the requirement that “the loan balance of a borrower of a single account shall not exceed 5% of the net capital;” (ii) requiring the head of our business and marketing department to compile a list of loans that are non-agriculture-related loans exceeding RMB1.0 million at each month end instead of just at quarter end, and make sure we would consistently comply with the requirement that “the percentage of the outstanding loan balance applied to borrowers of a single account whose balance of the loan is no more than RMB1.0 million and agriculture-related loans shall not be less than 70%;” (iii) requiring our risk management department to monitor our compliance status with the relevant PRC laws and regulations as well as cooperate with other departments to conduct regular internal inspections; and (iv) stipulating various other lending restrictions in our written rules and regulations (規章制度), such as the requirement of complying with the interest rate restriction pursuant to relevant laws and regulations.

Based on the on-going monitoring results of our business operations, monthly inspection sheets (監管表), annual appraisal reports that set out our compliance basis of the relevant capital requirements and lending restrictions according to the requirements of the Financial Office, and the confirmation letter issued by the Financial Office, our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied with all the key statutory capital requirements and lending restrictions.

## BUSINESS

### Other organizational and operational requirements

Except for the non-compliance incident disclosed below, we are advised by our PRC Legal Advisers that, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant PRC laws and regulations in all material respects.

Non-compliance incident(s)	Details of non-compliance incident(s)	Reason(s) for the non-compliance incident(s)	Consequences of non-compliance incident(s)	Current status	Remedies and internal control measures
Social insurance contributions	During the Track Record Period, we did not fully comply with the social insurance contribution requirements and failed to withhold and make full social insurance contributions payable by individuals for our employees based on their actual income. The estimated outstanding withholding social insurance contribution during the Track Record Period amounted to RMB41,618.	Due to personal reason, the employees determined to make social insurance contributions payable by individuals based on the local minimum wage standard accepted by local social insurance authority, instead of their actual income.	The relevant social insurance authority may order the Company to withhold and pay the outstanding social insurance contributions within a prescribed time period with a late charge at 0.05% a day on the outstanding social insurance contributions. The estimated maximum late charge will be approximately RMB1,998.	As of the Latest Practicable Date, we had not received any notice from the relevant authorities declaring that we failed to make full social insurance contributions and requiring the payment of the same within a stipulated deadline. Upon the receipt of the notice from the relevant authorities, if any, we shall immediately pay the outstanding social insurance contributions and any late charge imposed by the relevant authorities.	<p>We have obtained confirmation letters from the relevant local competent authority stating that: (i) since the establishment of the Company, there was no administrative action taken or about to be taken against it for payment of social insurance contributions; (ii) the amount of social insurance contributions payable by the Company was in compliance with all national and local laws and regulations in relation to the social insurance; and (iii) the authority would not compulsorily require the Company to repay the outstanding withholding social insurance contributions.</p> <p>To ensure compliance, our finance department will keep updated with the base salary declared by the relevant authorities from time to time. Our human resource staff will consult our external legal consultant on the relevant laws and regulations regularly. Our external legal consultant will supervise and ensure the compliance with the relevant laws and regulations on a monthly basis.</p>

### *Compliance with Chapter 14 and Rules 13.13 to 13.16 of the Listing Rules*

We are a licensed microfinance company dedicated to serving customers in Deqing by providing financing solutions as a form of financial assistance. According to the Listing Rules, the provision of financial assistance may constitute a notifiable transaction under Chapter 14 of the 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 14.04(8) of the 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 licence bank and thus do not meet the definition under Rule 14A.88, we are not regarded as a “banking company” under the 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 14 of the Listing Rules and is subject to the relevant reporting, announcement and the Shareholders’ approval requirements.

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## BUSINESS

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Furthermore, the loans advanced by us to our customers may trigger a general disclosure obligation pursuant to Rule 13.13 to Rule 13.16 of the Listing Rules and subject to the relevant announcement and reporting requirements, in the event that the relevant advances to an entity by the Company individually exceeds 8% under the assets ratio as defined in Rule 14.07(1) of the Listing Rules.

As disclosed in “Regulatory Overview — Regulations in the Microfinance Industry,” we have to comply with the relevant regulations in terms of size of loan advanced to each borrower of a single account, namely the balance of loan of a single borrower may not exceed 5% of the net capital of a microfinance company. 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 the Company are considered to be more stringent than the abovementioned requirement under the 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 14 and Rules 13.13 to 13.16 after Listing. Our Directors are also of the view that our existing loan portfolio does not exceed the thresholds under those rules.

### *Anti-money Laundering Procedures*

The anti-money laundering regime in China requires financial institutions to establish sound internal control policies and procedures with respect to the monitoring and reporting of any suspected money laundering activities. As advised by our PRC Legal Advisers, we are not subject to the anti-money laundering regime in China. However, as part of our due diligence process and assessment and approval procedures, we have established certain standard procedures to ensure that our customers have a genuine business and ascertainable needs for financing. These procedures include: (i) ascertaining customers’ financing needs, as well as their purpose of obtaining loans and the intended use of funds, to determine the reasonableness of their financing needs; (ii) as part of our due diligence, conducting background checks on customers including on-site visits, credibility checks and gathering of “soft information;” and (iii) providing ongoing training related to effective conduct of due diligence to our staff. For details of such procedures, see “— Business Process.”

In addition, as part of our risk management procedures, we ensure that loans from us are deposited to the customers’ bank accounts instead of to third-party accounts, and use commercial banks as an intermediary for settlement and payment, which may, to a certain extent, reduce money laundering risks.

As confirmed by our PRC Legal Advisers, we are not subject to the anti-money laundering regime in the PRC because we and other institutions engaged in the credit financing and micro and small loan businesses are not defined as financial institutions or special non-financial institutions that are required to comply with the anti-money laundering regulations. Therefore, our procedures do not have to comply with relevant anti-money laundering regulations, and as a result are not designed specifically to identify and prevent money laundering activities. See “Regulatory Overview — Anti-Money Laundering Laws and Regulations.”

***Legal Proceedings***

We may from time to time be involved in a number of legal proceedings in the ordinary course of our business. As of the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against us or any of our Directors which could have a material adverse effect on our financial condition or results of operations.

During the Track Record Period, we initiated five legal proceedings to recover overdue payments from our customers with a total amount of RMB13.1 million, of which only RMB475,000 was not recovered as of 31 October 2014. All the overdue loans that we initiated legal proceedings on were secured by collateral. We obtained favorable court judgments or orders on all of the five legal proceedings.

**INTERNAL CONTROL**

We have established an internal risk management framework, including policies and procedures, to manage our risk exposure, primarily credit risk, operational risk, compliance risk and legal risk. These risk management policies and procedures are based upon our experience in the industry.

In connection with the Global Offering, we have engaged an independent internal control consultant, an international consulting firm, to review our internal control over financial reporting, including: (i) internal control at the entity level covering control environment, risk assessment, information and communication, and monitoring activities with reference to the internal control framework published by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO; (ii) the microfinance business management process; (iii) cash and treasury management; (iv) financial reporting; and (v) tax management. Our internal control consultant reviewed various types of documents, such as pre-loan due diligence reports, loan approval forms, real estate appraisal reports, post-loan review analysis, on-site investigation reports, meeting minutes of loan assessment and approval committee and multilevel assessment and approval documents, which recorded the implementation of our internal control systems and policies for: (i) assessing the creditworthiness of our customers and their guarantors; (ii) reviewing and approving loan and guarantee; (iii) reviewing collateral valuation; and (iv) on-going monitoring of our loan portfolio. As part of their review, the internal control consultant also reviewed internal controls in relation to staff recruitment policy and process, code of conduct and conflict of interest at the entity level. Considering the nature of the internal control testing, the common market practice and that the fact that the transaction samples selected would be expected to reflect existing internal control of the Company, the review period was between 1 June 2013 and 31 May 2014. After reviewing the above documentary evidence and conducting sample testing of our operations of internal control, our internal control consultant has discovered certain incidents of insufficient implementation of our internal control and suggested remedial actions. Although these incidents did not reveal any material risks and have not resulted in any

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## BUSINESS

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material non-compliance or financial loss, we have fully adopted the suggested remedial actions proposed by our internal control consultant as of the Latest Practicable Date, in order to further strengthen our internal control and risk management. A summary of these key insufficient implementation findings in relation to the process of microfinance business management is set out below:

<u>Nature of finding</u>	<u>Issue and reason</u>	<u>Number of insufficient implementation found during the review period</u>	<u>Suggested action and current status</u>
Incomplete documentary evidence of loan assessment process	Failure to strictly follow our internal control procedures by our employees where dual signatures by two customer relationship managers on loan application documents failed to be documented	1	We should strictly ensure that all loan application documents are signed off and documented by two relevant customer relationship managers according to our internal control procedures. We have amended our internal control and risk management policy to more clearly reflect such documentation requirements and also reiterated the importance of keeping proper records to all our relevant employees by providing employee training programs and implementing relevant supervision mechanism in order to ensure such compliance in the future.

During the course of reviewing our internal control for review and approval process of our loans, our internal control consultant has also recommended that, while we have already included the post-loan grant review reports in the relevant credit files of our customers after we carried out our post-loan grant review as appropriate, we should also implement the requirement of including documentary evidence of post-loan grant review, in particular requiring the relevant heads to sign off on the post-loan grant review, done by relevant departmental heads according to our internal control and risk management policy. We have included such signatory evidence to be documented in our internal control and risk management policy, as per the recommendation of our internal control consultant, as of the Latest Practicable Date.

In response to these findings, we have implemented a number of remedial actions, according to the suggested recommendations by our internal control consultant, including carrying out a series of employee training programs, supervision mechanisms, various policies to strengthen our internal control procedures and monitoring mechanisms to strengthen our implementation of internal control procedures.

The internal control assessment was conducted on a factual finding basis, and no assurance or opinion on internal control was expressed by our internal control consultant.

Based on the assessment of the areas of internal control that are of concern to the Sole Sponsor and the due diligence conducted by the Sole Sponsor, including walk-through review of the Company's risk management system and information technology system, review of the historical filing records, annual appraisal reports, historical compliance records and historical overdue loan records, interview with the Financial Office and sample checking of customer credit evaluation files, nothing has come to the Sole Sponsor's attention that suggests any significant weakness in the Company's risk management system and internal control policies or the implementation thereof, that would significantly affect the overall effectiveness of the Company's risk management system and internal control policies during the Track Record Period and up to the Latest Practicable Date.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OVERVIEW

Immediately prior to the Global Offering, Zuoli Holdings, Puhua Energy, Mr. Y Yu, Deqing Yintian, Mr. Yu, Mr. Shen, Dingsheng Investment and Mr. Zhang owned approximately 44.89% of our issued share capital in aggregate. Immediately following the completion of the Global Offering, they will be entitled to exercise and control the exercise of approximately 33.48% of our issued share capital (assuming the Over-allotment Option is not exercised) in aggregate.

As of the Latest Practicable Date, Mr. Y Yu held 100% equity interest in Deqing Yintian. Deqing Yintian is the single largest shareholder of Zuoli Holdings holding an equity interest of approximately 32.04%, and Zuoli Holdings in turn is interested in the entire equity interest of Puhua Energy. As of the Latest Practicable Date, Puhua Energy was directly interested in 30% of the issued share capital of our Company, and would be directly interested in approximately 22.37% of the issued share capital of our Company upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised). Since Mr. Y Yu is a party to the Acting in Concert Agreement, each of Deqing Yintian and Zuoli Holdings is our Controlling Shareholder. Mr. Yu is the son of Mr. Y Yu. Mr. Shen is a director and the general manager of Zuoli Holdings and he is also interested in the entire equity interest of Dingsheng Investment. Mr. Zhang is a director and the deputy general manager of Zuoli Holdings. Pursuant to the Acting in Concert Agreement, Mr. Y Yu, Mr. Yu, Mr. Shen, Mr. Zhang and Puhua Energy agreed to (by themselves or together with their associates or through companies controlled by them) adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders of the Company during the period they remain in control of the Company based on such decisions. Accordingly, Dingsheng Investment (being a company wholly owned by Mr. Shen), Zuoli Holdings (being a company indirectly controlled by Mr. Y Yu) and Deqing Yintian (being a company wholly owned by Mr. Y Yu) are also our Controlling Shareholders.

### BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

#### *Zuoli Holdings*

Zuoli Holdings is one of the Controlling Shareholders of the Company. Zuoli Holdings is a limited liability company established in the PRC on 18 April 2011 with a registered capital of RMB181 million. Its approved business scope covers industrial investment, investment management, investment consultation, asset management, economic information consultation, business information consultation, metal materials and products, sale of building materials, timber, raw chemical materials and products (except dangerous chemicals and precursor chemicals), textile raw material, fuel, heavy oil, lubricating oil, office equipment, commercial vehicles, accessories for cars and motorbikes, import and export business, property management, agricultural and forestry planting. Its principal business is making investments in industries in the PRC market. The major businesses it invests in include development and operation of real estate, advertisement, corporate image designing, corporate management advisory, investment management and advisory, researching and developing special protective articles, software development, equipment manufacturing and hire purchase services.

As of the Latest Practicable Date, there were six directors on the board of directors of Zuoli Holdings, Mr. Y Yu, Mr. Shen and Mr. Zhang, being our Controlling Shareholders, served on the board of directors of Zuoli Holdings. None of the directors of Zuoli Holdings held any position in our Company.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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As of the Latest Practicable Date, the equity interest of Zuoli Holdings was held by 22 shareholders, as to (i) 32.04% by Mr. Y Yu through Deqing Yintian (to be further discussed below), being the largest ultimate shareholder; (ii) 5.52% by Mr. Shen through Dingsheng Investment; (iii) 6.08% and 5.52% by two connected persons; (iv) an aggregate of approximately 17.13% by six connected persons of our Company, none of which held more than 5.00% individually; and (v) the remaining aggregate of approximately 33.71% by a total of 12 Independent Third Parties, none of which held more than 5.00% individually.

As of the Latest Practicable Date, Zuoli Holdings (through Puhua Energy, being a party to the Acting in Concert Agreement and to be further discussed below) indirectly held 30% of the issued share capital in the Company and is our Controlling Shareholder.

### *Mr. Yu*

Mr. Yu is an executive Director and Chairman of the Board of the Company, responsible for our overall day-to-day management. He is the son of Mr. Y Yu. As of the Latest Practicable Date, Mr. Yu directly held 10% of the issued share capital of the Company. Mr. Yu is a party to the Acting in Concert Agreement and therefore is a Controlling Shareholder.

### *Mr. Y Yu*

Mr. Y Yu is the father of Mr. Yu. He is also the chairman of the board of directors of Zuoli Holdings. Mr. Y Yu indirectly holds approximately 32.04% of the equity interest in Zuoli Holdings, which in turn holds the entire equity interest in Puhua Energy. Mr. Y Yu is a party to the Acting in Concert Agreement and our Controlling Shareholder.

### *Deqing Yintian*

Deqing Yintian is a company established in the PRC with limited liability on 28 December 2011 and is wholly owned by Mr. Y Yu. It holds approximately 32.04% of the equity interest in Zuoli Holdings, which in turn holds 100% of the equity interest in Puhua Energy. It is a Controlling Shareholder.

### *Puhua Energy*

Puhua Energy is our principal Promoter and a Controlling Shareholder which, as of the Latest Practicable Date, directly held 30% of the issued share capital in our Company. Puhua Energy is a limited company established in the PRC on 31 October 2005 with a registered capital of RMB50 million, and is a wholly owned subsidiary of Zuoli Holdings. The approved business scope of Puhua Energy includes solar energy development and utilization, wholesaling and retail trading of hardware, mechanical and electrical equipment, metal materials and finished product (except rare metals), constructions material, raw chemical material (except dangerous chemicals), labor working articles and daily use articles, and importing and exporting of goods. The legal representative, sole director and manager of Puhua Energy is Mr. Y Yu, one of our Controlling Shareholders and father of Mr. Yu, the controlling shareholder of Zuoli Holdings and a party to the Acting in Concert Agreement (to be further discussed below).

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### *Mr. Shen*

Mr. Shen is a director and the general manager of Zuoli Holdings. As of the Latest Practicable Date, Mr. Shen directly held approximately 2.70% of the issued share capital of the Company. Mr. Shen, through Dingsheng Investment, indirectly holds approximately 5.52% of the equity interest in Zuoli Holdings, which in turn holds 100% of the equity interest in Puhua Energy. Mr. Shen is a party to the Acting in Concert Agreement and therefore is a Controlling Shareholder.

### *Dingsheng Investment*

Dingsheng Investment is a company established in the PRC with limited liability on 28 December 2011 and holds approximately 5.52% of the equity interest in Zuoli Holdings. It is wholly owned by Mr. Shen and is a Controlling Shareholder.

### *Mr. Zhang*

Mr. Zhang is a director and deputy general manager of Zuoli Holdings. As of the Latest Practicable Date, Mr. Zhang directly held approximately 2.19% of the issued share capital of in the Company. Mr. Zhang is a party to the Acting in Concert Agreement and therefore is a Controlling Shareholder.

## DELINEATION OF BUSINESS

Since the date of establishment, the Company has been engaged in, and will continue to engage in the provision of credit-based financing solutions to Deqing's SME and microenterprise sector (the "Core Business").

As the scope of our Core Business on one hand, and that of the principal business of each of Deqing Yintian, Dingsheng Investment, Zuoli Holdings and Puhua Energy on the other hand, are different, there is no other material business retained or operated by each of Deqing Yintian, Dingsheng Investment, Zuoli Holdings and Puhua Energy, which competes or is likely to compete with our Core Business.

Our Controlling Shareholders and our Directors have confirmed that they do not have any interest in a business apart from our business which competes or is likely to compete, directly or indirectly, with our Core Business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

## OUR CONTROLLING SHAREHOLDERS ACTING IN CONCERT

As of the Latest Practicable Date, Puhua Energy directly held 30% of the issued share capital in our Company and is one of Controlling Shareholders. Puhua Energy is a wholly owned subsidiary of Zuoli Holdings. Mr. Yu, our Chairman, is the son of Mr. Y Yu. As Mr. Y Yu, Mr. Yu, Mr. Shen and Mr. Zhang share the same vision in respect of the long-term development and business objectives of the Company, they together with Puhua Energy entered into the Acting in Concert Agreement on 28 April 2014 to align their shareholding interests in the Company.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Pursuant to the Acting in Concert Agreement, Mr. Y Yu, Mr. Yu, Mr. Shen, Mr. Zhang and Puhua Energy jointly and severally undertook that, during the period they remain in control of the Company, they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders of the Company (and of its subsidiaries, if any in the future) based on such decisions.

As such, Mr. Y Yu (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu, Mr. Shen (by himself and through Dingsheng Investment and Zuoli Holdings), Puhua Energy and Mr. Zhang are entitled to exercise and control the exercise of more than 30% of the voting rights at general meeting of the Company. Each of Deqing Yintian, Zuoli Holdings, Puhua Energy, Mr. Y Yu, Mr. Yu, Mr. Shen, Dingsheng Investment and Mr. Zhang are together regarded as our Controlling Shareholders as defined under Rule 19A.14 of the Listing Rules.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

In the opinion of our Directors, we are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders and their respective close associates, taking into account the following factors:

#### *Financial Independence*

We have an independent financial system and make financial decisions according to our own business needs. Our Controlling Shareholders all together had provided guarantees with total credit facilities of RMB490 million to the Company during the Track Record Period. For the period from 18 August 2011 to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014, a bank borrowing of RMB26 million, RMB194 million, RMB200 million and RMB70 million were drawn under the facilities, respectively. The outstanding bank borrowings guaranteed by our Controlling Shareholders was RMB160 million as of 30 June 2014. Upon Listing, such guarantees will be released while the relevant loan agreements shall remain effective. We believe that this demonstrates our ability to obtain bank facility and loans independently of our Controlling Shareholders and that we have adequate internal resources and a strong credit profile to support our daily operations.

#### *Operational Independence*

We have established our own organizational structure comprising individual departments, each with specific areas of responsibilities. Apart from the fact that our office premises are located on the same piece of land as Zuoli Holdings and Puhua Energy with clear delineation of work space, we have not shared our operational resources, such as customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their respective close associates. Save as otherwise disclosed in the section headed “Continuing Connected Transaction” in this Prospectus, our Directors do not expect that there will be any other significant transactions between the Company and our Controlling Shareholders upon Listing.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### *Management Independence*

The Company aims at establishing and maintaining a strong and independent Board to oversee our business. The main functions of our Board include the approval of our overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of the Company. We have an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our policies and strategies.

Our Board consists of eight Directors, comprising four executive Directors, one non-executive Director and three independent non-executive Directors. Each of Mr. Yu, Mr. Zheng Xuegen, Mr. Hu Haifeng and Mr. Ding Maoguo is an executive Director. There is no overlapping of directors between our Board and the board of directors of each of Zuoli Holdings and Puhua Energy. Our Board operates independently of our Controlling Shareholders.

Each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of the Company and no conflict between his duties as a Director and his or her personal interest is allowed to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Company and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transaction and shall not be counted in the quorum.

### **NON-COMPETITION UNDERTAKING**

Our Controlling Shareholders as covenantors (“Covenantors”, each a “Covenantor”, the Covenantors together with their respective close associates are collectively referred to as “Controlled Persons”) executed the Deed of Non-Competition in favor of the Company (for itself and as trustee for and on behalf of its subsidiaries (if any in the future)) and confirm that from the date of the Deed of Non-Competition to the Listing Date, none of them is engaged in any business which, directly or indirectly, competes or is likely to compete with the business of the Company, or has any interest in such business.

### *Non-competition*

In accordance with the Deed of Non-Competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (i) the date on which the H Shares cease to be listed on Main Board (other than suspension of trading of the H Shares of the Company for any other reason); or (ii) the date on which the Covenantors all cease to be Controlling Shareholders.

He/she/it will not, and will use his/her/its best endeavors to procure his/her/its respective close associate(s) not to, either on his/her/its own or in conjunction with any body corporate, partnership, joint venture or through entering into other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (excluding the Company and any of our subsidiaries (if any in the future)) to conduct any business which, directly or indirectly, competes or is likely to compete with the principal business of the Company in the PRC and any other places as the Company may conduct or carry on business from time to time, including but not limited to the Core Business (the “Restricted Business”).

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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The Deed of Non-Competition does not apply if the Controlled Persons in aggregate own any interest not exceeding five percent of the issued shares in any company conducting any Restricted Business (the “Relevant Company”), and the Relevant Company is listed in any recognized stock exchange (as defined under the SFO), notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of the Company or any of our subsidiaries (if any in the future), provided that (i) the shareholding of any one holder (and his/her/its close associate, if applicable) in the Relevant Company is more than that of the Controlled Persons in aggregate at any time; and (ii) the ratio of the representative(s) (if any) of the relevant Covenantor(s) and his/her/its close associate(s) on the board of directors of the Relevant Company is not significantly disproportionate with respect to the shareholding of that Covenantor(s) and his/her/its close associate(s) in the Relevant Company.

### *New Business Opportunity*

During the period when the Deed of Non-Competition is in force, if any Controlled Person is offered or becomes aware of any business opportunity or project directly or indirectly to engage in or own a Restricted Business (the “New Business Opportunity”):

- (a) the relevant Covenantor(s) shall within 10 days notify the Company of such New Business Opportunity in writing and refer the same to the Company for consideration, and shall provide the relevant information to the Company in order to enable us to make an informed assessment of such opportunity; and
- (b) the relevant Covenantor(s) shall not, and shall not procure his/her/its Controlled Persons not to, invest or participate in New Business Opportunity in any form, unless such New Business Opportunity shall have been rejected by the Company in writing and the principal terms of which the Covenantor or his/her/its Controlled Persons invest or participate in are no more favorable than those made available to the Company.

A Controlled Person may only engage in the New Business Opportunity if (i) a written notice is received by the Covenantor from the Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the “Non-acceptance Notice”) within 90 days after the proposal of the New Business Opportunity is received by the Company; or (ii) the Non-acceptance Notice is not received by the Covenantor more than 90 days upon the proposal of the New Business Opportunity is received by the Company.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to take up a New Business Opportunity referred by a Covenantor or whether or not the New Business Opportunity constitutes competition with the Restricted Business and such decisions will be made by our independent non-executive Directors. The factors that will be taken into consideration in making the decision include but not limited to whether it is in line with the overall interests of our Shareholders and whether the Company or any of our subsidiaries (if any in the future) is allowed to pursue the New Business Opportunity under the applicable laws and regulations.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### *Pre-emptive Rights*

During the period when the Deed of Non-Competition is in force, even if the Controlled Persons(s) are allowed to engage in the New Business Opportunity in accordance with the above mechanism, if any of the Controlled Persons intends to transfer, sell or otherwise transfer or permit to use any of the interest in the New Business Opportunity to a third party, the relevant Covenantor(s) shall notify the Company by written notice in advance (the “Selling Notice”) specifying the terms, provide any relevant information which may be required for the Company to make an informed evaluation and give the Company pre-emptive rights to purchase the relevant interest (the “Pre-emptive Rights”). The Company shall reply to the relevant Covenantor(s) in writing within 90 days after receiving the Selling Notice.

A Controlled Person is only allowed to transfer, sell or otherwise transfer or permit to use any of the interest in the New Business Opportunity to a third party pursuant to the terms stipulated in the Selling Notice if (i) a written notice is received by the relevant Covenantor(s) from the Company confirming that the Company decides not to exercise the Pre-emptive Rights (“Non-exercise Notice”) within 90 days after the receipt of the Selling Notice by the Company; or (ii) the Non-exercise Notice is not received by the relevant Covenantor(s) more than 90 days upon the receipt of the Selling Notice by the Company.

Each of the Covenantors shall not notify any third party of the intention to transfer, sell the interest in the New Business Opportunity and shall procure their respective close associate(s) (excluding the Company and any of our subsidiaries (if any in the future)) to comply with the Pre-emptive Rights until the earlier of the events stated in the paragraph above having occurred.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to exercise the Pre-emptive Rights. When considering whether or not to exercise the Pre-emptive Rights, the factors that our independent non-executive Directors will take into consideration in making the decision include but not limited to whether it is in line with the overall interests of our Shareholders and whether the Company or any of our subsidiaries (if any in the future) is allowed to pursue the New Business Opportunity under the applicable laws and regulations.

### *Corporate Governance Measures*

In order to properly manage any potential or actual conflict of interests between the Company and the Covenantors and to ensure the performance of the above non-competition undertakings, our Company has adopted certain corporate governance measures as detailed below. Pursuant to the Deed of Non-Competition, the Covenantors will:

- (a) as required by the Company, provide all information necessary for the independent non-executive Directors to conduct annual examination with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement of it;
- (b) procure the Company to disclose to the public either in the annual report of the Company or issue a public announcement in relation to any decisions made by the independent non-executive Directors with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement of it;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (c) where the independent non-executive Directors shall deem fit, make a declaration in relation to the compliance of the terms of the Deed of Non-Competition in the annual report of the Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-Competition and the enforcement of it are in accordance with the requirements of the Listing Rules; and
- (d) during the period when the Deed of Non-Competition is in force, fully and effectually indemnify the Company against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of such Covenantor of any statement, warrant or undertaking made under the Deed of Non-Competition.

Any Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not count towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity. The remaining non-interested Directors will be responsible for assessing the New Business Opportunities and making the decision as to whether or not to take up any particular New Business Opportunity.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Covenantors and their respective close associates on one hand, and the Company on the other hand.

The Deed of Non-Competition and the rights and obligations thereunder are conditional upon (a) the Listing Committee granting the listing of, and the permission to deal in, the H Shares, as described in this Prospectus, and (b) the Listing and dealings in the H Shares on the Main Board taking place (the “Conditions Precedent”).

The obligations of the Covenantors under the Deed of Non-Competition comes into effect when the Conditions Precedent having been fulfilled and remain in effect until the occurrence of the earlier of (i) the date on which the H Shares cease to be listed on the Main Board (other than suspension of trading of the H Shares of the Company for any other reason) or (ii) the date on which the Covenantors all cease to be a Controlling Shareholder.

Our PRC Legal Advisers are of the view that the Deed of Non-Competition does not violate applicable PRC laws, and our Controlling Shareholders’ undertakings pursuant to the Deed of Non-Competition are valid and binding obligations of our Controlling Shareholders under PRC laws after the Deed of Non-Competition takes effect, and may be enforced by us in the courts of the PRC thereafter.

As the Controlling Shareholders have given non-competition undertakings in favor of the Company, and none of them have interests in other businesses that compete or are likely to compete with our business, our Directors are of the view that they are capable of carrying on our business independently of the Controlling Shareholders following the Listing.

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## CONTINUING CONNECTED TRANSACTION

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### CONTINUING CONNECTED TRANSACTION

The Company has entered into a transaction with our connected person in our ordinary and usual course of business, which will continue after Listing and hence, upon Listing, it will constitute a continuing connected transaction under Chapter 14A of the Listing Rules.

### CONTINUING CONNECTED TRANSACTION FULLY EXEMPT FROM THE RELEVANT REPORTING, ANNOUNCEMENT AND SHAREHOLDERS' APPROVAL REQUIREMENTS

Set out below is a summary of the continuing connected transaction of the Company, which is fully exempt from the relevant reporting, announcement and Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Directors confirm that the transaction set out in this section was carried out on normal commercial terms.

#### *Tenancy Agreement between the Company and Mr. Yu*

The Company and Zuoli Holdings have been sharing office premises located at Nos. 57–67, Room 201 of No. 69, Room 201 of No. 71, Dongsheng Road, Lan Se Gang Wan, Wukang Town, Deqing, Zhejiang, the PRC (the "Property") of a total gross floor area of 1,338.19 square meters since 2011, pursuant to a tri-party lease agreement entered into in 2011 ("2011 Tenancy Agreement", as supplemented by an agreement dated 25 December 2012, the "2012 Supplemental Agreement"). The Property is owned by Mr. Yu, the executive Director and Controlling Shareholder. According to the 2011 Tenancy Agreement, which expired on 31 December 2013, Mr. Yu leased a portion of the Property with a gross floor area of about 669.10 square meters (i.e. about 50.0% of the total gross floor area of the Property) to the Company at the annual rental of RMB400,000, RMB400,000, RMB550,000 (as adjusted by the 2012 Supplemental Agreement) for the period from 18 August 2011 to 31 December 2011 and for the two years ended 31 December 2013, respectively.

On 1 January 2014, Mr. Yu as landlord and the Company as tenant entered into a new tenancy agreement (the "2014 Tenancy Agreement", as supplemented by an agreement dated 13 May 2014), pursuant to which Mr. Yu agreed to lease a portion of the Property with a gross floor area of about 973 square meters (i.e. about 72.7% of the total gross floor area of the Property, the "Office") to the Company at the annual rental of RMB515,000 (the "Annual Caps"), for a term from 1 January 2014 to 31 December 2016. The Company shall have the option to terminate the 2014 Tenancy Agreement by giving Mr. Yu not less than 30 days' written notice. According to the 2014 Tenancy Agreement, the Company has the option to renew the 2014 Tenancy Agreement upon its expiration.

The terms of the 2014 Tenancy Agreement, including the rental for the Office, were agreed after arm's length negotiations between the Company and Mr. Yu with reference to an appraisal report prepared by an independent valuer. Given that each of the applicable percentage ratios in respect of the transaction under the 2014 Tenancy Agreement is, on an annual basis, more than 0.1% but less than 5% and the total consideration is less than HK\$3,000,000, such transaction will, pursuant to Rule 14A.76(1) of the Listing Rules, constitute a *de minimis* continuing connected transaction which will be fully exempt from the relevant reporting, announcement and Shareholders' approval requirements.

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## CONTINUING CONNECTED TRANSACTION

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### CONFIRMATION FROM THE SPONSOR AND THE DIRECTORS

The Sponsor and our Directors (including our independent non-executive Directors) are of the view that the continuing connected transaction set out above has been entered into in the ordinary and usual course of business of our Company, on normal commercial terms and the terms (including the Annual Caps) are fair and reasonable and in the interest of our Shareholders as a whole.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### SUMMARY OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present Position	Date of Appointment as Director/ Supervisor/ Senior Management	Date of Joining the Company	Roles and Responsibilities	Relationship with other Director(s), Supervisor(s) and/or Senior Management
<b>Directors</b>						
Mr. Yu Yin (俞寅)	28	Executive Director and Chairman	28 April 2014	18 August 2011	Responsible for the overall day-to-day management of the Company, postulating business development plans and overseeing the Company's overall corporate strategies; as a member of the nomination committee and remuneration and appraisal committee	N/A
Mr. Zheng Xuegen (鄭學根)	49	Executive Director, Vice Chairman, Deputy General Manager and secretary to the Board	28 April 2014	18 August 2011	Responsible for day-to-day operations, strategic development and management of the Company's business	N/A
Mr. Hu Haifeng (胡海峰)	49	Executive Director and General Manager	28 April 2014	18 August 2011	Responsible for day-to-day operations and management of the Company	N/A
Mr. Ding Maoguo (丁茂國)	33	Executive Director and Chief Financial Officer	28 April 2014	1 March 2014	Responsible for the financial management and corporate finance matters of the Company	N/A
Mr. Pan Zhongmin (潘忠敏) (formerly known as Pan Zhongming (潘忠明))	41	Non-executive Director	8 August 2014	8 August 2014	Overseeing the management and strategic development of the Company	N/A
Mr. Ho Yuk Ming, Hugo (何育明)	43	Independent non-executive Director	28 April 2014	28 April 2014	As a chairman of the audit committee and a member of the remuneration and appraisal committee	N/A
Mr. Jin Xuejun (金雪軍)	56	Independent non-executive Director	28 April 2014	28 April 2014	As a member of the audit committee, nomination committee and a chairman of the remuneration and appraisal committee	N/A
Ms. Huang Lianxi (黃康熙)	52	Independent non-executive Director	28 April 2014	28 April 2014	As a member of the audit committee and a chairman of the nomination committee	N/A
<b>Supervisors</b>						
Mr. Dai Shengqing (戴勝慶)	47	Supervisor	8 August 2014	8 August 2014	Responsible for supervising the Board and senior management	N/A
Mr. Wang Peijun (王培軍)	40	Supervisor	8 August 2014	8 August 2014	Responsible for supervising the Board and senior management	N/A
Ms. Shen Yamin (沈姪敏)	33	Supervisor	28 April 2014	18 August 2011	Responsible for supervising the Board and senior management	N/A



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Present Position	Date of Appointment as Director/ Supervisor/ Senior Management	Date of Joining the Company	Roles and Responsibilities	Relationship with other Director(s), Supervisor(s) and/or Senior Management
<b>Senior Management</b>						
Ms. Xia Jing (夏靜)	40	Deputy General Manager and Manager of Business and Marketing Department	28 April 2014	18 August 2011	Responsible for overseeing the business operations and development	N/A
Mr. Huang Chenjiang (黃晨江)	41	Manager of Risk Management Department	28 April 2014	1 April 2012	Responsible for overseeing the risk management and the overall risk control system of the Company	N/A
Mr. Wang Hui (汪暉)	45	Deputy General Manager	15 August 2014	15 August 2014	Responsible for overseeing the business operations and development	N/A

### EXECUTIVE DIRECTORS

**Mr. Yu Yin (俞寅)**, aged 28, is our executive Director and the Chairman of the Company. Mr. Yu is one of the Promoters of the Company. He is primarily responsible for the Company's day-to-day management, postulating business development plans and overseeing the Company's overall corporate strategies. He is also a member of the nomination committee and remuneration and appraisal committee. Mr. Yu is the son of Mr. Y Yu (俞有強) who is the legal representative and the controlling shareholder of Puhua Energy, one of our Controlling Shareholders.

From August 2007 to March 2011, Mr. Yu was the chairman of the board of directors at Zhejiang Deqing Longxiang Investment Company Limited\* (浙江德清隆祥投資有限公司, formerly known as Zhejiang Deqing Longxiang Guaranty Company Limited\* (浙江德清隆祥擔保投資有限公司, “Deqing Longxiang”), a company then principally engaged in the provision of guarantee for SMEs and individuals and the related advisory services, and investment holding. Mr. Yu was involved in decision making of key issues but not involved in the day-to-day management of Deqing Longxiang. During the same period of time, Mr. Yu was also working as an assistant to the president\* (行長助理), being responsible for marketing at Deqing Rural Cooperative Bank Wukang Branch\* (德清農村合作銀行武康支行, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited\* (浙江德清農村商業銀行股份有限公司)).

Mr. Yu obtained a Bachelor's degree in business administration from Oxford Brookes University in May 2007. From December 2011 to September 2012, Mr. Yu attended the courses of Intermediate Studies for CEOs of the Cross-Straits Frontier\* (海峽兩岸企業總裁前沿課程首期高級研修班) offered by School of Management, Fudan University and National Taiwan Normal University. From October 2012, Mr. Yu has been undertaking an Executive Master of Business Administration (EMBA) course in Fudan University.

Mr. Yu, being one of our Promoters, has been one of our directors since the establishment of our Predecessor Company in August 2011.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. Zheng Xuegen (鄭學根)**, aged 49, is our executive Director, Vice Chairman, Deputy General Manager and secretary to our Board. Mr. Zheng is also one of the founders of the Company. He is primarily responsible for the day-to-day operations, strategic development and administrative management.

From September 1990 to December 1994, Mr. Zheng worked as a researcher at Deqing Bulb Factory\* (德清縣燈泡廠, currently known as Zhejiang Zhanzi Photoelectricity Co., Ltd\* (浙江占宇光電股份有限公司)), a company primarily engaged in manufacturing of lighting products. From January 1995 to January 1997, Mr. Zheng was the office manager\* (廠辦主任) of the Crystal Fibre Factory of Zhejiang OSMUN Group Company Limited\* (浙江歐詩漫集團有限公司), a company primarily engaged in manufacturing of skin care products, cosmetics and thermal insulation materials. Prior to joining our Predecessor Company, Mr. Zheng had worked successively as the officer in chief, human resources manager, secretary of the board of directors and deputy general manager at Jolly Pharmaceutical. In January 2008, Mr. Zheng served as a director and the deputy general manager of Jolly Pharmaceutical where he mainly carried on day-to-day management. He has served as a non-executive director of Jolly Pharmaceutical since 10 March 2014, where he has been mainly responsible for assisting the chairman in formulating strategies. Jolly Pharmaceutical is a company established in the PRC whose shares are listed on the Shenzhen Stock Exchange and is principally engaged in the research, development, production and sales of pharmaceutical products.

In February 2003, Mr. Zheng was accredited as the Excellent Worker for Workers' Union\* (優秀工會工作者) by Huzhou City General Workers' Union\* (湖州市總工會). In June 2006, Mr. Zheng obtained a Certificate for Completion of Training Course — File Management (Zhejiang)\* (浙江省檔案管理崗位培訓證書) issued by Zhejiang Dang'an Cadre Education Training Centre (浙江省檔案幹部教育培訓中心). In September 2012, he also obtained a certificate for training for senior management of listed companies\* (上市公司高級管理人員培訓證書) issued by Zhejiang Securities Regulatory Bureau\* under CSRC (中國證券監督管理委員會浙江證監局). In December 2013, Mr. Zheng obtained a qualification certificate for secretary to board of directors\* (董事會秘書資格證書) issued by the Shenzhen Stock Exchange.

Mr. Zheng has been acting as the Vice Chairman of our Predecessor Company since August 2011. On 10 March 2014, Mr. Zheng resigned as the deputy general manager of Jolly Pharmaceutical. As Mr. Zheng is serving as a non-executive director of Jolly Pharmaceutical, he does not participate in the day-to-day management of Jolly Pharmaceutical and he can devote sufficient time and efforts to acting as an executive Director of the Company. The Company therefore considers that Mr. Zheng has sufficient capacity to discharge his duties as directors of two listed companies.

Mr. Zheng obtained an adult higher education certificate majoring in economic management (經濟管理專業成人高等教育專業證書) from the Zhejiang Province Department Employee Colleges\* (浙江省省級機關職工業餘大學) in February 2002. In January 2013, he also obtained a college diploma (專科文憑) in management through online learning majoring in administration management from China University of Geosciences (中國地質大學).

**Mr. Hu Haifeng (胡海峰)**, aged 49, is our executive Director and General Manager. Mr. Hu is responsible for the Company's business management. Prior to joining the Company, Mr. Hu had gained extensive work experience relating to credit assessment and financing with rural credit cooperatives and banks in Deqing. From May 1983 to May 1987, Mr. Hu worked at Deqing Xiashe Credit Cooperatives\*

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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(浙江省德清縣下舍信用社, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited\* (浙江德清農村商業銀行股份有限公司)) as a credit officer. From May 1987 to July 1987, Mr. Hu was on secondment to the Credit Union of Agricultural Bank of China, Deqing Sub-branch\* (中國農業銀行德清縣支行信用合作股) and participated in the setting up of Credit Cooperative Union of Deqing\* (德清縣信用聯社, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited\* (浙江德清農村商業銀行股份有限公司)). From July 1987 to September 1992, Mr. Hu worked as the operations officer at the Credit Cooperative Union of Deqing, currently known as Zhejiang Deqing Rural Commercial Bank Company Limited\* (浙江德清農村商業銀行股份有限公司). From August 1994 to December 2003, Mr. Hu worked successively as an officer in chief and a manager of credit management department at Deqing Sub-branch of Agricultural Bank of China\* (中國農業銀行德清縣支行), a company whose shares are currently listed on the Shanghai Stock Exchange (Stock Code: 601288) and the Hong Kong Stock Exchange (Stock Code: 1288), where he gained considerable experience in the loan and credit industry. From January 2004 to June 2008, Mr. Hu worked as a deputy general manager of Jing Sheng Da Group Company\* (金盛達集團公司), a company primarily engaged in real estate development, where he was responsible for daily operation. Prior to joining our Predecessor Company, Mr. Hu served as a general manager at Huanggang Sheng Hua Real Estate Development Company Limited\* (黃岡昇華房地產開發有限公司), where he had overseen the overall business operation, from June 2008 to April 2011.

In June 1989, Mr. Hu received the qualification of assistant manager issued by Evaluation Committee for Professional Skills, Deqing Branch of Agricultural Bank of China\* (農業銀行德清縣支行專業技術職務評審委員會). He also received a certificate for qualified credit officer issued by Zhejiang Branch of Agricultural Bank of China (中國農業銀行浙江省分行) in January 1996. In February 2012, Mr. Hu became a member of the eighth session of Deqing Committee of Chinese People's Political Consultative Conference\* (中國人民政治協商會議第八屆德清縣委員會).

In August 2011, Mr. Hu, one of the Promoters established our Predecessor Company with other founders. He has been acting as the general manager of our Predecessor Company since August 2011.

Mr. Hu graduated from Hunan Rural University of Financial Staff\* (湖南農村金融職工大學) and obtained a college diploma (專科文憑) majoring in Cooperative Finance\* (合作金融) in July 1994. From January 2003 to January 2005, Mr. Hu studied at China Central Radio and TV University\* (中央廣播電視大學) and obtained a Bachelor's degree majoring in finance.

**Mr. Ding Maoguo (丁茂國)**, aged 33, is our executive Director and Chief Financial Officer. Mr. Ding is responsible for the financial management and corporate finance matters of the Company.

Mr. Ding Maoguo has auditing experience of about eight years with several PRC accountant firms from 2004 to 2012. From July 2004 to November 2006, Mr. Ding Maoguo worked as an audit assistant\* (審計助理) at Zhejiang Tianhui Certified Public Accountants Co., Ltd.\* (浙江天惠會計師事務所有限公司). From December 2006 to June 2008, Mr. Ding worked as audit project manager\* (審計項目經理) at Zhejiang Oriental Zhong Hui Certified Public Accountants Co., Ltd.\* (浙江東方中匯會計師事務所有限公司). From January 2009 to August 2009, Mr. Ding worked as an audit project manager at Zhejiang Pan-China Certified Public Accountants\* (浙江天健東方會計師事務所). Mr. Ding became an audit manager\* (審計經理) of Zhong Hui Certified Public Accountants Co., Ltd\* (中匯會計師事務所有限公司) in September 2009. After leaving Zhong Hui Certified Public Accountants Co., Ltd\* (中匯會計師事務所有限公司) in December 2012, Mr. Ding worked as the chief financial officer (財務總監) at

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Zhejiang Song Chuan Instrument Technology Co., Ltd.\* (浙江松川儀錶科技股份有限公司), a company primarily engaged in manufacturing and sales of gas meter, from January 2013 to July 2013 and as the head of the finance department at Ningbo Jiang Chen Automation Equipment Co., Ltd.\* (寧波江宸自動化裝備有限公司), a company primarily engaged in manufacturing of automation equipment for automobile parts and components, from August 2013 to February 2014. He was responsible for financial management and control in the abovementioned companies. Mr. Ding joined our Predecessor Company as the Chief Financial Officer in March 2014.

On 4 April 2007, Mr. Ding Maoguo admitted as a certified public accountant of the Chinese Institute of Certified Public Accountants.

From September 2000 to June 2004, Mr. Ding Maoguo studied at Zhejiang University of Technology (浙江工業大學), and obtained a Bachelors' degree in Financial Management from Zhejiang University of Technology in June 2004.

### NON-EXECUTIVE DIRECTOR

**Mr. Pan Zhongmin (潘忠敏)** (formerly known as Pan Zhongming (潘忠明)), aged 41, was appointed as our non-executive Director on 8 August 2014.

Mr. Pan has over 10 years of experience in marketing related matters. From October 1998 to February 2003, Mr. Pan worked as a sales and marketing representative in Deqing Wukang Zhong Sheng Refractory and Heat Insulating Material Operating Department\* (德清縣武康中盛耐火保溫材料經營部), a company primarily engaged in the sales and marketing of heat insulating material and refractory materials. From March 2003 to January 2005, Mr. Pan Zhongmin worked as a deputy general manager in Hangzhou Meibao Furnace Engineering Co., Ltd.\* (杭州美寶爐窯工程有限公司), a company primarily engaged in the design, production and installation of furnace. He was responsible for overseeing the daily operation in the abovementioned companies. Since March 2005 till now, Mr. Pan has been the chairman of the board of directors of Bangni Fiber. Bangni Fiber is a company mainly engaged in production and sales of refractory fiber and materials where Mr. Pan has been responsible for strategic planning and business development. As of the Latest Practicable Date, Mr. Pan holds 75.50% of the equity interest of Bangni Fiber, which in turn holds 1.34% of the issued share capital in our Company. As such, Mr. Pan is indirectly (through Bangni Fiber) interested in 1.34% of the issued share capital in our Company.

Mr. Pan Zhongmin graduated from Deqing Agricultural Vocational High School\* (德清縣農職業高級中學) in July 1992. In July 2011, he obtained a college diploma (專科文憑) through online learning majoring in business administration management from Dalian University of Technology (大連理工大學).

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ho Yuk Ming, Hugo (何育明)**, aged 43, was appointed as our independent non-executive Director on 28 April 2014. Mr. Ho is also a chairman of the audit committee and a member of the remuneration and appraisal committee.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ho Yuk Ming, Hugo graduated from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) with an honours diploma in accountancy in July 1996. He was admitted as an associate member of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) in March 2000 and is a certified public accountant in Hong Kong.

Mr. Ho Yuk Ming, Hugo has over 10 years of experience in auditing, accounting and finance related matters. As of the Latest Practical Date, Mr. Ho has worked in the following companies listed on the Stock Exchange:

Name	Stock Code	Position	Tenure
Best Wide Group Limited	464 (delisted in November 2001)	accounting manager	May 2000 to July 2006
National United Resources Holdings Limited (formerly known as eCyberChina Holdings Limited)	254	executive director financial controller	March 2004 to September 2004 March 2004 to December 2004
V1 Group Limited (formerly known as Yanion International Holdings Limited, Vodone Limited)	82	executive director qualified accountant	January 2005 to February 2006 April 2005 to March 2006
United Energy Group Limited	467	accounting manager company secretary	September 2006 to March 2010 April 2008 to February 2010
Shenzhen Mingwah Aohan High Technology Corporation Limited	8301	company secretary	July 2013 to 28 February 2014
Wuxi Sunlit Science and Technology Company Limited	1289	independent non- executive director	August 2013 till now

From April 2010 to February 2014, Mr. Ho Yuk Ming, Hugo has also acted as the accounting manager of Carlico International Group Holdings Limited (formerly known as Kinco Enterprises Limited). Mr. Ho has also acted as the financial controller of Great China Brokerage Limited on a part-time basis from October 2012 to February 2014. Mr. Ho has also acted as the chief financial officer from April 2014 and as the company secretary from September 2014 of Future Bright Mining Holdings Limited (高鵬礦業控股有限公司), a company principally engaged in marble mining.

**Mr. Jin Xuejun (金雪軍)**, aged 56, was appointed as our independent non-executive Director on 28 April 2014. Mr. Jin is also a member of the audit committee, nomination committee and a chairman of the remuneration and appraisal committee.

Mr. Jin Xuejun has about 20 years of teaching experience with Zhejiang University (浙江大學). He was successively a lecturer, a deputy professor, and is currently a professor of the Applied Economics Research Centre of Zhejiang University (浙江大學應用經濟研究中心). He was also the vice department head of the Economics Department of Zhejiang University from 1998 to 2005. In May 2010, Mr. Jin received the National Achievement Award in Commence Development and Research\* (全國商務發展研究成果獎). In 2007, Mr. Jin was recognized as Young and Middle-aged Expert with Outstanding Contributions\* (有突出貢獻中青年專家) by the People's Government of Zhejiang. In October 2010, Mr. Jin was recognized as Excellent Advisor for Doctoral Dissertations\* (全國優秀博士學位論文指導教師) by the Ministry of Education of the People's Republic of China and the Academic Degree Committee under the State Council\* (國務院學位委員會).

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Jin Xuejun was an independent non-executive director of Harbin High Tech (Group) Co., Ltd. (哈爾濱高科技(集團)股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600095), and Zhejiang Orient Holdings Co., Ltd. (浙江東方股份集團有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600120), from August 2008 to September 2014. He has been an independent non-executive director of Zhejiang Weixing Industry Development Co., Ltd.\* (浙江偉星實業發展股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002003), since September 2012, Xihu Zhongbao Co., Ltd.\* (新湖中寶股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600208), since October 2012 and ZheJiang Wansheng Co., Ltd. (浙江萬盛股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603010), since November 2013. Mr. Jin has also been an executive director of Hakim Information Technology Co., Ltd.\* (漢鼎信息科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300300), since February 2014.

Mr. Jin graduated from Nankai University (南開大學) and obtained a Bachelor's degree in economics in July 1982. Mr. Jin obtained a Master's degree in economics from Nankai University in July 1985.

**Ms. Huang Lianxi (黃廉熙)**, aged 52, was appointed as our independent non-executive Director on 28 April 2014. Ms. Huang is also a member of the audit committee and a chairman of the nomination committee.

From September 1984 to September 2003, Ms. Huang worked at Zhejiang Economy Law Firm\* (浙江省經濟律師事務所, currently known as Zhejiang Zhe Jing Law Firm\* (浙江浙經律師事務所)) as a lawyer, deputy head officer (副主任) and partner successively. From January 1996 to January 1998, Ms. Huang was under the employment of the abovesaid law firm on secondment to Zhejiang Fuchun Company Limited\* (富春有限公司) to handle legal related matters. Ms. Huang has been a partner of Zhejiang Tiance Law Firm\* (浙江天冊律師事務所) since September 2003. In October 2008, Ms. Huang was recognized as Outstanding Lawyer for the years 2005 to 2007 by All China Lawyers Association. In March 2013, Ms. Huang became a member of the twelfth National Committee for Chinese Peoples' Political Consultative Conference\* (中國人民政治協商會議第十二屆全國委員會). In May 2014, Ms. Huang was appointed by China International Economic and Trade Arbitration Commission as an arbitrator of the Commission.

Ms. Huang was an independent non-executive director of Zhejiang Zhenyuan Company Limited (浙江震元股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000705), from June 2008 to August 2014. She has been an independent non-executive director of China Calxon Group Company Limited\* (嘉凱城集團股份有限公司, formerly known as Hunan Yahua Holdings Group Company Limited\* (湖南亞華控股集團股份有限公司)), a company listed on the Shenzhen Stock Exchange (stock code: 000918), since August 2009, Zhe Jiang Kangsheng Co., Ltd. (浙江康盛股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002418), since July 2013 and Zhejiang Shenghua Biok Biology Co., Ltd. (浙江昇華拜克生物股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600226) since April 2009.

In August 1983, Ms. Huang Lianxi graduated from East China College of Political Science and Law (華東政法學院) (currently known as East China University of Political Science and Law (華東政法大學)) majoring in law. Ms. Huang furthered her legal study at Shanghai College of International Business and Economics (上海對外貿易學院) (currently known as Shanghai University of International

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Business and Economics (上海對外貿易大學)) in September 1984 and graduated in July 1986. From 1991 to 1992, Ms. Huang attended the one-year course of United Kingdom Practical Training Scheme for Lawyers of the People's Republic of China at University of London and obtained a certificate of completion in July 1992. Ms. Huang was granted the qualification to practice in securities law jointly by Ministry of Justice of the PRC and CSRC in July 1996.

### SUPERVISORS

In accordance with the *PRC Company Law* and our Articles of Association, we have established a Supervisory Committee to monitor our financial matters and oversee the actions of our Board and our management personnel. Our Supervisory Committee consists of three Supervisors, of whom two are appointed by our Shareholders and one is appointed by our employees. Our Supervisors are appointed for a term of three years, after which they may be re-elected. The powers and duties of our Supervisory Committee include: (i) reviewing and verifying the periodic reports prepared by our Board and providing written examination reports; (ii) examining our financial affairs and information; (iii) overseeing the actions of our Board and our management personnel and proposing dismissal of our Directors and management personnel who have acted in violation of the laws, administrative stipulations and our Articles of Association; (iv) requesting Directors and management personnel to rectify any actions that are damaging to the Company's interest; and (v) exercising other powers, functions and duties as conferred by our Articles of Association.

**Mr. Dai Shengqing (戴勝慶)**, aged 47, was appointed as our Supervisor with effect from 8 August 2014. From September 1984 to July 1986, Mr. Dai studied at Zhejiang College of Finance & Economics\* (浙江財政學校) (currently known as Zhejiang University of Finance & Economics (浙江財經大學)) majoring in infrastructure finance and credit\* (基建財務與信用), and obtained the diploma in vocational education from Zhejiang College of Finance & Economics in September 1986. From September 1988 to November 1992, Mr. Dai studied part-time at Zhejiang Radio & Television University (浙江廣播電視大學) majoring in finance, and obtained a college diploma (專科文憑) from Zhejiang Radio & Television University in December 1992.

From July 1986 to August 2001, Mr. Dai Shengqing worked at Deqing Sub-branch of China Construction Bank (中國建設銀行德清支行), a company whose shares are currently listed on the Shanghai Stock Exchange (Stock Code: 601939) and the Hong Kong Stock Exchange (Stock Code: 0939). From September 2001 to September 2010, Mr. Dai worked as a deputy general manager at Deqing Xing Long Real Estate Development Company Limited\* (德清興隆房地產開發有限公司). From October 2010 to December 2012, Mr. Dai Shengqing worked as a deputy general manager at Zhejiang Dewei Science and Technology Company Limited\* (浙江德微科技有限公司), a company primarily engaged in research and development in software and hardware. Since January 2013 till now, Mr. Dai Shengqing worked as a deputy general manager in Deqing Yulong Tourism Development Company Limited\* (德清御隆旅遊開發有限公司), a company primarily engaged in tourism program development. In November 1998, Mr. Dai Shengqing obtained the qualification certificate of finance (intermediate level)\* (專業資格證書金融專業(中級)) issued by the Ministry of Personnel of the PRC (中華人民共和國人事部, currently known as the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)).

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. Wang Peijun (王培軍)**, aged 40, was appointed as our Supervisor with effect from 8 August 2014. From September 1994 to August 1997, Mr. Wang Peijun studied marketing courses provided by Anhui University (安徽大學), and obtained a graduate certificate from Anhui University in August 1997. In January 2011, Mr. Wang graduated from the college of online education of Chongqing University (重慶大學) majoring in engineering management (engineering cost management)\* (工程管理(工程造價管理方向)) with a college diploma (專科文憑).

From September 1992 to December 2003, Mr. Wang Peijun worked as a manager of the sales department at Zhejiang Jiefang Decoration Engineering Co., Ltd.\* (浙江解放裝飾工程有限公司), a company primarily engaged in interior design and design and installation of glass wall, steel and aluminium alloy doors and window frames. Since January 2004, Mr. Wang Peijun has been the general manager of Deqing Hong Yuan Decoration Company Limited\* (德清宏遠裝飾有限公司), a company primarily engaged in interior design and design and installation of steel and aluminium alloy doors and window frames.

On 8 November 2006, Mr. Wang Peijun was recognized as a construction engineer\* (建築施工工程師) by Quzhou City Personnel Labour Social Security Bureau\* (衢州市人事勞動社會保障局, currently known as Quzhou City Human Resources and Social Security Bureau\* (衢州市人力資源和社會保障局)).

**Ms. Shen Yamin (沈姪敏)**, aged 33, was appointed as our Supervisor with effect from 28 April 2014. Ms. Shen graduated from China Central Radio and TV University\* (中央廣播電視大學) in January 2009 with a college diploma (專科文憑) in business administration. From March 2000 to March 2011, Ms. Shen worked as a department manager at Moganshan Hotel, Deqing\* (德清莫干山大酒店). In August 2011, Ms. Shen joined our Predecessor Company as an administration officer. Ms. Shen holds approximately 1.54% Shares of the Company. As advised by our PRC Legal Advisers, the appointment of Ms. Shen as our Supervisor is in accordance with the relevant provisions of the *PRC Company Law* and Articles of Association.

Save as disclosed, each of our Directors and Supervisors confirms with respect to him/her that: (i) he/she has not held any directorships in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not have any relationship with any other Directors, senior management or substantial or Controlling Shareholders of the Company; (iii) he/she does not hold any positions in the Company; (iv) he/she does not have any interests in the Shares within the meaning of Part XV of the SFO; (v) there is no other information that should be disclosed for him/her pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and (vi) there are no other matters that need to be brought to the attention of holders of our securities.

### SENIOR MANAGEMENT

Please refer to the section entitled “Executive Directors” above in this section for the biographies of Mr. Yu, Mr. Hu Haifeng, Mr. Zheng Xuegen and Mr. Ding Maoguo.

**Ms. Xia Jing (夏靜)**, aged 40, joined the Company as our Manager of Risk Management Department in August 2011. In February 2013, Ms. Xia Jing was redesignated as the Manager of Business and Marketing Department of the Company and also as the assistant to the General Manager\* (總經理助理). In April 2014, Ms. Xia was appointed as the Deputy General Manager of the Company.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Ms. Xia also obtained a Bachelor's degree majoring in law from China Central Radio and Television University\* (中央廣播電視大學) and China University of Political Science and Law (中國政法大學), being the cooperative university, in January 2008. In October 1994, Ms. Xia was qualified by Ministry of Finance as accountant. In August 2004, Ms. Xia received a Qualification Certificate for Credit Loan Professional\* (信貸從業人員資格證書) issued by Zhejiang Branch, Bank of China (中國銀行浙江省分行). In December 2005, Ms. Xia received a certificate of accounting professional issued by Deqing Financial Bureau.

In February 1994, Ms. Xia was awarded as excellent employee\* (先進個人) by Deqing Sub-branch, Bank of China (中國銀行德清支行). Ms. Xia has over 20 years of experience in banking and credit loan related matters. From November 1991 to December 2007, Ms. Xia worked successively as a chief of a branch, and customer manager at Deqing Sub-branch, Bank of China (中國銀行德清支行), a company whose shares are currently listed on the Shanghai Stock Exchange (Stock Code: 601988) and the Hong Kong Stock Exchange (Stock Code: 3988). From January 2008 to June 2011, Ms. Xia worked successively as a customer manager and manager of corporate division at Deqing Sub-branch, Bank of Communications (交通銀行德清支行), a company whose shares are currently listed on the Shanghai Stock Exchange (Stock Code: 601328) and the Hong Kong Stock Exchange (Stock Code: 3328).

**Mr. Huang Chenjiang (黃晨江)**, aged 41, joined our Predecessor Company as Customer Relationship Manager in April 2012. Mr. Huang graduated from Huzhou No.5 Middle School (湖州市第五中學) in June 1990. Mr. Huang received a certificate of accountant issued by Zhejiang Provincial Department of Finance in December 1998. Mr. Huang has about ten years of accounting experience with Deqing Sub-branch, Industrial and Commercial Bank of China (中國工商銀行德清縣支行), a company whose shares are currently listed on the Shanghai Stock Exchange (Stock Code: 601398) and the Hong Kong Stock Exchange (Stock Code: 1398). From January 2002 to December 2006, Mr. Huang worked as the chief of general manager office\* (總經辦主任) at Zhejiang Zhong Ke Mai Gao Material Co., Ltd.\* (浙江中科邁高材料有限公司), a company primarily engaged in manufacturing and sales of chemical materials, where he had been responsible for the daily production management. Prior to joining the Company, Mr. Huang worked as a business manager responsible for daily management at Deqing Longxiang from August 2007 to March 2012. From February 2013 to June 2013, Mr. Huang worked as an assistant manager of risk management department of our Predecessor Company. In July 2013, Mr. Huang was promoted to be the manager of risk management department of our Predecessor Company. He is now overseeing the risk management and the overall risk control system of the Company.

**Mr. Wang Hui (汪暉)**, aged 45, joined our Company as Deputy General Manager on 15 August 2014. Mr. Wang graduated from Hangzhou Institute of Commerce\* (杭州商學院, currently known as Zhejiang Gongshang University (浙江工商大學)) majoring in household appliance\* (家用電器) and received a college diploma (專科文憑) in July 1991. In January 2005, Mr. Wang graduated from China Central Radio and Television University\* (中央廣播電視大學) majoring in finance. In October 1994, Mr. Wang was admitted as an assistant accountant by Ministry of Finance. In November 1998, Mr. Wang obtained the qualification certificate of finance (intermediate level)\* (專業資格證書金融專業 (中級)) issued by the Ministry of Personnel of the People's Republic of China (中華人民共和國人事部, currently known as the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部)). In September 2010, Mr. Wang received the associate financial planner certification (金融理財師) issued by Financial Planning Standards Board (國際金融理財標準委員會).

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Wang has over 20 years of experience in banking and credit loan related matters. From May 1993 to August 2002, Mr. Wang worked successively as the chief accountant and financial manager at Deqing Sub-branch of Bank of China in Huzhou (中國銀行湖州德清支行). From August 2002 to January 2011, Mr. Wang worked as the deputy officer and officer, successively, at Huzhou branch of Bank of China (中國銀行湖州分行), a company whose shares are currently listed on the Shanghai Stock Exchange (Stock Code: 601988) and the Hong Kong Stock Exchange (Stock Code: 3988). Prior to joining the Company, Mr. Wang worked as the general manager at Huzhou Zhong Xing Guarantee Company Limited\* (湖州中興擔保有限公司), a company primarily engaged in financing guarantee, where he had been responsible for daily operational management from February 2011 to June 2011 and as the deputy general manager of risk management department at Huzhou Zhong Xin Li He Guarantee Company Limited\* (湖州中新力合擔保有限公司), a company primarily engaged in the provision of comprehensive financial services, where he had overseen the overall operation, from July 2011 to July 2014.

Save as disclosed above, each of the senior management has not held directorships in the last three years in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

### MANAGEMENT CONTINUITY

Our core management group comprises our executive Directors, namely, Mr. Yu, Mr. Hu Haifeng, Mr. Zheng Xuegen and Mr. Ding Maoguo. Mr. Yu has been our Chairman since August 2011 and has been responsible for overseeing the operations and making the decisions for the key issues of the Company. Mr. Hu Haifeng has been with us since August 2011 as our General Manager since August 2011. He is responsible for business management of our Company. Mr. Zheng Xuegen joined us in August 2011 and has been an executive Director and the Vice Chairman being responsible for day-to-day operations, strategic development and administrative management. Mr. Ding Maoguo has been the Chief Financial Officer from March 2014 and a Director since April 2014. He is responsible for the financial management and corporate finance matters of the Company. During the Track Record Period, Mr. Yu, Mr. Zheng Xuegen, Mr. Hu Haifeng and Mr. Ding Maoguo (since April 2014) were the only executive Directors. The remaining non-executive directors of our Predecessor Company, who resigned during the Track Record Period, and Mr. Pan Zhongmin, a non-executive Director appointed on 8 August 2014, did not involve in the day-to-day management. They reviewed and approved proposals put forward by the said executive Directors, including but not limited to matters which were material to the business operations of our Company such as those relating to development of strategic plans and remuneration of our senior management, and received reports from the executive Directors and senior management on the operations and business of our Company.

### COMPANY SECRETARY

**Mr. Yip Kui Wan (葉鉅雲)**, aged 62, was appointed as the company secretary of the Company on 29 May 2014.

Mr. Yip has extensive legal experience of about 36 years with several law firms in Hong Kong since 1978. Mr. Yip was admitted as a solicitor in England and Wales in December 1991. Mr. Yip was also admitted in February 1992 and is currently a practising solicitor of the High Court of Hong Kong. He is currently a partner of a law firm, namely ONC Lawyers. His areas of practice include corporate finance, mergers and acquisitions and property.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Yip has been a Fellow Member of the Hong Kong Institute of Directors since July 2009. In June 2012, Mr. Yip was appointed by the China University of Political Science and Law (中國政法大學) as a researcher in its Judicial Theory and Judicial System Research Centre\* (司法理念與司法制度研究中心).

In June 1990, Mr. Yip completed his Common Professional Examination in Bristol Polytechnic (now known as Bristol University) in England.

### BOARD COMMITTEES AND OTHER COMMITTEE

#### *Audit Committee*

We have established the audit committee with written terms of reference adopted on 27 April 2014 in compliance with Rule 3.22 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee, among other things, are to make recommendation to our Board on the appointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, and oversee internal control procedures of the Company. At present, the audit committee of the Company consists of three members, namely Mr. Ho Yuk Ming, Hugo, Mr. Jin Xuejun and Ms. Huang Lianxi. The chairman of the audit committee is Mr. Ho Yuk Ming, Hugo.

#### *Remuneration and Appraisal Committee*

We have established the remuneration and appraisal committee with written terms of reference adopted on 27 April 2014 in compliance with Rule 3.26 of the Listing Rules and paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration and appraisal committee include the formulation and recommendation to our Board on the overall policy and structure for the remuneration of all of our Directors and senior management of the Company; the establishment of a formal and transparent procedure for developing policy on remuneration; the determination of specific remuneration packages of all executive Directors and senior management in the manner specified in the terms of reference; the recommendation to our Board of the remuneration of non-executive Directors; review and approval of performance-based remuneration; and review of and recommendation to our Shareholders as to the fairness and reasonableness of the terms of any Director's service agreement which is subject to the prior approval of our Shareholders in any general meeting pursuant to the Listing Rules. The remuneration and appraisal committee consists of Mr. Yu, Mr. Jin Xuejun and Mr. Ho Yuk Ming, Hugo. The chairman of the remuneration and appraisal committee is Mr. Jin Xuejun.

#### *Nomination Committee*

We have established the nomination committee with written terms of reference adopted on 27 April 2014 in compliance with paragraph A5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary function of the nomination committee is to make recommendations to our Board regarding candidates to fill vacancies on our Board. The nomination committee consists of three members, namely Mr. Yu, Ms. Huang Lianxi and Mr. Jin Xuejun. The chairman of the nomination committee is Ms. Huang Lianxi.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### *Loan Approval Committee*

We have established the loan approval committee with written terms of reference adopted on 27 April 2014. The primary duties of the loan approval committee are to determine the risk profile and creditworthiness of the potential customer and whether to advance the loan if the amount of loan exceeds RMB1 million. The loan approval committee consists of five members, namely Mr. Zheng Xuegen, Mr. Hu Haifeng, Mr. Ding Maoguo, Mr. Huang Chenjiang and Ms. Xia Jing. The chairman of the loan approval committee is Mr. Hu Haifeng.

### **CORPORATE GOVERNANCE**

Our Directors recognize the importance of good corporate governance in management and internal procedures to promote and ensure accountability. We will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

### **COMPLIANCE ADVISER**

The Company has appointed China Galaxy International Securities (Hong Kong) Co., Limited as our compliance adviser pursuant to Rule 3A.19 and 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the 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 the Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where the business activities, developments or results of operation of the Company deviate from any forecast, estimate, or other information in this Prospectus; and
- (4) where the Stock Exchange makes any inquiry to the Company including but not limited to unusual movements in the price or trading volume of the H Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

### **REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Our Directors and Supervisors receive remuneration in the form of salaries, benefits in kind, discretionary bonuses and retirement scheme contributions made on their behalf. The aggregate amount of Directors' remuneration incurred for the period from 18 August 2011 to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014 was approximately RMB232,000, RMB788,000, RMB788,000 and RMB399,000, respectively. The aggregate amount of Supervisors' remuneration incurred for the period from 18 August 2011 to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014 was approximately RMB138,000, RMB177,000, RMB227,000 and RMB102,000, respectively.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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We have not paid any remuneration to our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining us. We have not paid any compensation for loss of office to our Directors, past Directors, Supervisors, past Supervisors or the five highest paid individuals for the period from 18 August 2011 to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014. Furthermore, none of our Directors or Supervisors had waived any remuneration during the same period. The aggregate amount of salaries, benefits in kind, discretionary bonuses and retirement scheme contributions to our five highest paid individuals of the Company, including Directors, for the period from 18 August 2011 to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014 was approximately RMB414,000, RMB1,162,000, RMB1,008,000 and RMB398,000, respectively.

Except for the above, no other payments have been paid or are payable in respect of the period from 18 August 2011 to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014, by us to our Directors and Supervisors. Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) and benefits in kind (including any retirement scheme contribution) payable by us to our Directors and Supervisors for the year ending 31 December 2014 is estimated to be approximately RMB1,450,000.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, the following persons directly or indirectly controlled, or were entitled to exercise, or control the exercise of, 10% or more of our Shares:

<u>Shareholder</u>	<u>Nature of interest</u>	<u>Total number of Shares as of the date of submission of application for Listing</u>	<u>Approximate percentage of interest in the Company as of the date of submission of application for Listing</u>	<u>Number of Shares held as of the Latest Practicable Date</u>	<u>Approximate percentage of shareholding in the total share capital of our Company as of the Latest Practicable Date</u>
Mr. Y Yu ( <i>Notes 1, 2</i> )	Interest of a controlled corporation	395,061,040 Domestic Shares	44.89%	395,061,040 Domestic Shares	44.89%
Puhua Energy ( <i>Note 1</i> )	Beneficial owner	264,000,000 Domestic Shares	30.00%	264,000,000 Domestic Shares	30.00%
	Interests held jointly with another person	131,061,040 Domestic Shares	14.89%	131,061,040 Domestic Shares	14.89%
Zuoli Holdings ( <i>Note 3</i> )	Interest of a controlled corporation	395,061,040 Domestic Shares	44.89%	395,061,040 Domestic Shares	44.89%
Deqing Yintian ( <i>Note 4</i> )	Interest of a controlled corporation	395,061,040 Domestic Shares	44.89%	395,061,040 Domestic Shares	44.89%
Mr. Yu ( <i>Note 1</i> )	Beneficial owner	88,000,000 Domestic Shares	10.00%	88,000,000 Domestic Shares	10.00%
	Interests held jointly with another person	307,061,040 Domestic Shares	34.89%	307,061,040 Domestic Shares	34.89%
Mr. Shen ( <i>Note 1</i> )	Beneficial owner	23,760,000 Domestic Shares	2.70%	23,760,000 Domestic Shares	2.70%
	Interests held jointly with another person	371,301,040 Domestic Shares	42.19%	371,301,040 Domestic Shares	42.19%
Dingsheng Investment ( <i>Note 1</i> )	Interests held jointly with another person	395,061,040 Domestic Shares	44.89%	395,061,040 Domestic Shares	44.89%
Mr. Zhang ( <i>Note 1</i> )	Beneficial owner	19,301,040 Domestic Shares	2.19%	19,301,040 Domestic Shares	2.19%
	Interests held jointly with another person	375,760,000 Domestic Shares	42.70%	375,760,000 Domestic Shares	42.70%

*Notes:*

- (1) On 28 April 2014, Mr. Y Yu, Mr. Yu, Mr. Shen, Mr. Zhang and Puhua Energy entered into an Acting in Concert Agreement, pursuant to which they jointly and severally undertook that they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders of the Company (and of its subsidiaries, if any in the future) based on such decisions. For more details, please refer to the section headed “History and Development” in this Prospectus. As such, Puhua Energy, Mr. Y Yu (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu, Mr. Shen (by himself and through Dingsheng Investment and Zuoli Holdings) and Mr. Zhang together

## SUBSTANTIAL SHAREHOLDERS

control approximately 44.89% of the issued share capital in the Company as of the Latest Practicable Date. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Y Yu, Mr. Yu, Mr. Shen and Mr. Zhang is deemed to be interested in approximately 44.89% of the issued share capital in the Company as of the Latest Practicable Date.

- (2) As Puhua Energy is indirectly controlled by Mr. Y Yu, Mr. Y Yu is deemed to be interested in the Shares held by Puhua Energy.
- (3) Puhua Energy is wholly owned by Zuoli Holdings. By virtue of the SFO, Zuoli Holdings is deemed to be interested in the Shares held by Puhua Energy.
- (4) Deqing Yintian is wholly owned by Mr. Y Yu and holds approximately 32.04% of the equity interest in Zuoli Holdings. Zuoli Holdings is controlled by Deqing Yintian and therefore Deqing Yintian is deemed to be interested in the Shares held by Zuoli Holdings.

So far as our Directors are aware, each of the following persons/entities will, immediately following the completion of the Global Offering (without taking into account any H Shares which may be allotted and issued upon any exercise of the Over-allotment Option), have an interest and/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 our general meetings:

<u>Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares held immediately following completion of the Global Offering</u>	<u>Approximate percentage of shareholding in the total share capital of the Company immediately following completion of the Global Offering</u> <i>(Note 1)</i>
Mr. Y Yu <i>(Notes 2, 3)</i>	Interest of a controlled corporation	395,061,040 Domestic Shares	33.48%
Puhua Energy <i>(Note 2)</i>	Beneficial owner	264,000,000 Domestic Shares	22.37%
	Interests held jointly with another person	131,061,040 Domestic Shares	11.11%
Zuoli Holdings <i>(Note 4)</i>	Interest of a controlled corporation	395,061,040 Domestic Shares	33.48%
Deqing Yintian <i>(Note 5)</i>	Interest of a controlled corporation	395,061,040 Domestic Shares	33.48%

## SUBSTANTIAL SHAREHOLDERS

<u>Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares held immediately following completion of the Global Offering</u>	<u>Approximate percentage of shareholding in the total share capital of the Company immediately following completion of the Global Offering</u> <i>(Note 1)</i>
Mr. Yu <i>(Note 2)</i>	Beneficial owner	88,000,000 Domestic Shares	7.46%
	Interests held jointly with another person	307,061,040 Domestic Shares	26.02%
Mr. Shen <i>(Note 2)</i>	Beneficial owner	23,760,000 Domestic Shares	2.01%
	Interests held jointly with another person	371,301,040 Domestic Shares	31.47%
Dingsheng Investment <i>(Note 2)</i>	Interests held jointly with another person	395,061,040 Domestic Shares	33.48%
Mr. Zhang <i>(Note 2)</i>	Beneficial owner	19,301,040 Domestic Shares	1.64%
	Interests held jointly with another person	375,760,000 Domestic Shares	31.84%

*Notes:*

- (1) The calculation is based on the assumption that the Over-allotment Option is not exercised and the total number of 1,180,000,000 Shares in issue after the Global Offering.
- (2) On 28 April 2014, Mr. Y Yu, Mr. Yu, Mr. Shen, Mr. Zhang and Puhua Energy entered into an Acting in Concert Agreement, pursuant to which they jointly and severally undertook that they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders of the Company (and of its subsidiaries, if any in the future) based on such decisions. For more details, please refer to the section headed “History and Development” in this Prospectus. As such, Mr. Y Yu (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu, Mr. Shen (by himself and through Dingsheng Investment and Zuoli Holdings) and Mr. Zhang together will control approximately 33.48% of the issued share capital in the Company immediately following completion of the Global Offering. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Mr. Y Yu, Mr. Yu, Mr. Shen, Mr. Zhang and Puhua Energy will be deemed to be interested in approximately 33.48% of the issued share capital in the Company immediately following completion of the Global Offering.
- (3) As Puhua Energy is indirectly controlled by Mr. Y Yu, Mr. Y Yu is deemed to be interested in the Shares held by Puhua Energy.
- (4) Puhua Energy is wholly owned by Zuoli Holdings. By virtue of the SFO, Zuoli Holdings is deemed to be interested in the Shares held by Puhua Energy.
- (5) Deqing Yintian is wholly owned by Mr. Y Yu and holds approximately 32.04% of the equity interest in Zuoli Holdings. Zuoli Holdings is controlled by Deqing Yintian and therefore Deqing Yintian is deemed to be interested in the Shares held by Zuoli Holdings.



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## SUBSTANTIAL SHAREHOLDERS

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Save as disclosed above, our Directors are not aware of any persons who will, immediately following completion of the Global Offering, have an interest or a 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, be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings. Our Directors are not aware of any arrangement which may result in a change of control of the Company at any subsequent date.

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## CORNERSTONE INVESTORS

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### THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with the following investors (the “Cornerstone Investors”, and each a “Cornerstone Investor”), pursuant to which the Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 H Shares) that may be subscribed for an aggregate amount of approximately HK\$250 million (the “Cornerstone Placing”).

Assuming an Offer Price of HK\$1.27, HK\$1.33 and HK\$1.39 (being the minimum, mid-point and maximum of the indicative Offer Price range stated in this Prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be approximately 196,850,000, 187,968,000 and 179,856,000 Shares, respectively, representing (i) approximately 16.68%, 15.93% and 15.24%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) approximately 16.07%, 15.34% and 14.68%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised.

To the best knowledge of the our Company, each of the Cornerstone Investors is an Independent Third Party, independent of each other, not our connected person and not an existing Shareholder of our Company. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around 12 January 2014.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the relevant cornerstone investment agreements). Immediately following completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial Shareholder of our Company. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering — The Hong Kong Public Offering” in this Prospectus.

### CORNERSTONE INVESTORS

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing.

#### ***Zhongrong International Trust Co., Ltd.***

Zhongrong International Trust Co., Ltd. (“Zhongrong Trust”) is a company incorporated in the People’s Republic of China with limited liability. It is principally engaged in trust business. The ultimate controlling shareholder of Zhongrong Trust is Jingwei Textile Machinery Company Limited (listed on the Hong Kong Stock Exchange (Stock Code: 0350) and the Shenzhen Stock Exchange (Stock Code: 000666), principal business of which are production of textile machinery and the other machinery and electronic products.

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## CORNERSTONE INVESTORS

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Zhongrong Trust has agreed to subscribe through a designated entity which is a qualified domestic institutional investor in the PRC for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 H Shares) which may be subscribed for an aggregate amount of approximately HK\$100 million at the Offer Price. Assuming the Offer Price is fixed at HK\$1.27, HK\$1.33 or HK\$1.39 (being the minimum, mid-point or maximum of the indicative Offer Price range stated in this Prospectus), Zhongrong Trust will subscribe for approximately 78,740,000, 75,186,000 or 71,942,000 Offer Shares, respectively, representing approximately (i) 6.67%, 6.37% or 6.10%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 6.43%, 6.14% or 5.87%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised.

### *Mr. XU Zhenghui*

Mr. Xu Zhenghui is an individual Cornerstone Investor. Mr. Xu Zhenghui has been engaged in the investment business from which he has acquired certain knowledge of equity investment. Mr. Xu is currently an executive partner of Beijing Zhujin Investment Center\* (北京築金投資中心).

Mr. Xu Zhenghui has agreed to subscribe through a designated entity which is a qualified domestic institutional investor in the PRC for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 H Shares) which may be subscribed for an aggregate amount of approximately HK\$45 million at the Offer Price. Assuming the Offer Price is fixed at HK\$1.27, HK\$1.33 or HK\$1.39 (being the minimum, mid-point or maximum of the indicative Offer Price range stated in this Prospectus), Mr. Xu Zhenghui will subscribe for approximately 35,432,000, 33,834,000 or 32,374,000 Offer Shares, respectively, representing approximately (i) 3.00%, 2.87% or 2.74%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 2.89%, 2.76% or 2.64%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised.

### *Mr. LI Tong*

Mr. Li Tong is an individual Cornerstone Investor, who is actively investing in equity markets.

Mr. Li Tong has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 H Shares) which may be subscribed for an aggregate amount of approximately HK\$20 million at the Offer Price. Assuming the Offer Price is fixed at HK\$1.27, HK\$1.33 or HK\$1.39 (being the minimum, mid-point or maximum of the indicative Offer Price range stated in this Prospectus), Mr. Li Tong will subscribe for approximately 15,748,000, 15,036,000 or 14,388,000 Offer Shares, respectively, representing approximately (i) 1.33%, 1.27% or 1.22%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 1.29%, 1.23% or 1.17%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised.

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## CORNERSTONE INVESTORS

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### ***Mr. Qi Fang***

Mr. Qi Fang is an individual Cornerstone Investor. Mr. Qi Fang is an architect, who has over 10 years of experience in investing equity markets. Mr. Qi Fang is a partner of Shanghai Fangda Architecture Design Office\* (上海方大建築設計事務所).

Mr. Qi Fang has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 H Shares) which may be subscribed for an aggregate amount of approximately HK\$10 million at the Offer Price. Assuming the Offer Price is fixed at HK\$1.27, HK\$1.33 or HK\$1.39 (being the minimum, mid-point or maximum of the indicative Offer Price range stated in this Prospectus), Dr. Qi Fang will subscribe for approximately 7,874,000, 7,518,000 or 7,194,000 Offer Shares, respectively, representing approximately (i) 0.67%, 0.64% or 0.61%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 0.64%, 0.61% or 0.59%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised.

### ***Ms. DUAN Min***

Ms. Duan Min is an individual Cornerstone Investor. Ms. Duan Min is a member of The Chinese Institute of Certified Public Accountants\* (中國註冊會計師協會). Ms. Duan Min is currently working as a deputy officer\* (副主任) in the strategic management division at a PRC company which provides energy conservation and environmental protection solutions.

Ms. Duan Min has agreed to subscribe, or through a designated entity which is a qualified domestic institutional investor in the PRC to subscribe, for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 H Shares) which may be subscribed for an aggregate amount of approximately HK\$37.5 million at the Offer Price. Assuming the Offer Price is fixed at HK\$1.27, HK\$1.33 or HK\$1.39 (being the minimum, mid-point or maximum of the indicative Offer Price range stated in this Prospectus), Ms. Duan Min will subscribe for approximately 29,526,000, 28,194,000 or 26,978,000 Offer Shares, respectively, representing approximately (i) 2.50%, 2.39% or 2.29%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 2.41%, 2.30% or 2.20%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised.

### ***Mr. Wei Feng***

Mr. Wei Feng is an individual Cornerstone Investor, who has experience in investing equity markets.

Mr. Wei Feng has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 H Shares) which may be subscribed for an aggregate amount of approximately HK\$37.5 million at the Offer Price. Assuming the Offer Price is fixed at HK\$1.27, HK\$1.33 or HK\$1.39 (being the minimum, mid-point or maximum of the indicative Offer Price range stated in this Prospectus), Mr. Wei Feng will subscribe for approximately 29,526,000, 28,194,000 or 26,978,000 Offer Shares, respectively, representing approximately (i) 2.50%, 2.39% or 2.29%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 2.41%, 2.30% or 2.20%, respectively, of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised.

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## CORNERSTONE INVESTORS

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### CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become unconditional and not having been terminated by no later than the time and date as specified in those Underwriting Agreements in accordance with their respective original terms, or as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties;
- (ii) the Listing Committee having granted the approval for the listing of, and permission to deal in, the H Shares and that such approval or permission not having been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange;
- (iii) the Offer Price having been agreed by, amongst others, the Joint Bookrunners (on behalf of the Underwriters under the Global Offering) and the Company in connection with the Global Offering;
- (iv) the respective representations, warranties, undertakings and acknowledgements of the relevant Cornerstone Investor and the Company are (as of the date of the relevant cornerstone investment agreement ) and will be (as of the closing of the International Offering) accurate and true in all material respects and not misleading and there being no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor; and
- (v) no laws shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the relevant cornerstone investment agreement and no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

### RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company and the Joint Bookrunners, it will not, and will procure that the wholly-owned subsidiary of such Cornerstone Investor or a designated entity which is a qualified domestic institutional investor in the PRC will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the "Lock-up Period"), dispose of (as defined in the relevant cornerstone investment agreement) any of the H Shares it has subscribed for pursuant to the relevant cornerstone investment agreement or any direct or indirect interest in any company or entity holding any of such H Shares. Each Cornerstone Investor may transfer the H Shares so subscribed in certain limited circumstances as

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## CORNERSTONE INVESTORS

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set out in the relevant cornerstone investment agreement, such as transfer to any wholly-owned subsidiary of such Cornerstone Investor or a designated entity which is a qualified domestic institutional investor in the PRC, provided that such wholly-owned subsidiary or designated entity shall, no less than five (5) Business Days' prior written notice of such transfer, give a written undertaking, addressed to our Company and the Joint Bookrunners in terms satisfactory to them, agreeing to, and such Cornerstone Investor undertakes to procure that such wholly-owned subsidiary or designated entity will be bound by the Cornerstone Investor's obligations under the relevant cornerstone investment agreement.

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## SHARE CAPITAL

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### SHARE CAPITAL

As of the date of this Prospectus, the registered share capital of the Company was RMB880,000,000, divided into 880,000,000 Domestic Shares with a nominal value of RMB1.00 each.

	<u>Number of Shares of RMB1.00 each</u>	<u>Approximate percentage of total share capital</u>
Domestic Shares held by our Promoters . . . . .	<u>880,000,000</u>	<u>100%</u>

Immediately after completion of the Global Offering, and assuming the Over-allotment Option is not exercised, our share capital will be as follows:

	<u>Number of Shares of RMB1.00 each</u>	<u>Approximate percentage of total share capital</u>
Domestic Shares held by our Promoters ( <i>Note</i> ) . . . . .	880,000,000	74.58%
H Shares issued pursuant to the Global Offering . . . . .	<u>300,000,000</u>	<u>25.42%</u>
Total share capital . . . . .	<u>1,180,000,000</u>	<u>100%</u>

*Note:* By virtue of the *PRC Company Law*, the Domestic Shares held by our Promoters are not transferrable within one year of the Listing Date.

Immediately after completion of the Global Offering, and assuming the Over-allotment Option is exercised in full, our share capital will be as follows:

	<u>Number of Shares of RMB1.00 each</u>	<u>Approximate percentage of total share capital</u>
Domestic Shares held by our Promoters ( <i>Note</i> ) . . . . .	880,000,000	71.84%
H Shares issued pursuant to the Global Offering . . . . .	<u>345,000,000</u>	<u>28.16%</u>
Total share capital . . . . .	<u>1,225,000,000</u>	<u>100%</u>

*Note:* By virtue of the *PRC Company Law*, the Domestic Shares held by our Promoters are not transferrable within one year of the Listing Date.

### OUR SHARES

#### *Ranking*

Our Domestic Shares and H Shares are both ordinary Shares in the share capital of the Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and transferred in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and transferred 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.

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## SHARE CAPITAL

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Our Promoters hold all existing Domestic Shares as promoter shares (as defined in the *PRC Company Law*). By virtue of the *PRC Company Law*, the promoter shares are not transferrable within one year of the Listing Date.

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 Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months from the Listing Date. We have not approved any share issue plan other than the Global Offering.

### GENERAL MEETING AND CLASS MEETING

For details of circumstances under which our Shareholders' general meeting and class Shareholders' meeting are required, please refer to "Appendix V — Summary of Articles of Association — Notification and Agenda of Shareholders' General Meetings" and "Appendix V — Summary of Articles of Association — Special Voting Procedures of Class Shareholders" in this Prospectus.

### CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

#### *Conversion of Domestic Shares*

Upon the completion of the Global Offering, we will have two classes of ordinary Shares, H Shares and Domestic Shares. All of our Domestic Shares are unlisted Shares which are not listed or traded on any stock exchange. As advised by our PRC Legal Advisers, according to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic 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 (but it does not require Shareholders' approval by class) shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained (the "Arrangement"). 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. All of our Domestic Shares are subject to the Arrangement and may be converted into H Shares upon the approval of the relevant regulatory authorities, including the CSRC and the Stock Exchange.

If any of our Domestic Shares are to be converted and to be traded as H Shares on the Stock Exchange, such conversion will need to obtain the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any



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## SHARE CAPITAL

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portion of our Domestic Shares on the 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 Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our Listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our Listing in Hong Kong.

No class Shareholder voting 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 Stock Exchange after our 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 procedures will need to be completed in order to effect the conversion: the relevant Domestic 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 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 Stock Exchange in compliance with the 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.

To our Director's knowledge, as of the Latest Practicable Date, none of our Shareholders currently proposes to convert any of the Domestic Shares held by them into H Shares.

### **TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE**

The *PRC Company Law* provides that in relation to the Hong Kong public offering of a company, the shares issued by a company prior to the Hong Kong public 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 the 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 OVERSEAS STOCK EXCHANGE**

According to the *Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange* (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) issued by the CSRC, 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.

## FINANCIAL INFORMATION

*The following discussion and analysis should be read in conjunction with our financial statements included in “Appendix I — Accountants’ Report,” together with the accompanying notes. The financial statements have been prepared in accordance with HKFRS.*

*The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. 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 that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See “Risk Factors” and “Forward-looking Statements.”*

### SUMMARY HISTORICAL FINANCIAL INFORMATION

The summary financial information from our statement of profit or loss and other comprehensive income and cash flow statement for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, and our statement of financial position as of 31 December 2011, 2012 and 2013 and 30 June 2014 set forth below are derived from the Accountants’ Report included as Appendix I to this Prospectus and should be read in conjunction with the Accountants’ Report and with “— Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

#### *Summary Statement of Profit or Loss and Other Comprehensive Income*

	Period from 18 August to 31 December		Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014	
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000	
Interest income . . . . .	7,820	70,973	90,789	43,362	71,243	
Interest and commission expenses . . . . .	(11)	(8,322)	(12,335)	(6,382)	(5,662)	
<b>Net interest income . . . . .</b>	<b>7,809</b>	<b>62,651</b>	<b>78,454</b>	<b>36,980</b>	<b>65,581</b>	
Other revenue . . . . .	390	634	5,626	2,355	19,834	
Impairment losses . . . . .	(3,871)	(17,756)	(2,450)	(1,054)	(16,052)	
Administrative expenses . . .	(3,836)	(10,353)	(12,660)	(5,636)	(7,980)	
<b>Profit before tax . . . . .</b>	<b>492</b>	<b>35,176</b>	<b>68,970</b>	<b>32,645</b>	<b>61,383</b>	
Income tax . . . . .	(157)	(8,939)	(17,354)	(8,172)	(15,370)	
<b>Profit for the period/year .</b>	<b>335</b>	<b>26,237</b>	<b>51,616</b>	<b>24,473</b>	<b>46,013</b>	

## FINANCIAL INFORMATION

### *Summary Statement of Financial Position*

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>				
Cash and cash equivalents . . . . .	9,576	19,612	81,100	56,068
Trading financial assets <sup>(1)</sup> . . . . .	—	—	150,000	—
Interest receivables . . . . .	1,111	2,828	8,622	7,156
Loans and advances to customers . . . . .	214,099	448,063	517,238	1,024,386
Fixed assets . . . . .	2,728	2,191	1,630	1,987
Deferred tax assets . . . . .	1,023	5,549	6,131	13,408
Other assets . . . . .	70	3,465	12,027	17,790
<b>Total assets</b> . . . . .	<b>228,607</b>	<b>481,708</b>	<b>776,748</b>	<b>1,120,795</b>
<b>Liabilities</b>				
Interest-bearing borrowings . . . . .	26,000	120,000	171,000	160,000
Accruals and other payables . . . . .	1,092	2,779	6,426	17,627
Current tax liabilities . . . . .	1,180	9,465	9,842	19,675
<b>Total liabilities</b> . . . . .	<b>28,272</b>	<b>132,244</b>	<b>187,268</b>	<b>197,302</b>
<b>Net assets</b> . . . . .	<b>200,335</b>	<b>349,464</b>	<b>589,480</b>	<b>923,493</b>

*Note:*

- (1) During the Track Record Period, in order to better flexibly utilize our surplus cash in hand, we purchased from time to time principal guaranteed and interest paying wealth management products offered by licensed commercial banks such as Agricultural Bank of China, Deqing Branch and Bank of China, Deqing Branch in the PRC, which we hold for a relatively short period of time, usually less than a week, and recorded investment returns. For such principal guaranteed products, the banks undertake to guarantee the full repayment of the principal on redemption which the Directors consider to be of a similar nature with bank deposits but generally offered slightly higher interest return than typical current bank deposits, thereby improving short-term capital usage efficiency and allowing the Company to earn additional investment return on its surplus cash. All our investments in trading financial assets are related to such wealth management products during the Track Record Period. In terms of net cash used in/generated from investing activities in relation to these investments, we had a net cash inflow of RMB0.4 million and RMB0.6 million for the period from 18 August 2011 to 31 December 2011 and the year ended 31 December 2012, respectively, a net cash outflow of RMB149.0 million for the year ended 31 December 2013, and a net cash inflow of RMB150.2 million for the six months ended 30 June 2014. The balance of such wealth management products amounted to RMB150.0 million as of 31 December 2013, while we did not have such financial wealth management products as of 31 December 2011 and 2012 and 30 June 2014. For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2014, we had investment returns from such wealth management products of RMB0.4 million, RMB0.6 million, RMB1.0 million and RMB0.2 million, respectively.

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### *Summary Cash Flow Statement*

	Period from 18 August to 31 December	Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash and cash equivalents at beginning of period/year .	—	9,576	19,612	19,612	81,100
Net cash used in operating activities . . . . .	(213,927)	(196,139)	(19,809)	(38,334)	(439,503)
Net cash (used in)/generated from investing activities .	(2,497)	588	(149,062)	(5,922)	149,479
Net cash generated from financing activities . . . . .	226,000	205,587	230,359	35,298	264,992
Net increase/(decrease) in cash and cash equivalents	<u>9,576</u>	<u>10,036</u>	<u>61,488</u>	<u>(8,958)</u>	<u>(25,032)</u>
Cash and cash equivalents at end of period/year . . . . .	<u><u>9,576</u></u>	<u><u>19,612</u></u>	<u><u>81,100</u></u>	<u><u>10,654</u></u>	<u><u>56,068</u></u>

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### *Overview*

As of 30 June 2014, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to *EY Advisory*. In addition, we were the second largest licensed microfinance company in Zhejiang in terms of outstanding loans as of 30 June 2014, according to the same source. We are dedicated to serving customers in Deqing, a county in Huzhou, Zhejiang with robust commercial and agricultural activities, by providing financing solutions with flexible terms through quick and comprehensive loan assessment and approval processes. Our long-term commitment to serve the local market and our strong capital base have enabled us to build a broad customer base that, in line with our business scale, has expanded since our inception in August 2011. As of 30 June 2014, we had a registered capital of RMB880.0 million and served a total of over 1,200 customers with gross outstanding loans amounting to RMB1,064.5 million. According to our license, we are currently only permitted to conduct business operation in Deqing.

Our key customers primarily consist of customers engaged in agricultural businesses, customers engaged in rural development activities, and/or customers residing in rural areas, or AFR (三農), and SMEs and microenterprises in various industries. These customers generally lack sufficient business scale and/or acceptable collateral to obtain credit from commercial banks. We provide various loan products to meet the diverse needs of our target customers. During the Track Record Period, our loans ranged in size from RMB10,000 to RMB25.0 million, with a term generally ranging from two months to one year. As a privately owned and dedicated microfinance company, we are able to deliver quick, convenient and efficient financing solutions to our customers to meet their needs for quick access to funds.

During the Track Record Period, we experienced significant revenue growth mainly driven by our increasing capital base, effective interest rate pricing and strong customer demand. Our gross outstanding loans increased from RMB218.0 million as of 31 December 2011 to RMB469.7 million as of 31 December 2012, and to RMB541.3 million as of 31 December 2013. Our gross outstanding loans further increased to RMB1,064.5 million as of 30 June 2014. Our net interest income increased from RMB7.8 million for the period from 18 August 2011 to 31 December 2011 to RMB62.7 million for the year ended 31 December 2012, and to RMB78.5 million for the year ended 31 December 2013. Our net interest income was RMB37.0 million and RMB65.6 million for the six months ended 30 June 2013 and 2014, respectively. Our profit for the period/year increased from RMB0.3 million for the period from 18 August 2011 to 31 December 2011 to RMB26.2 million for the year ended 31 December 2012, and to RMB51.6 million for the year ended 31 December 2013. Our profit for the period was RMB24.5 million and RMB46.0 million for the six months ended 30 June 2013 and 2014, respectively.

#### *Basis of Presentation*

Our financial information has been prepared in accordance with HKFRS, which includes Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants. All HKFRS effective for accounting years/periods from 18 August 2011 to 30 June 2014, together with the relevant transitional provisions, had been adopted by the reporting entity in the preparation of the financial information throughout the Track Record Period.

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Our financial information has been prepared on the historical cost basis except for trading financial assets, which are stated at their fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Our financial information is presented in Renminbi and our financial year ends on 31 December of each year.

### *Factors Affecting Our Results of Operations and Financial Condition*

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors. Our financial statements may not be indicative of our future earnings, cash flows or financial position for numerous reasons, including those described below:

#### **Macroeconomic and market conditions in China and the development of the SME and microenterprise sector, in particular, in Deqing, Zhejiang**

We focus on the SME and microenterprise sector in Deqing, Zhejiang, and therefore, our results of operations and financial conditions are directly linked to this sector, 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; and
- stable geopolitical conditions, including 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;
- reduced government support for SMEs and microenterprises; and
- natural disasters or pandemics.

In recent years, China in general and Deqing 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. Sustained economic

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growth and favorable government policies towards the SME and microenterprise sector are likely to increase the demand for funds. Unfavorable economic and market conditions or adverse policy changes could negatively impact the demand for our loan products and result in a greater credit risk.

### **Government regulation and policies**

We are subject to extensive and complex national, provincial and local regulations and policies with regard to our business, capital structure, interest rates and provisioning policy, an overview of which is set forth in “Regulatory Overview” in this Prospectus.

These regulations and policies are issued by relevant central government ministries and departments, provincial and local governments and are enforced by different local authorities in each province. In addition, the local competent authorities have broad discretion in interpretation, implementation and enforcement of the relevant regulations and policies. As a result of the complexity, uncertainties and constant changes in these regulations and policies, including changes in their interpretation and implementation, we may have to adjust our business practice, capital structure or product offering from time to time.

In addition, continuity of our business and our business expansion in other cities or regions in China, or even in Zhejiang, depends on our ability to obtain the relevant operating licenses from local, provincial and/or central government authorities. If we are unable to renew our local operating licenses or obtain the licenses required for business expansion in a timely manner or at all, due to changes in laws and regulations or in their interpretation or enforcement or otherwise, the implementation of our business strategy could be hindered.

### **PRC tax incentives and government grants**

During the Track Record Period, we received government grants in relation to the nature of our business, our capital increase, credit risk, performance assessment and auditing.

Governments at all levels have the power and authority to prescribe policies and implementing measures with regard to the government subsidies granted to microfinance companies within their jurisdictions pursuant to the relevant provisions in laws, regulations and rules. Deqing has been designated as a “financial innovation demonstration county” by the Zhejiang provincial government, and Deqing county government has the power and authority to formulate rules and policies regulating microfinance companies within its jurisdiction to promote the development of local financial industry.

Pursuant to the *Some Opinions of the People’s Government of Deqing County on Promoting the Financial Innovative Development* (德清縣人民政府關於推進金融創新發展的若干意見) issued in July 2012, in support of the microfinance industry, we enjoy government subsidies whose amounts equal 100% of the total EIT and business tax retained by Deqing county government, out of all EIT and business tax we pay each year, for three years ending 31 December 2014 and 50% of such EIT and business tax for the following three years until the end of 2017. We received such government subsidies of RMB3.0 million and RMB12.8 million for the year ended 31 December 2013 and the six months ended 30 June 2014, respectively. For the year ended 31 December 2013 and the six months ended 30 June 2013 and 2014, our government grants amounted to RMB4.7 million, RMB1.6 million and RMB19.7 million, respectively, representing 6.8%, 5.0% and 32.0% of our profit before tax during the same periods, respectively.

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All the government subsidies received by us and recognized in the income statement during the Track Record Period were granted in strict accordance with the relevant rules and policies, which are applicable to all the microfinance companies established within Deqing. We have satisfied all the conditions and requirements prescribed in the relevant rules and policies for the above government subsidies. We will not be subject to further conditions and requirements regarding the above government grants and there shall be no risk of the fund withdrawn by the local government.

Any modification or termination of the foregoing government grants currently available to us will affect our financial condition and results of operations.

### Capital base and ability to obtain financing

The expansion of our business requires substantial capital. Currently, under the PRC law, a microfinance company shall only borrow bank loans up to a certain percentage, usually 50%, of its net capital for conducting loan business. As a result, the scale of our business heavily depends on our capital base. As of 30 June 2014, our registered capital was RMB880.0 million.

The following table sets forth our registered capital, gross outstanding loans and advances to customers, and leverage ratio as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Registered capital				
(RMB in thousands) . . . . .	200,000	320,000	510,000	880,000
Gross outstanding loans and advances				
to customers (RMB in thousands) . .	217,970	469,690	541,315	1,064,515
Leverage ratio <sup>(1)</sup> . . . . .	1.09	1.47	1.06	1.21

*Note:*

(1) Represents the balance of the gross outstanding loans and advances to customers divided by registered capital.

The expansion of our business also depends on our ability to borrow bank loans at a reasonable cost and raise alternative financing, such as borrowings from the fund pool managed by Microfinance Union of Huzhou City, to further leverage our capital. During the Track Record Period, our bank borrowings bore interest rates ranging from 6.9% to 8.5% on an annual basis. Our interest expenses for bank borrowings for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014 was RMB6,000, RMB8.3 million, RMB12.2 million, RMB6.4 million and RMB5.5 million, respectively, which was in line with our business scale.

### Competition

Starting from May 2008, pursuant to the *Guiding Opinions*, microfinance companies have been granted legal status and become a platform for private capital and financial institutions serving SMEs, microenterprises and individuals. The main entry barriers to the microfinance industry include obtaining approvals, such as approval of establishment and approval of registered capital increase, and in-depth local knowledge. For more information on the development of microfinance industry and entry barriers



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of establishing a microfinance company, see “Industry Overview — The Microfinance Industry in Zhejiang and Deqing — Entry Barriers to the Microfinance Industry” and “Regulatory Overview — Regulations in the Microfinance Industry — Regulatory Policies of the Microfinance Companies — National Guiding Opinions.”

Competition in the microfinance industry in Zhejiang is increasingly intense as the microfinance industry in Zhejiang has seen rapid growth. According to *EY Advisory*, as of 31 December 2013, the number of microfinance companies in Zhejiang reached 314 and the total registered capital of microfinance companies in Zhejiang also increased rapidly with a CAGR of 45.9% from 2009 to 2013. As of 30 June 2014, the number of microfinance companies in Zhejiang further increased to 330.

As of 30 June 2014, we were the largest licensed microfinance company in Zhejiang in terms of registered capital, according to *EY Advisory*. In addition, we were the second largest licensed microfinance company in Zhejiang in terms of outstanding loans as of 30 June 2014, according to the same source.

As of 30 June 2014, there were five microfinance companies in Deqing, including us. During the Track Record Period, we only served customers in Deqing. Our main competitors include local microfinance companies, rural commercial banks and private money lenders which lend to SMEs, microenterprises and individuals who have short-term financing needs. Our direct competitors are the other four microfinance companies in Deqing. We compete primarily on the basis of: (i) our reputation and business scale; (ii) the quality and accessibility of our customer service; (iii) the speed of our loan approval process; (iv) our ability to offer easy and convenient access to funding; and (v) risk management and risk control capabilities.

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 customized, efficient, flexible financial solutions to our customers. If we fail to maintain our competitive strengths, we may lose market share and our revenue may decrease. In addition, as we expand into new regions and product lines, we will face competition from additional competitors. See “Risk Factors — Risks Relating to Our Business and Industry — Competition in the industry we operate is growing and could cause us to lose market share and revenue in the future.”

### **Risk management capabilities**

As a microfinance company dedicated to providing short-term loans to SMEs, microenterprises and individuals, credit risk is the most significant risk inherent to our business. We have developed a credit risk management system in accordance with the types and size of our loans, the types of our customers, and the local legal and economic environment. We also strictly adhere to the policy of “separation of application investigation and approval,” which has ensured the effectiveness of our risk management and risk control efforts. In addition, we monitor and report our portfolio risks on a regular basis to take proactive corrective actions and determine adequate allowances 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.

A comprehensive and effective risk management system helps mitigate our risk exposures and control customers’ default rate. Any significant ineffectiveness or deficiency in the risk management system may cause failure in identifying or controlling risks, and may result in an increase in the

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customer's default rate, failure to effectively manage our loan portfolios, or failure to collect repayment or realize the value of collateral or pledge. See "Risk Factors — Risks Relating to Our Business and Industry — Our risk management and internal control systems may not fully protect us against various risks inherent in our business."

### *Critical Accounting Policies, Judgments and Estimates*

Our principal accounting policies, judgments and estimates are set forth in Notes 1 and 22 under Section B of the Accountants' Report attached as Appendix I to this Prospectus. HKFRS requires that we adopt accounting policies and make estimates that our Directors believe are most appropriate under the circumstances for the purpose of giving a true and fair view of our results and financial position. Our significant accounting policies have been applied consistently throughout the Track Record Period. Critical accounting policies, judgments and estimates are those that require management to exercise judgment and make estimates which yield materially different results if management were to apply different assumptions or make different estimates. We believe the most complex and sensitive judgments, because of their significance to our financial information, result primarily from the need to make estimates about the effects of matters that are inherently uncertain.

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. Actual results in these areas may differ from our estimates.

We have identified below the accounting policies, judgements and estimates that we believe are the most critical to our financial information and that involve the most significant estimates and judgments. Our Directors believe that the estimates have been accurate during the Track Record Period by comparing with actual results, and confirm that these estimates have not changed during the Track Record Period and are not likely to change materially in the future in light of our current business operations and future plans.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to us and the amount of revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

#### *Interest income*

Interest income is recognized as it accrues using the effective interest method.

#### *Government grants*

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that the grants will be received and that we will comply with the conditions attached to such grants. Grants that compensate us for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate us for the cost of an asset are deducted from the carrying amount of the assets and recognized in profit or loss over the useful life of the assets as a reduced depreciation expense.

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### **Impairment of financial assets**

We review the carrying amounts of financial assets other than those at fair value through profit or loss at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in a financial asset represents events occurring after the initial recognition of the financial assets that have an adverse impact on the estimated future cash flows of such asset, which can be estimated reliably.

Objective evidence may include the following events: (i) significant financial difficulty of the debtor; (ii) a breach of contract, such as a default or delinquency in interests or principal payments; (iii) a high risk that the debtor will declare bankruptcy or undergo other financial restructuring; (iv) disappearance of an active market for financial assets because of financial difficulties; (v) a significant change in the market, or the technological, economic or legal environment that would have an adverse effect on the debtor; and (vi) a significant or prolonged decline in the fair value of an investment in an equity instrument below such that the fair value is its cost.

If any such objective evidence exists, impairment losses will be determined and recognized as follows:

#### *Loans and receivables*

We use two methods of assessing impairment losses, namely, individual assessment and collective assessment.

#### Individual assessment

Loans and receivables are considered individually significant and thus are assessed individually for impairment. If an objective evidence of impairment of loans and receivables exists when assessed individually, the amount of impairment loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate, which is the effective interest rate computed at initial recognition of these loans and receivables, where the effect of discounting is material. The impairment losses are recognized in profit or loss.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment losses if the difference between the estimated future cash flows and its present value is immaterial. The present value calculation of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

#### Collective assessment

Loans and receivables assessed collectively for impairment include loans and receivables with no objective evidence of impairment when assessed individually, and homogeneous groups of loans and receivables that are not considered individually significant and not assessed individually. Loans and receivables are grouped by similar credit risk characteristics for collective assessment. The objective evidence of impairment is mainly any observable evidence from the collective assessment of observable

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data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets even though the decrease of cash flow of each individual asset cannot be identified.

We periodically review and assess the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the allowances for impairment losses.

If the amount of impairment losses decreases in a subsequent period and the decrease can be reasonably connected to an event occurring after the impairment losses were recognized, the impairment losses will be reversed in profit or loss. The reversal shall not result in a carrying amount of the loans and receivables that exceed their amortized cost on the date of the reversal had the impairment not been recognized.

In the event that we determine that a loan has no reasonable prospect of recovery after we have completed all the necessary legal proceedings and other claim proceedings, the loan will be written off against its allowances for impairment losses upon receiving necessary approvals.

### *Fair value measurement*

If there is an active market for a financial asset or financial liability, the quoted price in the active market, without adjusting for transaction costs that may be incurred upon future disposal or settlement, is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial asset or financial liability, a number of valuation techniques are used to establish its fair value, including: (i) the price established in recent arm's length market transactions between knowledgeable and willing parties; (ii) reference to the current fair value of instruments that are substantially the same; and (iii) discounted cash flow analysis and option pricing models. Where the discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable to instruments with similar terms and conditions at the end of each reporting period. Where other pricing models are used, fair value is measured by using inputs that are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset or financial liability, we consider all factors that are likely to affect the fair value of the financial asset or financial liability including, but not limited to, risk-free interest rates, credit risks, foreign exchange rates and market volatility.

We obtain market data from the same market from which the financial asset or financial liability originate or is purchased.

### **Tax**

Determining income tax provisions involves judgment of the future tax treatment of certain transactions. Accordingly, we carefully evaluate the tax implications of such transactions and make tax provisions accordingly. The tax consequence of such transactions is reconsidered periodically to take into account all relevant tax laws and regulations. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that future taxable profits are likely to be available such that the deferred tax assets can be

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utilized, our management's judgment is required to assess the likelihood of future taxable profits. We review our assessment periodically and additional deferred tax assets will be recognized if it is likely that future taxable profits will be available to allow the deferred tax assets to be utilized.

### *Description of Components of Results of Operations*

#### **Net interest income**

We generate interest income from loans we provide to customers and from our cash at banks. Our net interest income is net of interest and commission expenses. We incur interest expenses on bank and other borrowings to principally expand our business and meet working capital requirements, as well as bank charges.

The following table sets forth the breakdown of our net interest income by source for the periods indicated:

	<b>Period from 18 August to 31 December</b>		<b>Year ended 31 December</b>		<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>		<b>2013</b>		<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Interest income from</b>						
Loans and advances to customers . . . . .	7,563	70,794	90,697	43,288	71,049	
Cash at banks . . . . .	257	179	92	74	194	
Total interest income . . . . .	<u>7,820</u>	<u>70,973</u>	<u>90,789</u>	<u>43,362</u>	<u>71,243</u>	
<b>Interest and commission expenses from</b>						
Borrowings from banks . . . . .	(6)	(8,309)	(12,174)	(6,361)	(5,541)	
Borrowings from non-bank institutions . . . . .	—	—	(125)	—	(99)	
Bank charges . . . . .	(5)	(13)	(36)	(21)	(22)	
Total interest and commission expenses . . . . .	<u>(11)</u>	<u>(8,322)</u>	<u>(12,335)</u>	<u>(6,382)</u>	<u>(5,662)</u>	
<b>Net interest income . . . . .</b>	<b><u>7,809</u></b>	<b><u>62,651</u></b>	<b><u>78,454</u></b>	<b><u>36,980</u></b>	<b><u>65,581</u></b>	

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Our interest income from loans and advances to customers is primarily affected by the size of our loan portfolio and the average interest rate that we charge on loans to our customers. Our balance of outstanding loans increased during the Track Record Period, generally in line with the size of our capital base, which in turn is affected by the size of our registered capital and bank borrowings. Our gross outstanding loans amounted to RMB218.0 million, RMB469.7 million, RMB541.3 million and RMB1,064.5 million as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, and our average interest rate for loans was 20.2%, 18.4%, 17.2% and 15.6% for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2014, respectively. The decline in our average interest rate during the Track Record Period was primarily: (i) in line with the market trend of the average interest rate charged by microfinance companies in Deqing, decreasing from 18.9% in 2012 to 16.8% in 2013 and further to 16.1% in the first half of 2014; (ii) due to, in line with our enlarged capital base, the increased percentage of loans of an amount over RMB5 million granted during the Track Record Period, of which we charged a relatively lower interest rate compared to our other loans ranging from RMB500,000 to RMB5 million, given that such customers are relatively more established and financially stronger; and (iii) as a result of focusing more on serving customers with stronger repayment ability in 2013 and for the six months ended 30 June 2014, of which we charged a lower interest rate, after an increase in overdue loan ratio to 2.3% in 2012.

Our interest and commission expenses, comprising interests on borrowings from banks and non-bank institutions, as well as bank charges, were RMB11,000, RMB8.3 million, RMB12.3 million, RMB6.4 million and RMB5.7 million for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, respectively. We incur interest expenses primarily on bank borrowings to principally expand our loan business. Interest expenses during the Track Record Period were primarily affected by the balance of our bank borrowings and the interest rate charged on our bank borrowings. The movement in our interest expenses mainly reflected the level of our bank borrowings. Our interest-bearing borrowings amounted to RMB26.0 million, RMB120.0 million, RMB171.0 million and RMB160.0 million as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. The increase in our interests on bank borrowings were generally in line with the increase in our registered capital during the Track Record Period, which allows us to obtain more bank borrowings to expand our loan business. During the Track Record Period, our bank borrowings bore interest rates ranging from 6.9% to 8.5% on an annual basis. In addition to bank borrowings, we also had other borrowings of RMB11.0 million from the fund pool managed by Microfinance Union of Huzhou City as of 31 December 2013, which bore interest rates ranging from 7.3% to 10.0% on an annual basis and were unsecured. The total bank charges were RMB5,000, RMB13,000, RMB36,000, RMB21,000 and RMB22,000 for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, respectively.

Our net interest income for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014 was RMB7.8 million, RMB62.7 million, RMB78.5 million, RMB37.0 million and RMB65.6 million, respectively.

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### Other revenue

Our other revenue for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014 was RMB0.4 million, RMB0.6 million, RMB5.6 million, RMB2.4 million and RMB19.8 million, respectively. Our other revenue consists of government grants and investment returns from principal guaranteed wealth management products which we hold for a short period of time, usually less than a week. For the year ended 31 December 2013 and the six months ended 30 June 2013 and 2014, we received government grants of RMB4.7 million, RMB1.6 million and RMB19.7 million, respectively. The government subsidies in relation to EIT and business tax granted by government is usually paid to us in the second half of the next year. However, we received the government subsidies in relation to EIT and business tax for the year of 2013 in June 2014, which results in the relatively large amount of government grants and other revenue for the six months ended 30 June 2014. See “— Factors Affecting Our Results of Operations and Financial Condition — PRC tax incentives and government grants.” We also record investment returns from principal guaranteed wealth management products we purchase from banks. See “— Liquidity and Capital Resources — Selected items of the statement of financial position — Trading financial assets.” For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, we had investment returns of RMB0.4 million, RMB0.6 million, RMB1.0 million, RMB0.7 million and RMB0.2 million, respectively.

### Impairment losses

Impairment losses include provisions we make in relation to loans and advances to our customers. We review our portfolios of loans and advances periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Our management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss. See “— Critical Accounting Policies, Judgments and Estimates — Impairment of financial assets” and Notes 1 and 22 under Section B of the Accountants’ Report attached as Appendix I to this Prospectus.

Our impairment losses for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014 were RMB3.9 million, RMB17.8 million, RMB2.5 million, RMB1.1 million and RMB16.1 million, respectively.

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### Administrative expenses

Our administrative expenses mainly include: (i) business tax and surcharge; (ii) staff costs, such as salaries, bonuses and allowances paid to employees, social insurance and other benefits; (iii) office expenditure and travel expenses; (iv) operating lease charges; (v) depreciation and amortization expenses; (vi) consulting and professional service fees; and (vii) other expenses including business service charge, business development expenses, advertising expenses and miscellaneous expenses, such as stamp duty, training fees and labor protection fees. The table below sets forth the components of our administrative expenses by nature for the periods indicated:

	Period from 18 August to 31 December	Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Business tax and surcharge . . . . .	445	4,000	5,133	2,464	3,988
Staff costs . . . . .	698	1,825	2,075	1,027	1,421
Office expenditure and travel expenses . . . . .	709	848	933	348	672
Operating lease charges . . . . .	400	400	550	275	258
Depreciation and amortization expenses . . . . .	159	583	591	295	328
Consulting and professional service fees . . . . .	—	55	1,159	557	305
Business development expenses . . . . .	89	140	350	112	141
Advertising expenses . . . . .	166	161	158	85	62
Others . . . . .	1,170	2,341	1,711	473	805
<b>Total administrative expenses . . . . .</b>	<b>3,836</b>	<b>10,353</b>	<b>12,660</b>	<b>5,636</b>	<b>7,980</b>

Our business tax and surcharge mainly include: (i) business tax; (ii) city construction and maintenance tax; and (iii) education surcharge. Our business tax and surcharge for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014 were RMB0.4 million, RMB4.0 million, RMB5.1 million, RMB2.5 million and RMB4.0 million, respectively, accounting for 11.6%, 38.6%, 40.5%, 43.7% and 50.0% of our total administrative expenses, respectively. For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, our business tax was RMB0.4 million, RMB3.6 million, RMB4.6 million, RMB2.2 million and RMB3.6 million, accounting for 89.2%, 89.3%, 89.3%, 89.3% and 89.3% of our total business tax and surcharge, respectively.

Our staff costs accounted for 18.2%, 17.6%, 16.4%, 18.2% and 17.8% of total administrative expenses for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, respectively. In addition to base salary, since 2012, we also offered performance-based bonus to incentivize our customer relationship managers.



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For the years ended 31 December 2012 and 2013 and the six months ended 30 June 2014, we paid RMB0.2 million, RMB0.2 million and RMB0.1 million, respectively, to our employees as performance-based bonus, accounting for 0.2%, 0.2% and 0.1% of our interest income during the same period.

Compared to 2012, we incurred substantial consulting and professional service fees of RMB1.2 million for the year ended 31 December 2013 for one-time business consulting and training service.

Our administrative expenses for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014 were RMB3.8 million, RMB10.4 million, RMB12.7 million, RMB5.6 million and RMB8.0 million, respectively.

### **Income tax**

During the Track Record Period, we were subject to a tax rate of 25% pursuant to the *EIT Law* effective from 1 January 2008. Our income tax for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014 was RMB0.2 million, RMB8.9 million, RMB17.4 million, RMB8.2 million and RMB15.4 million, respectively, and our effective tax rate was 31.9%, 25.4%, 25.2%, 25.0% and 25.0%, respectively.

During the Track Record Period, we recorded RMB2.2 million, RMB14.2 million, RMB(9.1) million and RMB11.6 million as pre-tax deduction of allowances for impairment losses as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. Such amounts were included as tax-deductible expenses in the income tax return for calculation and payment of EIT during the Track Record Period. However, we have been advised that we were not eligible for the pre-tax deduction policy as microfinance companies should not be considered financial enterprises for tax reporting purpose and such allowances for impairment losses being utilized as pre-tax deduction was not supposed to be deducted before taxation for tax reporting purpose. As a result, we had accumulated tax difference of RMB4.7 million as of 30 June 2014 calculated based on the above mentioned pre-tax deduction amount of RMB18.9 million in aggregate times 25% income tax rate, and we had subsequently settled the full amount of tax difference in October 2014. The tax authority has issued a certificate of tax clearance (完稅證明) as well as a confirmation letter stating that we would not be penalized for such late tax payment and it would not deem such late payment as breach of relevant tax rules and regulations.

Our Directors confirm that we have paid all relevant taxes and are not subject to any dispute or unsolved tax issues with the relevant tax authorities in the PRC.

### **Profit for the period/year**

As a result of the foregoing, we had profit for the period/year of RMB0.3 million, RMB26.2 million, RMB51.6 million, RMB24.5 million and RMB46.0 million for the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, respectively.

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### *Results of Operations*

The following table sets forth certain income and expense items from our statement of profit or loss and other comprehensive income and such items as a percentage of our interest income for the periods indicated:

	Period from 18 August to 31 December		Year ended 31 December				Six months ended 30 June			
	2011		2012		2013		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Interest income . . . . .	7,820	100.0	70,973	100.0	90,789	100.0	43,362	100.0	71,243	100.0
Interest and commission expenses . . . . .	(11)	(0.1)	(8,322)	(11.7)	(12,335)	(13.6)	(6,382)	(14.7)	(5,662)	(7.9)
<b>Net interest income . .</b>	<b>7,809</b>	<b>99.9</b>	<b>62,651</b>	<b>88.3</b>	<b>78,454</b>	<b>86.4</b>	<b>36,980</b>	<b>85.3</b>	<b>65,581</b>	<b>92.1</b>
Other revenue . . . . .	390	5.0	634	0.9	5,626	6.2	2,355	5.4	19,834	27.8
Impairment losses . . . .	(3,871)	(49.5)	(17,756)	(25.0)	(2,450)	(2.7)	(1,054)	(2.4)	(16,052)	(22.5)
Administrative expenses	(3,836)	(49.1)	(10,353)	(14.6)	(12,660)	(13.9)	(5,636)	(13.0)	(7,980)	(11.2)
<b>Profit before tax . . . .</b>	<b>492</b>	<b>6.3</b>	<b>35,176</b>	<b>49.6</b>	<b>68,970</b>	<b>76.0</b>	<b>32,645</b>	<b>75.3</b>	<b>61,383</b>	<b>86.2</b>
Income tax . . . . .	(157)	(2.0)	(8,939)	(12.6)	(17,354)	(19.1)	(8,172)	(18.8)	(15,370)	(21.6)
<b>Profit for the period/ year . . . . .</b>	<b>335</b>	<b>4.3</b>	<b>26,237</b>	<b>37.0</b>	<b>51,616</b>	<b>56.9</b>	<b>24,473</b>	<b>56.4</b>	<b>46,013</b>	<b>64.6</b>

### **Six months ended 30 June 2014 compared with six months ended 30 June 2013**

#### *Net interest income*

Our net interest income increased by 77.3% from RMB37.0 million for the six months ended 30 June 2013 to RMB65.6 million for the six months ended 30 June 2014. This increase was mainly attributable to an increase in our interest income from RMB43.4 million for the six months ended 30 June 2013 to RMB71.2 million for the six months ended 30 June 2014. The increase in our interest income was primarily due to an increase in our gross outstanding loans from RMB535.9 million as of 30 June 2013 to RMB1,064.5 million as of 30 June 2014, partly offset by a decrease in our average interest rate from 16.9% for the six months ended 30 June 2013 to 15.6% for the six months ended 30 June 2014. Our total interest and commission expenses decreased from RMB6.4 million for the six months ended 30 June 2013 to RMB5.7 million for the six months ended 30 June 2014 primarily due to a decrease in the interest rate for our interest-bearing borrowings during the period.

#### *Other revenue*

Our other revenue increased significantly from RMB2.4 million for the six months ended 30 June 2013 to RMB19.8 million for the six months ended 30 June 2014 mainly because we started to receive government subsidies in relation to EIT and business tax in the second half of 2013. Instead of receiving government subsidies in relation to EIT and business tax in the second half of the next year as we usually do, the government granted such subsidies for the year of 2013 to us in June 2014. As a result, our government grants increased from RMB1.6 million for the six months ended 30 June 2013 to RMB19.7 million for the six months ended 30 June 2014, of which RMB12.8 million was government subsidies in relation to EIT and business tax. Our investment returns from principal guaranteed wealth management products decreased from RMB0.7 million for the six months ended 30 June 2013 to RMB0.2 million for the six months ended 30 June 2014 as we primarily use our surplus cash for our loan business instead.

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### *Impairment losses*

Our impairment losses increased significantly from RMB1.1 million for the six months ended 30 June 2013 to RMB16.1 million for the six months ended 30 June 2014 primarily due to an increase in the total allowances for impairment losses from RMB24.5 million as of 30 June 2013 to RMB40.1 million as of 30 June 2014, mainly as a result of the increase in our gross outstanding loans from RMB535.9 million as of 30 June 2013 to RMB1,064.5 million as of 30 June 2014, for which we provided additional collectively assessed impairment losses in line with our loan growth.

### *Administrative expenses*

Our administrative expenses increased from RMB5.6 million for the six months ended 30 June 2013 to RMB8.0 million for the six months ended 30 June 2014 primarily due to increases in business tax and surcharge of RMB1.5 million and staff costs of RMB0.4 million in the first half of 2014, in line with our enlarged business scale.

### *Income tax*

Our income tax increased by 88.1% from RMB8.2 million for the six months ended 30 June 2013 to RMB15.4 million for the six months ended 30 June 2014, which was in line with the increase in our profit before tax. Our effective tax rate remained at a similar level of 25.0% during the same period.

### *Profit for the period*

As a result of the foregoing, our profit for the period increased by 88.0% from RMB24.5 million for the six months ended 30 June 2013 to RMB46.0 million for the six months ended 30 June 2014, and our net profit margin increased from 56.4% to 64.6% during the same period.

## **Year ended 31 December 2013 compared with year ended 31 December 2012**

### *Net interest income*

Our net interest income increased by 25.2% from RMB62.7 million for the year ended 31 December 2012 to RMB78.5 million for the year ended 31 December 2013. This increase was mainly attributable to an increase in our interest income, partly offset by an increase in our interest and commission expenses during the period. Our interest income increased from RMB71.0 million to RMB90.8 million primarily due to an increase in our gross outstanding loans from RMB469.7 million as of 31 December 2012 to RMB541.3 million as of 31 December 2013, partly offset by a decrease in our average interest rate from 18.4% for the year ended 31 December 2012 to 17.2% for the year ended 31 December 2013. In particular, the increase in our interest income from loans and advances to customers during the period was primarily due to the increase in the size of our loan portfolio as well as the increase in our gross outstanding loans from RMB469.7 million as of 31 December 2012 to RMB541.3 million as of 31 December 2013, primarily attributable to the increase in our interest-bearing borrowings from RMB120.0 million as of 31 December 2012 to RMB171.0 million as of 31 December 2013.

Our total interest and commission expenses increased by 48.2% from RMB8.3 million for the year ended 31 December 2012 to RMB12.3 million for the year ended 31 December 2013 primarily due to an increase in our bank borrowings in 2012, compared with those in 2013.

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### *Other revenue*

Our other revenue increased significantly from RMB0.6 million for the year ended 31 December 2012 to RMB5.6 million for the year ended 31 December 2013 mainly because we started to receive government subsidies in relation to EIT and business tax in 2013. Our government grants for the year ended 31 December 2013 amounted to RMB4.7 million, RMB3.0 million of which was government subsidies in relation to EIT and business tax. Our investment returns from principal guaranteed wealth management products also increased from RMB0.6 million for the year ended 31 December 2012 to RMB1.0 million for the year ended 31 December 2013 due to an increase in investment interest income we received by using our surplus cash, as a result of our capital increase in December 2013, to purchase principal guaranteed wealth management products issued by commercial banks in Deqing before we utilized it for our loan business. See “— Liquidity and Capital Resources — Selected items of the statement of financial position — Trading financial assets.”

### *Impairment losses*

Our impairment losses decreased significantly from RMB17.8 million for the year ended 31 December 2012 to RMB2.5 million for the year ended 31 December 2013. Our impairment losses decreased significantly in 2013 from 2012 due to a lower rate of increase in our gross outstanding loans by 15.2% from RMB469.7 million as of 31 December 2012 to RMB541.3 million as of 31 December 2013, which led to a lower rate of increase in our provision for collectively assessed impairment losses as of 31 December 2013, as well as due to a decrease in level of impaired loans in 2013 as compared to 2012, resulting in lower level of individually assessed impairment losses balance.

### *Administrative expenses*

Our administrative expenses increased by 22.3% from RMB10.4 million for the year ended 31 December 2012 to RMB12.7 million for the year ended 31 December 2013 primarily because we incurred expenses for one-time business consulting and training service of RMB1.2 million in 2013 and our business tax and surcharge increased from RMB4.0 million for the year ended 31 December 2012 to RMB5.1 million for the year ended 31 December 2013, in line with our enlarged business scale.

### *Income tax*

Our income tax increased by 94.1% from RMB8.9 million for the year ended 31 December 2012 to RMB17.4 million for the year ended 31 December 2013, which was in line with the increase in our profit before tax. Our effective tax rate remained at a similar level of 25.4% in 2012 and 25.2% in 2013.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased by 96.7% from RMB26.2 million for the year ended 31 December 2012 to RMB51.6 million for the year ended 31 December 2013, and our net profit margin increased from 37.0% to 56.9% during the same period.

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### Period from 18 August 2011 to 31 December 2011

#### *Net interest income*

We commenced our operations in August 2011 and recorded net interest income of RMB7.8 million for the period from 18 August 2011 to 31 December 2011, consisting of our interest income from loans provided to the customers and cash at banks of RMB7.8 million, deducted by RMB11,000, being our interest and commission expenses as we primarily relied on our registered capital to finance our loan business during such initial stage.

#### *Other revenue*

We use our surplus cash to purchase principal guaranteed wealth management products from commercial banks in Deqing, depending on our cash position and business needs in order to generate a higher return on our surplus cash. See “— Liquidity and Capital Resources — Selected items of the statement of financial position — Trading financial assets.” We had other revenue of RMB0.4 million for the period from 18 August 2011 to 31 December 2011, representing our investment returns from principal guaranteed wealth management products, deducted by the bank charges.

#### *Impairment losses*

We recorded impairment losses on loans and advances to customers of RMB3.9 million for the period from 18 August 2011 to 31 December 2011. For details on our methods of assessing impairment losses, see “— Critical Accounting Policies, Judgments and Estimates — Impairment of financial assets” and Notes 1 and 22 under Section B of the Accountants’ Report attached as Appendix I to this Prospectus.

#### *Administrative expenses*

We incurred administrative expenses of RMB3.8 million for the period from 18 August 2011 to 31 December 2011, mainly consisting of business tax and surcharge, staff costs, office expenditure, travel expenses and other expenses.

#### *Income tax*

Our income tax was RMB0.2 million for the period from 18 August 2011 to 31 December 2011. Our effective tax rate was 31.9% for the period from 18 August 2011 to 31 December 2011 because we incurred certain non-deductible expenses.

#### *Profit for the period*

As a result of the foregoing, our profit for the period from 18 August 2011 to 31 December 2011 was RMB0.3 million, and our net profit margin was 4.3% during the same period as we only commenced our operations in August 2011.

Because our results of operations were recorded for the full year of 2012, the amounts of all the items from our statement of profit or loss and other comprehensive income for the year ended 31 December 2012 were substantially larger than those for the period from 18 August 2011 to 31 December

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2011. As such, our management and Directors are of the view that our results of operations for the period from 18 August 2011 to 31 December 2011 are incomparable to those for the year ended 31 December 2012.

### *Liquidity and Capital Resources*

We have in the past funded our working capital and other capital requirements primarily by equity contributions from Shareholders, bank borrowings and cash flows from operations. Our liquidity and capital requirements primarily relate to extending loans and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity that can meet our working capital needs while supporting a healthy level of business scale and expansion. Other than normal bank borrowings we obtain from commercial banks and potential debt financing plans, such as asset securitization, we do not expect to have any material external debt financing plan in the near future.

Taking into account the financial resources available to us, including our existing cash and cash equivalents, net proceeds from the Global Offering and cash flows from 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.

### **Cash flows**

The following table sets forth a selected summary of our cash flow statement for the periods indicated:

	<b>Period from 18 August to 31 December</b>	<b>Year ended 31 December</b>		<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
				<b>(unaudited)</b>	
Cash and cash equivalents at beginning of period/year . . . . .	—	9,576	19,612	19,612	81,100
Net cash used in operating activities . . . . .	(213,927)	(196,139)	(19,809)	(38,334)	(439,503)
Net cash (used in)/generated from investing activities . . . . .	(2,497)	588	(149,062)	(5,922)	149,479
Net cash generated from financing activities . . . . .	226,000	205,587	230,359	35,298	264,992
Net increase/(decrease) in cash and cash equivalents	<u>9,576</u>	<u>10,036</u>	<u>61,488</u>	<u>(8,958)</u>	<u>(25,032)</u>
Cash and cash equivalents at end of period/year . . . . .	<u><u>9,576</u></u>	<u><u>19,612</u></u>	<u><u>81,100</u></u>	<u><u>10,654</u></u>	<u><u>56,068</u></u>

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### *Net cash used in operating activities*

Our cash generated from operating activities primarily consists of interest income from loans we grant to customers. Our cash used in operating activities primarily consists of loans and advances we extend to our customers and various taxes.

As we recorded equity contributions from Shareholders and bank borrowings as cash generated from financing activities, while we classified the deployment of such cash as new loans we granted to customers when we expanded our loan business as cash used in operating activities and, as a result, we reported net cash used in operating activities during the Track Record Period. 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 as a result of such accounting treatment, which is generally in line with the industry norm. See “Risk Factors — Risks Relating to Our Business and Industry — We reported negative operating cash flows during the Track Record Period and expect to continue to do so in the near term subsequent to the Listing.”

Net cash used in operating activities for the six months ended 30 June 2014 was RMB439.5 million. Our net cash flows from operating activities reflect: (i) our profit before tax of RMB61.4 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB16.1 million and interest expenses of RMB5.7 million; (ii) the effect of changes in working capital, primarily including an increase in loans and advances to customers of RMB523.2 million, due to our enlarged business scale mainly because of our capital injections in December 2013 and March 2014, and an increase in accruals and other payables of RMB14.2 million, mainly as a result of the conditional government grants of RMB13.0 million we recorded during the first half of 2014, conditional on the Listing by 2016 according to the special meeting minutes by Deqing county government dated 13 June 2014; and (iii) income tax paid of RMB12.8 million.

Net cash used in operating activities for the year ended 31 December 2013 was RMB19.8 million. Our net cash flows from operating activities reflect: (i) our profit before tax of RMB69.0 million, adjusted for non-cash and non-operating items, primarily including interest expenses of RMB12.3 million and impairment losses of RMB2.5 million; (ii) the effect of changes in working capital, primarily including an increase in loans and advances to customers of RMB71.6 million, as we continued to expand our business scale, and an increase in interest receivables and other assets of RMB14.6 million, mainly comprising a deposit of RMB9.0 million to a fund pool managed by Microfinance Union of Huzhou City. For more details, see “— Selected items of the statement of financial position — Other assets;” and (iii) income tax paid of RMB17.6 million.

Net cash used in operating activities for the year ended 31 December 2012 was RMB196.1 million. Our net cash flows from operating activities reflect: (i) our profit before tax of RMB35.2 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB17.8 million and interest expenses of RMB8.3 million; (ii) the effect of changes in working capital, primarily including an increase in loans and advances to customers of RMB251.7 million, as we continued to expand our business scale, and an increase in interest receivables and other assets of RMB2.0 million mainly as a result of the increase in our loans and advances to customers; and (iii) income tax paid of RMB5.2 million.

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Net cash used in operating activities for the period from 18 August 2011 to 31 December 2011 was RMB213.9 million. Our net cash flows from operating activities reflect: (i) our profit before tax of RMB0.5 million, adjusted for non-cash and non-operating items, primarily including impairment losses of RMB3.9 million; and (ii) the effect of changes in working capital, primarily including an increase in loans and advances to customers of RMB218.0 million.

### *Net cash (used in)/generated from investing activities*

During the Track Record Period, our investing activities were mainly short-term usage of our surplus cash. Our cash generated from investing activities was primarily attributable to proceeds from disposal of principal guaranteed wealth management products, while our cash used in investing activities was primarily attributable to our purchase of such products. The Company generally held these investment products for less than a week.

For the six months ended 30 June 2014, our net cash generated from investing activities was RMB149.5 million. Our net cash inflows for investing activities mainly consisted of proceeds from disposal of principal guaranteed wealth management products of RMB670.6 million, partially offset by our payments for such investment products of RMB520.5 million.

For the year ended 31 December 2013, our net cash used in investing activities was RMB149.1 million. Our net cash outflows for investing activities mainly consisted of our payments for principal guaranteed wealth management products of RMB2,062.6 million, partially offset by proceeds from disposal of such investment products of RMB1,913.6 million.

For the year ended 31 December 2012, our net cash generated from investing activities was RMB0.6 million. Our net cash inflows for investing activities consisted of proceeds from disposal of principal guaranteed wealth management products of RMB1,521.4 million, partially offset by our payments for such investment products of RMB1,520.8 million.

For the period from 18 August 2011 to 31 December 2011, our net cash used in investing activities was RMB2.5 million. Our net cash outflows for investing activities mainly consisted of our payments for principal guaranteed wealth management products of RMB285.7 million, partially offset by proceeds from disposal of such investment products of RMB286.1 million and purchases of fixed assets of RMB2.9 million.

### *Net cash generated from financing activities*

Our cash generated from financing activities consist primarily of proceeds from equity contributions and new borrowings. Our cash used in financing activities consists of: (i) repayment of borrowings; (ii) interests paid; and (iii) dividend payments.

For the six months ended 30 June 2014, our net cash generated from financing activities was RMB265.0 million. Our net cash flows from financing activities consisted of equity contributions of RMB288.0 million and new borrowings of RMB94.0 million, which was offset by: (i) repayments of borrowings of RMB105.0 million; (ii) cash paid for other financing activities of RMB4.9 million, which was professional fees in relation to the Listing; (iii) interests paid of RMB4.2 million; and (iv) dividend paid of RMB2.8 million.



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For the year ended 31 December 2013, our net cash generated from financing activities was RMB230.4 million. Our net cash flows from financing activities consisted of equity contributions of RMB220.4 million and new borrowings of RMB211.0 million, which was offset by: (i) repayments of borrowings of RMB160.0 million; (ii) dividend paid of RMB29.2 million; and (iii) interests paid of RMB11.9 million.

For the year ended 31 December 2012, our net cash generated from financing activities was RMB205.6 million. Our net cash flows from financing activities consisted of equity contributions of RMB122.9 million and new borrowings of RMB194.0 million, partly offset by repayments of borrowings of RMB100.0 million.

For the period from 18 August 2011 to 31 December 2011, our net cash generated from financing activities was RMB226.0 million, representing equity contributions of RMB200.0 million and new borrowings of RMB26.0 million.

### Cash management

As our business relies primarily on its available cash, we normally set aside a sufficient amount of cash for general working capital needs, such as administrative expenses and payment of interests on bank borrowings, and use substantially all of the remainder for granting loans to our customers. As of 31 December 2011, 2012 and 2013 and 30 June 2014, the total cash and cash equivalents amounted to RMB9.6 million, RMB19.6 million, RMB81.1 million and RMB56.1 million, respectively, which we consider to be adequate based on our actual working capital needs.

### Selected items of the statement of financial position

The following table sets forth a summary of our assets and liabilities as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>				
Cash and cash equivalents . . . . .	9,576	19,612	81,100	56,068
Trading financial assets <sup>(1)</sup> . . . . .	—	—	150,000	—
Interest receivables . . . . .	1,111	2,828	8,622	7,156
Loans and advances to customers. . . . .	214,099	448,063	517,238	1,024,386
Fixed assets.. . . . .	2,728	2,191	1,630	1,987
Deferred tax assets . . . . .	1,023	5,549	6,131	13,408
Other assets . . . . .	70	3,465	12,027	17,790
<b>Total assets</b> . . . . .	<b>228,607</b>	<b>481,708</b>	<b>776,748</b>	<b>1,120,795</b>
<b>Liabilities</b>				
Interest-bearing borrowings. . . . .	26,000	120,000	171,000	160,000
Accruals and other payables . . . . .	1,092	2,779	6,426	17,627
Current tax liabilities . . . . .	1,180	9,465	9,842	19,675
<b>Total liabilities</b> . . . . .	<b>28,272</b>	<b>132,244</b>	<b>187,268</b>	<b>197,302</b>
<b>Net assets</b> . . . . .	<b>200,335</b>	<b>349,464</b>	<b>589,480</b>	<b>923,493</b>

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*Note:*

- (1) During the Track Record Period, in order to better flexibly utilize our surplus cash in hand, we purchased from time to time principal guaranteed and interest paying wealth management products offered by licensed commercial banks such as Agricultural Bank of China, Deqing Branch and Bank of China, Deqing Branch in the PRC, which we hold for a relatively short period of time, usually less than a week, and recorded investment returns. For such principal guaranteed products, the banks undertake to guarantee the full repayment of the principal on redemption which the Directors consider to be of a similar nature with bank deposits but generally offered slightly higher interest return than typical current bank deposits, thereby improving short-term capital usage efficiency and allowing the Company to earn additional investment return on its surplus cash. All our investments in trading financial assets are related to such wealth management products during the Track Record Period. In terms of net cash used in/generated from investing activities in relation to these investments, we had a net cash inflow of RMB0.4 million and RMB0.6 million for the period from 18 August 2011 to 31 December 2011 and the year ended 31 December 2012, respectively, a net cash outflow of RMB149.0 million for the year ended 31 December 2013, and a net cash inflow of RMB150.2 million for the six months ended 30 June 2014. The balance of such wealth management products amounted to RMB150.0 million as of 31 December 2013, while we did not have such financial wealth management products as of 31 December 2011 and 2012 and 30 June 2014. For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2014, we had investment returns from such wealth management products of RMB0.4 million, RMB0.6 million, RMB1.0 million and RMB0.2 million, respectively.

For a maturity profile of our assets and liabilities, see “— Quantitative and Qualitative Disclosures about Market Risk — Liquidity risk.”

### *Cash and cash equivalents*

Cash and cash equivalents primarily consist of our cash in hand and cash at banks. The following table sets forth our cash and cash equivalents as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand . . . . .	4	16	17	17
Cash at banks . . . . .	9,572	19,596	81,083	56,051
<b>Cash and cash equivalents . . . . .</b>	<b>9,576</b>	<b>19,612</b>	<b>81,100</b>	<b>56,068</b>

The increase in our cash and cash equivalents from RMB19.6 million as of 31 December 2012 to RMB81.1 million as of 31 December 2013 was mainly due to equity contributions of RMB220.4 million in December 2013. The decrease in our cash and cash equivalents from RMB81.1 million as of 31 December 2013 to RMB56.1 million as of 30 June 2014 was primarily because we have used a majority of the equity contributions in both December 2013 and March 2014 to grant loans to customers.

As of 31 October 2014, our cash and cash equivalents amounted to RMB55.3 million mainly because we increased the size of our loan portfolio.

### *Trading financial assets*

Pursuant to our treasury and investment policies, we may conduct investment activities including purchase of wealth management products, venture investments and securities investments. Such investment activities require prior approval by the Board or shareholders' meeting and are subject to internal reporting and monitoring procedures. For short-term investment products, such as securities, bonds and investment funds, we conduct comprehensive review on such products at the end of their

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respective terms. In addition, we estimate the potential losses and make provisions for losses where we deem appropriate. During the Track Record Period, in order to better flexibly utilize our surplus cash in hand, we took into consideration the level of our outstanding loans and loan repayments, market conditions, business development plans and relevant transaction costs, and when we think appropriate, purchased principal guaranteed wealth management products offered by commercial banks, which we hold for a relatively short period of time, usually less than a week, from which we recorded investment returns. We had trading financial assets of RMB150.0 million as of 31 December 2013, which we purchased on 31 December 2013 and subsequently held until January 2014. We did not have such financial assets as of 31 December 2011 and 2012 and 30 June 2014.

As of 31 October 2014, we did not have such financial assets.

We currently do not have intention to hold such trading financial assets but subject to our future cash position and business needs, we may consider to purchase trading financial assets such as the abovementioned wealth management products. Our Directors confirm that any such investment would only be made according to our treasury and investment policies and after compliance with the Listing Rules as well as other relevant laws and regulations if applicable.

### *Interest receivables*

Compared to 2011 and 2012, our interest receivables increased from RMB1.1 million and RMB2.8 million as of 31 December 2011 and 2012, respectively, to RMB8.6 million and RMB7.2 million as of 31 December 2013 and 30 June 2014, respectively. The increase in our interest receivables was mainly in line with the increase in our outstanding loans, primarily as a result of our enlarged business scale and capital base.

As of 31 October 2014, our interest receivables amounted to RMB8.7 million.

### *Loans and advances to customers*

Our loans and advances to customers reflect the total balance of our loan portfolio. The following table sets forth our gross loans and advances to customers by customer type as of the dates indicated:

	<u>As of 31 December</u>			<u>As of 30 June</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Loans to enterprises <sup>(1)</sup> . . . . .	71,400	146,270	305,410	711,800
Loans to individuals . . . . .	<u>146,570</u>	<u>323,420</u>	<u>235,905</u>	<u>352,715</u>
<b>Total gross loans and advances to customers</b> . . . . .	<u>217,970</u>	<u>469,690</u>	<u>541,315</u>	<u>1,064,515</u>
Allowances for impairment losses				
— collective . . . . .	(3,871)	(13,181)	(18,696)	(35,151)
— individual . . . . .	<u>—</u>	<u>(8,446)</u>	<u>(5,381)</u>	<u>(4,978)</u>
<b>Total allowances for impairment losses</b> . . . . .	<u>(3,871)</u>	<u>(21,627)</u>	<u>(24,077)</u>	<u>(40,129)</u>
<b>Net loans and advances to customers</b> . . . . .	<u><b>214,099</b></u>	<u><b>448,063</b></u>	<u><b>517,238</b></u>	<u><b>1,024,386</b></u>

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Note:

- (1) Include loans to sole proprietors.

During the Track Record Period, our loans and advances to customers increased steadily as a result of our business expansion, which was attributable to our increased capital base. As of 30 June 2014, our net loans and advances to customers amounted to RMB1,024.4 million mainly because of our capital injections in December 2013 and March 2014, which we used to grant loans to customers.

We focus on providing short-term loans to minimize our risk exposure and, as a result, a substantial majority of our loans and advances to customers have a term of less than one year. The following table sets forth a maturity profile of the original term of our gross loans and advances to customers as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Due within three months. . . . .	33,920	45,520	18,210	15,050
Due between three months and six months . . . . .	110,600	35,190	57,300	128,230
Due between six months and one year . . . . .	73,400	388,930	464,005	919,435
Due more than one year. . . . .	50	50	1,800	1,800
<b>Total gross loans and advances to customers. . . . .</b>	<b>217,970</b>	<b>469,690</b>	<b>541,315</b>	<b>1,064,515</b>

We did not have overdue loans as of 31 December 2011. We had overdue loans of RMB10.9 million, RMB0.8 million and RMB1.0 million as of 31 December 2012 and 2013 and 30 June 2014, respectively, accounting for 2.3%, 0.1% and 0.1% of our total gross loans and advances to customers as of the same dates. As of 31 October 2014, only RMB475,000 of the overdue loans outstanding as of 30 June 2014 had not been recovered.

The following table sets forth our loan portfolio by security as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured loans <sup>(1)</sup> . . . . .	45,680	6,150	41,750	28,850
Guaranteed loans. . . . .	154,640	383,340	418,460	910,570
Collateralized loans . . . . .	17,650	62,600	78,705	124,095
Pledged loans . . . . .	—	17,600	2,400	1,000
<b>Total gross loans and advances to customers. . . . .</b>	<b>217,970</b>	<b>469,690</b>	<b>541,315</b>	<b>1,064,515</b>

Note:

- (1) Our unsecured loans are usually of small amount, with short term, and granted to customers who have good credit histories upon assessing the risks involved in the loans during our credit evaluation process.

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The majority of our loans were guaranteed loans during the Track Record Period. Our guaranteed loans accounted for 70.9%, 81.6%, 77.3% and 85.5% of our total gross loans and advances to customers as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively.

For more details of our loan portfolio, see “Business — Loan Portfolio.”

As of 31 October 2014, our gross loans and advances to customers amounted to RMB1,087.8 million.

### *Other assets*

Our other assets primarily consist of our deposit to a fund pool managed by Microfinance Union of Huzhou City, deferred expenses (待攤費用) and Listing service fees. The following table sets forth a breakdown of our other assets as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables <sup>(1)</sup> . . . . .	—	—	9,000	9,000
Deferred expenses <sup>(2)</sup> . . . . .	70	3,364	2,986	1,392
Listing service fees . . . . .	—	—	—	7,337
Others . . . . .	—	101	41	61
<b>Total other assets</b> . . . . .	<b>70</b>	<b>3,465</b>	<b>12,027</b>	<b>17,790</b>

*Notes:*

- (1) Represent our deposit to a fund pool managed by Microfinance Union of Huzhou City.
- (2) Mainly consist of interest prepayments to Bank of China, Deqing Branch.

As of 31 December 2011, 2012 and 2013 and 30 June 2014, our other assets were RMB70,000, RMB3.5 million, RMB12.0 million and RMB17.8 million, respectively. The increase in our other assets increased during the Track Record Period corresponded with our business growth. In addition, pursuant to *Measures of Huzhou City on Bank Financing Risk Fund Pool of Microfinance Companies* (湖州市小額貸款公司銀行融資風險基金池管理辦法) issued in 2013, we are required to deposit a certain percentage of our outstanding loans each year to a fund pool managed by Microfinance Union of Huzhou City. Such fund pool was established to facilitate inter-company financing and minimize liquidity risk among microfinance companies in Huzhou. As of 31 December 2013 and 30 June 2014, the outstanding balance of our deposit to such fund pool was RMB9.0 million and RMB9.0 million, respectively. Subject to relevant approval, we are able to collect such deposit under certain conditions, such as fully repaying our outstanding bank borrowings. We also incurred service fees in relation to Listing of RMB7.3 million as of 30 June 2014, all of which will be charged to equity upon the Listing.

As of 31 October 2014, our other current assets amounted to RMB14.2 million.

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### *Accruals and other payables*

The following table sets forth a breakdown of our accruals and other payables by nature as of the dates indicated:

	<u>As of 31 December</u>			<u>As of 30 June</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Business tax, surcharges and other tax payables . . . . .	226	643	3,978	1,190
Accrued staff cost . . . . .	234	580	463	527
Interest payables.. . . . .	6	153	340	227
Consulting fee payables . . . . .	—	—	1,053	—
Conditional government grants . . . . .	—	—	—	13,000
Listing service fee payables . . . . .	—	—	—	2,392
Others <sup>(1)</sup> . . . . .	626	1,403	592	291
<b>Total accruals and other payables . .</b>	<b><u>1,092</u></b>	<b><u>2,779</u></b>	<b><u>6,426</u></b>	<b><u>17,627</u></b>

*Note:*

(1) Includes payables of business service charge and other accruals.

Our accruals and other payables mainly include: (i) business tax, surcharges and other tax payables; (ii) payables of consulting fees; (iii) conditional government grants; and (iv) payables of Listing service fees. Our accruals and other payables increased from RMB1.1 million as of 31 December 2011 to RMB2.8 million as of 31 December 2012 mainly due to increases in business service charge payables, tax payables and accrued staff cost in 2012. Our accruals and other payables further increased to RMB6.4 million as of 31 December 2013 primarily because of withholding individual income tax of RMB2.8 million and payables of consulting fees of RMB1.1 million, partly offset by a decrease of RMB0.7 million in business service charge payables in 2013. Our accruals and other payables as of 30 June 2014 substantially increased to RMB17.6 million primarily because of payables of professional fees of RMB2.4 million and conditional government grants of RMB13.0 million in relation to the Listing, partly offset by a decrease in tax payables of RMB2.8 million in the first half of 2014.

As of 31 October 2014, our accruals and other payables amounted to RMB16.3 million.

### *Current tax liabilities*

Our current tax liabilities, which represent payables of our income tax, were RMB1.2 million, RMB9.5 million, RMB9.8 million and RMB19.7 million, respectively, as of 31 December 2011, 2012 and 2013 and 30 June 2014. The increase in our current tax liabilities during the Track Record Period was generally in line with our enlarged business scale.

As of 31 October 2014, we had current tax liabilities of RMB4.5 million.

### **Capital commitments**

We did not have any capital commitment during the Track Record Period.

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### Key financial ratios

The following table sets forth the breakdown of our total gross outstanding loans and advances to customers by category as of the dates indicated:

	As of 31 December						As of 30 June	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Normal . . . . .	217,970	100.0	395,340	84.2	439,940	81.3	909,840	85.5
Special mention . . . . .	—	—	48,850	10.4	86,300	15.9	141,000	13.2
Substandard . . . . .	—	—	23,900	5.1	14,300	2.6	13,200	1.2
Doubtful . . . . .	—	—	1,600	0.3	600	0.1	300	0.1
Loss . . . . .	—	—	—	—	175	0.1	175	0.0
<b>Total gross outstanding loans and advances to customers . . . . .</b>	<b>217,970</b>	<b>100.0</b>	<b>469,690</b>	<b>100.0</b>	<b>541,315</b>	<b>100.0</b>	<b>1,064,515</b>	<b>100.0</b>

For “normal” and “special mention” loans, given that they are neither past due nor 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 as appropriate by an evaluation of the loss expected to be incurred on the balance sheet date.

The following table sets forth our key operating data as of the dates or for the periods indicated:

	As of or for the period from 18 August to 31 December	As of or for the year ended 31 December		As of or for the six months ended 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Impaired loan ratio<sup>(1)</sup></b> . . . . .	—	5.4%	2.8%	1.3%
Balance of impaired loans . . . . .	—	25,500	15,075	13,675
Gross outstanding loans and advances to customers . . . . .	217,970	469,690	541,315	1,064,515
<b>Provision coverage ratio<sup>(2)</sup></b> . . . . .	N/A	84.8%	159.7%	293.4%
Allowances for impairment losses <sup>(3)</sup> . . . . .	3,871	21,627	24,077	40,129
Balance of impaired loans . . . . .	—	25,500	15,075	13,675
<b>Provision for impairment losses ratio<sup>(4)</sup></b> . . . . .	1.8%	4.6%	4.4%	3.8%
Balance of overdue loans . . . . .	—	10,900	775	975
Gross outstanding loans and advances to customers . . . . .	217,970	469,690	541,315	1,064,515
<b>Overdue loan ratio<sup>(5)</sup></b> . . . . .	—	2.3%	0.1%	0.1%

Notes:

(1) Represents the balance of impaired loans divided by the balance of the gross outstanding loans and advances to customers. Impaired loan ratio indicates the quality of our loan portfolio.

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- (2) Represents the allowances for impairment losses on all loans divided by the balance of impaired loans. The allowances 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. Provision coverage ratio indicates the level of provisions we set aside to cover probable loss in our loan portfolio.
- (3) Allowances for impairment losses reflect our management's estimate of the probable loss in our loan portfolio.
- (4) Represents the allowances for impairment losses divided by the balance of the gross outstanding loans and advances to customers. Provision for impairment losses ratio measures the cumulative level of provisions.
- (5) Represents the overdue loans divided by the balance of the gross outstanding loans and advances to customers.

Our impaired loan balance increased to RMB25.5 million as of 31 December 2012, primarily due to an increase in loans of RMB23.9 million, which we considered “substandard,” of which RMB10.9 million were overdue as of 31 December 2012, and the remaining RMB13.0 million were not overdue as of 31 December 2012, for which we considered it prudent to make provision due to the result of our post-loan grant reviews. Our impaired loans decreased to RMB15.1 million and RMB13.7 million as of 31 December 2013 and 30 June 2014, respectively, mainly because: (i) we focused more on serving customers with stronger repayment ability in 2013 and for the six months ended 30 June 2014, of which we charged a lower interest rate after an increase in overdue loan ratio to 2.3% in 2012; (ii) we were able to subsequently recover in 2013 the full overdue amount of RMB10.9 million as of 31 December 2012; and (iii) there were relatively low level of overdue amount of RMB0.8 million and RMB1.0 million as of 31 December 2013 and 30 June 2014, respectively. As a result of the decreasing balance of our impaired loans since 2012, our provision coverage ratio, which indicates the level of provisions we set aside to cover probable loss in our loan portfolio, increased to 159.7% and 293.4% as of 31 December 2013 and 30 June 2014, respectively, from 84.8% as of 31 December 2012.

The following tables set forth certain key financial ratios as of the dates or for the periods indicated:

	Period from 18 August to 31 December	Year ended 31 December		Six months ended 30 June
	2011	2012	2013	2014
	Return on weighted average equity . .	NA	8.6%	13.8%
Return on average assets <sup>(1)</sup> . . . . .	NA	7.4%	8.2%	9.7% <sup>(2)</sup>

*Notes:*

- (1) Represents profit for the period/year divided by average balance of total assets as of the beginning and end of a period/year.
- (2) Is annualized by dividing the actual figure by six and multiplied by 12.



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	As of 31 December			As of 30 June
	2011	2012	2013	2014
Gearing ratio <sup>(1)</sup> . . . . .	8.2%	28.7%	15.3%	11.3%

*Note:*

(1) Represents total interest-bearing borrowings, less cash and cash equivalents, divided by total equity as of the end of a period/year.

Our return on weighted average equity increased from 2012 to 2013 mainly as a result of the relatively faster rate of growth in our profit in 2013, as compared to the change rate in equity attributable to our equity holders. Our return on weighted average equity decreased from 2013 to the first half of 2014 primarily due to the increase in our capital base as a result of capital contributions received in December 2013 and March 2014. Our return on average assets increased during the Track Record Period mainly attributable to the continued growth of our business and profit.

Our gearing ratio increased significantly from 8.2% as of 31 December 2011 to 28.7% as of 31 December 2012 primarily due to increases in bank borrowings to increase our loan portfolio. Our gearing ratio decreased to 15.3% as of 31 December 2013 and further to 11.3% as of 30 June 2014 mainly because of our capital increase in December 2013 and March 2014.

### Capital expenditures

Our capital expenditures consist primarily of expenditures for the purchase of equipment and vehicles. The following table sets forth our capital expenditures for the periods indicated:

	Period from 18 August to 31 December	Year ended 31 December		Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Capital expenditures . . . . .	2,887	46	30	21	685

For the period from 18 August 2011 to 31 December 2011, we incurred capital expenditures of RMB1.3 million to purchase office, electronic and other equipment and vehicles in order to commence our operations and RMB1.5 million for leasehold improvement. Our capital expenditures for the years ended 31 December 2012 and 2013 were minimal. We incurred capital expenditures of RMB0.7 million for the six months ended 30 June 2014 mostly on vehicles.

We intend to fund our capital expenditures with cash generated from our operating activities.

### Related party transactions

During the Track Record Period, we leased a property from Mr. Yu, an executive Director and the Chairman of the Company. For the period from 18 August 2011 to 31 December 2011, the years ended 31 December 2012 and 2013, and the six months ended 30 June 2013 and 2014, the rental payment was RMB0.4 million, RMB0.4 million, RMB0.6 million, RMB0.3 million and RMB0.3 million, respectively.

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For more details, see “Business — Properties — Leased Properties” and “Continuing Connected Transaction — Continuing Connected Transaction Fully Exempt from the Relevant Reporting, Announcement and Shareholders’ Approval Requirements — Tenancy Agreement between the Company and Mr. Yu.” Our Directors confirm that the lease was conducted on an arm’s length basis and did not distort our historical results.

During the Track Record Period, certain of our related parties obtained loans from us and/or provided guarantees for loans we granted to third parties. As of the Latest Practicable Date, all of such loans to our related parties had been repaid and all of such guarantees by our related parties had been released. For the years ended 31 December 2012 and 2013 and the six months ended 30 June 2013 and 2014, the interest income we received from such related party transactions amounted to RMB45,000, RMB122,000, RMB90,000 and RMB1,000, respectively, which was minimal to our interest income during the same period. For the period from 18 August 2011 to 31 December 2011, we did not have such interest income. During the Track Record Period, we granted loans to certain of connected persons under Listing Rules. Such loans to our connected persons amounted to RMB3.2 million, RMB3.3 million, RMB5.5 million and RMB6.9 million as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. All of such loans to our connected persons have been repaid as of the Latest Practicable Date. Our Directors confirm that these loans were carried out on normal commercial terms. We did not grant any loan to connected persons under Listing Rules for the period from 1 July 2014 to the Latest Practicable Date.

In addition, certain of our Shareholders and Directors, including Puhua Energy and Zuoli Holdings, had guaranteed some of our bank borrowings and our loans to customers, and such bank borrowings amounted to RMB26.0 million, RMB120.0 million, RMB160.0 million and RMB160.0 million as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. For more details, see Note 21 under Section B of the Accountants’ Report attached as Appendix I to this Prospectus. We have obtained a confirmation dated 8 August 2014 from Bank of China, Deqing Branch confirming that, upon Listing, such guarantees will be irrevocably automatically released and the underlying loan agreements will remain effective.

### *Indebtedness*

#### **Borrowings**

We have financed our operations primarily through cash flows from operations, bank borrowings and cash contributions from Shareholders. We obtain bank and other borrowings primarily for expanding our business and meeting working capital requirements.

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As of 31 October 2014, the latest date for determining our indebtedness, our total outstanding borrowings amounted to RMB160.0 million. The following table sets forth our outstanding borrowings as of the dates indicated:

	As of 31 December			As of 30 June	As of 31 October
	2011	2012	2013	2014	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Bank borrowings . . . . .	26,000	120,000	160,000	160,000	160,000
Other borrowings . . . . .	—	—	11,000	—	—
<b>Total borrowings . . . . .</b>	<b>26,000</b>	<b>120,000</b>	<b>171,000</b>	<b>160,000</b>	<b>160,000</b>

The steady increase in our bank borrowings during the Track Record Period was a result of our business expansion. During the Track Record Period, our bank borrowings bore interest rates ranging from 6.9% to 8.5% on an annual basis. In addition, we also borrowed from the fund pool managed by Microfinance Union of Huzhou City since 2013, at an interest rate ranging from 7.3% to 10.0% on an annual basis, pursuant to *Measures of Huzhou City on Bank Financing Risk Fund Pool of Microfinance Companies* (湖州市小額貸款公司銀行融資風險基金池管理辦法), which was recorded as other borrowings according to the HKFRS.

Certain of our Shareholders and Directors, including Puhua Energy and Zuoli Holdings, had guaranteed our bank borrowings of RMB160.0 million as of 30 June 2014. See “— Liquidity and Capital Resources — Related party transactions” and Note 21 under Section B of the Accountants’ Report attached as Appendix I to this Prospectus.

Our bank borrowings agreements contain standard terms, conditions and covenants that are customary for commercial bank loans in China. Such covenants primarily include requirements for us to obtain the lending bank’s prior consent for certain transactions, such as disposal of material assets, merger or consolidation, and liquidation or winding-up. During the Track Record Period, we have complied with all the covenants of our bank borrowings, did not have any default in payment of our bank borrowings, and did not experience any difficulties in obtaining bank borrowings. In addition, there were no material covenants which limited our ability to undertake additional debt or equity financing during the Track Record Period.

We generally apply for bank borrowings on a case-by-case basis and draw down the entire borrowing amount when approved by the lending banks. As of 30 June 2014, we did not have any unutilized banking facilities.

Since 31 October 2014, being the latest date for the purpose of this indebtedness statement, there has been no adverse change to our indebtedness. As of 31 October 2014, except as otherwise disclosed in this Prospectus, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

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## FINANCIAL INFORMATION

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### *Off-balance Sheet Arrangements*

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving another entity under which the Company has made guarantees or any obligation arising out of a material variable interest in another entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging, or research and development arrangements with the Company. As of 30 June 2014, we did not have any off-balance sheet arrangements.

### *Quantitative and Qualitative Disclosures about Market Risk*

The primary financial risks we face in the ordinary course of business are credit risk, liquidity risk and interest rate risk. See Note 19 under Section B of the Accountants' Report attached as Appendix I to this Prospectus for details.

#### **Credit risk**

We are exposed to credit risk, which is the risk of loss arising from a borrower's or counterparty's failures or inability to fulfill obligations to us. Our credit exposure arises primarily from outstanding loans provided by us. We continuously monitor these risk exposures. See "Business — Risk Management — Credit Risk Management."

We make provisions for the anticipated level of impairment loss after categorizing the loan according to the "Five-Tier Principle." According to the "Five-Tier Principle," our loans are categorized as "normal," "special mention," "substandard," "doubtful" or "loss" according to their levels of risk. We consider our "substandard," "doubtful" and "loss" loans as impaired loans.

The definition of each category of loans is set forth below:

- *Normal:* Borrowers can honor the terms of their loans. There is no sufficient reason to doubt their ability to repay principal and make interest payments in full on a timely basis.
- *Special mention:* Borrowers are currently able to service their loans and interests, 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 make interest payments. Losses may ensue even when collateral, pledge or guarantees are invoked.
- *Doubtful:* Borrowers cannot repay principal and make interest payments in full and significant losses will need to be recognized even when collateral, pledge or guarantees are invoked.
- *Loss:* Principal and interests 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.

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Concentration of credit risk reflects the sensitivity of our operating results to a particular industry or geographic location. As we only served customers in Deqing during the Track Record Period, a certain level of geographical concentration risk exists for our loan portfolio and we might be affected by changes in the PRC economic conditions. The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as of the end of the Track Record Period.

In addition, we adopt a credit rating approach in managing our credit risk, counterparties' rating are evaluated before transactions with reference to major rating agencies generally recognized by the PBOC. In respect of interest receivables and other assets, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' history of making payments when due and current ability to pay, and take into account information specific to each customer as well as pertaining to the economic environment in which such customer operates. Normally, we do not obtain collateral or pledge from customers.

### Liquidity risk

Liquidity risk refers to risks in our operations when we have inadequate funds to fulfill our obligations related to financial debts. Our management regularly monitors our liquidity requirements to ensure that we maintain sufficient reserves of cash to meet our liquidity requirements in the short and long terms.

The following tables provide an analysis of our financial assets and liabilities in the relevant maturity groups based on the remaining periods to repayment as of the dates indicated:

As of 30 June 2014						
	Overdue/ Repayable on demand	Within three months	Between three months and one year	Between one year and five years	Total	Balance sheet book value
(RMB'000)						
<b>Assets</b>						
Cash and cash equivalents . . . . .	56,068	—	—	—	56,068	56,068
Interest receivables . . . . .	7,156	—	—	—	7,156	7,156
Loans and advances to customers. . .	975	203,027	957,258	108	1,161,368	1,024,386
Other assets . . . . .	61	1,125	7,875	—	9,061	9,061
<b>Total</b> . . . . .	<u>64,260</u>	<u>204,152</u>	<u>965,133</u>	<u>108</u>	<u>1,233,653</u>	<u>1,096,671</u>
<b>Liabilities</b>						
Interest-bearing borrowings. . . . .	—	(21,869)	(144,296)	—	(166,165)	(160,000)
Accruals and other payables . . . . .	(2,920)	—	—	—	(2,920)	(2,920)
<b>Total</b> . . . . .	<u>(2,920)</u>	<u>(21,869)</u>	<u>(144,296)</u>	<u>—</u>	<u>(169,085)</u>	<u>(162,920)</u>
	<u>61,340</u>	<u>182,283</u>	<u>820,837</u>	<u>108</u>	<u>1,064,568</u>	<u>933,751</u>

## FINANCIAL INFORMATION

As of 31 December 2013

	<u>Overdue/ Repayable on demand</u>	<u>Within three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>Total</u>	<u>Balance sheet book value</u>
	(RMB'000)					
<b>Assets</b>						
Cash and cash equivalents . . . . .	81,100	—	—	—	81,100	81,100
Trading financial assets . . . . .	150,000	—	—	—	150,000	150,000
Interest receivables . . . . .	8,622	—	—	—	8,622	8,622
Loans and advances to customers . . . . .	775	90,694	500,639	111	592,219	517,238
Other assets . . . . .	41	—	9,000	—	9,041	9,041
<b>Total</b> . . . . .	<u>240,538</u>	<u>90,694</u>	<u>509,639</u>	<u>111</u>	<u>840,982</u>	<u>766,001</u>
<b>Liabilities</b>						
Interest-bearing borrowings . . . . .	—	(12,803)	(166,291)	—	(179,094)	(171,000)
Accruals and other payables . . . . .	(1,985)	—	—	—	(1,985)	(1,985)
<b>Total</b> . . . . .	<u>(1,985)</u>	<u>(12,803)</u>	<u>(166,291)</u>	<u>—</u>	<u>(181,079)</u>	<u>(172,985)</u>
	<u>238,553</u>	<u>77,891</u>	<u>343,348</u>	<u>111</u>	<u>659,903</u>	<u>593,016</u>

As of 31 December 2012

	<u>Overdue/ Repayable on demand</u>	<u>Within three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>Total</u>	<u>Balance sheet book value</u>
	(RMB'000)					
<b>Assets</b>						
Cash and cash equivalents . . . . .	19,612	—	—	—	19,612	19,612
Interest receivables . . . . .	2,828	—	—	—	2,828	2,828
Loans and advances to customers . . . . .	10,900	104,715	410,530	56	526,201	448,063
Other assets . . . . .	101	—	—	—	101	101
<b>Total</b> . . . . .	<u>33,441</u>	<u>104,715</u>	<u>410,530</u>	<u>56</u>	<u>548,742</u>	<u>470,604</u>
<b>Liabilities</b>						
Interest-bearing borrowings . . . . .	—	(1,277)	(124,290)	—	(125,567)	(120,000)
Accruals and other payables . . . . .	(1,556)	—	—	—	(1,556)	(1,556)
<b>Total</b> . . . . .	<u>(1,556)</u>	<u>(1,277)</u>	<u>(124,290)</u>	<u>—</u>	<u>(127,123)</u>	<u>(121,556)</u>
	<u>31,885</u>	<u>103,438</u>	<u>286,240</u>	<u>56</u>	<u>421,619</u>	<u>349,048</u>

## FINANCIAL INFORMATION

As of 31 December 2011						
	<u>Overdue/ Repayable on demand</u>	<u>Within three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>Total</u>	<u>Balance sheet book value</u>
(RMB'000)						
<b>Assets</b>						
Cash and cash equivalents. . . . .	6,576	3,001	—	—	9,577	9,576
Interest receivables. . . . .	1,111	—	—	—	1,111	1,111
Loans and advances to customers. . .	—	99,829	138,902	60	238,791	214,099
<b>Total. . . . .</b>	<b>7,687</b>	<b>102,830</b>	<b>138,902</b>	<b>60</b>	<b>249,479</b>	<b>224,786</b>
<b>Liabilities</b>						
Interest-bearing borrowings. . . . .	—	(334)	(27,021)	—	(27,355)	(26,000)
Accruals and other payables . . . . .	(632)	—	—	—	(632)	(632)
<b>Total. . . . .</b>	<b>(632)</b>	<b>(334)</b>	<b>(27,021)</b>	<b>—</b>	<b>(27,987)</b>	<b>(26,632)</b>
	<b>7,055</b>	<b>102,496</b>	<b>111,881</b>	<b>60</b>	<b>221,492</b>	<b>198,154</b>

### Interest risk

#### *Interest rate profile*

We have bank and other borrowings with fixed interest rates. The following table sets forth our interest-bearing financial instruments as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed interest rate financial instruments				
<b>Financial assets</b>				
— Cash and cash Equivalents . . . .	3,000	—	—	—
— Loans and advances to customers. . . . .	214,099	448,063	517,238	1,024,386
<b>Total financial assets . . . . .</b>	<b>217,099</b>	<b>448,063</b>	<b>517,238</b>	<b>1,024,386</b>
<b>Financial liabilities</b>				
— Interest-bearing borrowing . . . .	(26,000)	(120,000)	(171,000)	(160,000)
<b>Total financial liabilities. . . . .</b>	<b>(26,000)</b>	<b>(120,000)</b>	<b>(171,000)</b>	<b>(160,000)</b>
<b>Net financial assets . . . . .</b>	<b>191,099</b>	<b>328,063</b>	<b>346,238</b>	<b>864,386</b>
Floating interest rate financial instrument				
<b>Financial Assets</b>				
— Cash and cash Equivalents . . . .	6,572	19,596	81,083	56,051
<b>Net financial assets . . . . .</b>	<b>6,572</b>	<b>19,596</b>	<b>81,083</b>	<b>56,051</b>

## FINANCIAL INFORMATION

### *Sensitivity analysis*

As of 31 December 2011, 2012 and 2013 and 30 June 2014, if the interest rate had been higher/ (lower) by 50 basis points, with all other variables held constant, our net profit would have increased/ (decreased) by RMB9,000, RMB73,000, RMB304,000 and RMB105,000, respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating-rate non-derivative instruments held by the Company at the end of each period/year.

The following table sets forth the effect of the change in interest rate on profit before tax during the Track Record Period:

	Note	Period from 18 August to 31 December			Six months ended 30 June
		Year ended 31 December			ended 30 June
		2011	2012	2013	2014
		RMB'000	RMB'000	RMB'000	RMB'000
Interest income arising from					
Loans and advances to					
customers . . . . .	a	7,563	70,794	90,967	71,049
Average interest rate . . . . .	b	20.2%	18.4%	17.2%	15.6%
Business taxes and					
surcharges rate. . . . .	c	5.6%	5.6%	5.6%	5.6%
The effect of the change in					
interest rate on profit					
before tax					
— 100bps . . . . .	$d=a/b*(1-c)*1\%$	353.4	3,632.0	4,992.6	4,299.4
— 200bps . . . . .	$e=a/b*(1-c)*2\%$	706.9	7,264.1	9,985.2	8,598.8
— 300bps . . . . .	$f=a/b*(1-c)*3\%$	1,060.3	10,896.1	14,977.8	12,898.1
— 400bps . . . . .	$g=a/b*(1-c)*4\%$	1,413.8	14,528.2	19,970.4	17,197.5
— 500bps . . . . .	$h=a/b*(1-c)*5\%$	1,767.2	18,160.2	24,963.0	21,496.9

### **DIVIDEND POLICY**

After completion of the Global Offering, our Shareholders will be entitled to receive any dividends that we declare. Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' General Meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, capital adequacy ratio, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors deems relevant.

In accordance with our Articles of Association, dividends may be paid only out of distributable profits as determined under PRC GAAP or HKFRS, whichever is lower. We declared cash dividends of RMB32.0 million in 2013. Our dividend distributions during the Track Record Period had complied with the applicable reserve requirements in the PRC. The undistributed profit accumulated before the Listing will be shared among current and future Shareholders. We cannot assure you that we will be able to



## FINANCIAL INFORMATION

declare or distribute dividends in any amount each year or in any year. The declaration and payment of dividends may be limited by legal restrictions or financing arrangements that we may enter into in the future.

### DISTRIBUTABLE RESERVES

As of 31 December 2011, 2012 and 2013 and 30 June 2014, the aggregate amounts of reserves available for distribution to our equity owners/Shareholders, as calculated under the provisions of the *PRC Company Law*, were RMB0.3 million, RMB23.9 million, RMB38.4 million and RMB26.6 million, respectively.

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statements of our unaudited pro forma adjusted net tangible assets attributable to our Shareholders are prepared based on our net tangible assets attributable to our Shareholders as of 30 June 2014, adjusted as described below. The unaudited pro forma adjusted net tangible assets attributable to our Shareholders have been prepared for illustrative purposes only, and because of their nature, they may not give a true picture of our financial position as of 30 June 2014 or any future date following the Global Offering.

The statements of unaudited pro forma adjusted net tangible assets attributable to our Shareholders have been prepared to show the effect on our net tangible assets attributable to our Shareholders as of 30 June 2014 as if the Global Offering had occurred on 30 June 2014. The unaudited pro forma adjusted net tangible assets per Share attributable to our Shareholders is calculated in accordance with Listing Rules 4.29.

	Audited net tangible assets attributable to our Shareholders as of 30 June 2014 <sup>(1)</sup>	Estimated net proceeds from the Global Offering <sup>(2)(5)</sup>	Pro forma adjusted net tangible assets <sup>(3)</sup>	Pro forma adjusted net tangible assets per Share <sup>(4)</sup>	
	RMB'000	RMB'000	RMB'000	RMB	HK\$ <sup>(6)</sup>
Based on the Offer Price of					
HK\$1.27 per Share . . . . .	923,493	261,732	1,185,225	1.00	1.27
Based on the Offer Price of					
HK\$1.39 per Share . . . . .	923,493	289,165	1,212,658	1.03	1.29

*Notes:*

- (1) The net tangible assets attributable to our Shareholders as of 30 June 2014 is based on the net assets attributable to our Shareholders of RMB923.5 million as of 30 June 2014.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.27 per H Share (being the minimum Offer Price) to HK\$1.39 per H Share (being the maximum Offer Price) and the assumption that there are 300,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by us, assuming that the Over-allotment Option is not exercised and without taking into account any discretionary incentive fees.

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## FINANCIAL INFORMATION

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- (3) The unaudited pro forma adjusted net tangible assets do not take into account the financial results or other transactions of the Company subsequent to 30 June 2014.
- (4) The unaudited pro forma adjusted net tangible assets per Share is arrived on the basis of 1,180,000,000 Shares in issue assuming that the Global Offering has been completed on 30 June 2014 and that the Over-allotment Option is not exercised.
- (5) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.7938 to HK\$1.00, the exchange rate set by the PBOC prevailing on 30 June 2014. No representation is made that the Hong Kong dollars have been, could have been or could be converted to Renminbi at that rate or at any other rate.
- (6) The unaudited pro forma adjusted net tangible assets per Share is translated in Hong Kong dollars at exchange rate of RMB0.7938 to HK\$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars at that rate or at any other rate.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that, there had been no material adverse change in our financial or trading position or prospects since 30 June 2014 and up to the date of this Prospectus.

### **DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES**

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Hong Kong Listing Rules.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS AND PROSPECTS

See “Business — Our Business Strategies” for a detailed description of our future plans.

### USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$347.0 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us, and assuming the Offer Price of HK\$1.33 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. We intend to use all the proceeds from the Global Offering to further expand the capital base of our loan business.

For more information on our expansion plan after the Global Offering, see “Business — Our Business Strategies.”

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares will be approximately HK\$57.5 million, after deducting the underwriting commissions and our estimated expenses, assuming an Offer Price of HK\$1.33 per Share, being the mid-point of the indicative Offer Price range. We intend to use the additional proceeds for expanding the capital base of our loan business.

If the Offer Price is fixed at HK\$1.39 per Share, being the high end of the Offer Price range stated in this Prospectus, assuming that the Over-allotment Option is not exercised, we will receive additional net proceeds of approximately HK\$18 million. If the Offer Price is fixed at HK\$1.27 per Share, being the low end of the Offer Price range stated in this Prospectus, assuming that the Over-allotment Option is not exercised, the net proceeds we receive will be reduced by approximately HK\$18 million. If the Offer Price is set above the mid-point of the proposed Offer Price range, we intend to apply the additional amounts towards the same purpose above. If the Offer Price is set below the mid-point of the proposed Offer Price range, we intend to reduce the amounts allocated to the same purpose above.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into our accounts with licensed financial institutions.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

#### *Joint Lead Managers (in alphabetical order)*

China Galaxy International Securities (Hong Kong) Co., Limited  
Convoy Investment Services Limited  
Guangdong Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### *Hong Kong Public Offering*

##### **Hong Kong Underwriting Agreement**

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering initially 30,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions of this Prospectus and the Application Forms.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any additional H Shares which may be issued and/or sold pursuant to the exercise of the Over-allotment Option) as mentioned herein and (ii) certain other conditions set forth in the Hong Kong Underwriting Agreement (including, among others, the Joint Bookrunners (on behalf of the Underwriters) and the Company agreeing on the Offer Price), the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions or amounts (set out in the Hong Kong Underwriting Agreement) of the Hong Kong Offer Shares now being offered but which are not taken up under the Hong Kong Public Offering, on and subject to the terms and conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed, becoming unconditional and not having been terminated in accordance with its terms.

##### **Grounds for termination**

The Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) may in their sole and absolute discretion terminate the Hong Kong Underwriting Agreement with immediate effect by notice in writing to the Company at any time at or prior to 8:00 a.m. on the Listing Date if:

- (a) there develops, occurs, exists or comes into force:
  - (i) any change or development involving a prospective change, or any event or series of events resulting in or representing any change or development, in local, national, regional or international financial, political, military, industrial, economic, fiscal or market conditions (including, without limitation, conditions and sentiments in stock and bond markets, money and foreign exchange markets, investment and credit markets and

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## UNDERWRITING

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inter-bank markets) in or affecting Hong Kong, the PRC, the United States or any other jurisdiction in which the Company is incorporated, operates or conducts business (collectively, the “Relevant Jurisdictions”); or

- (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court, governmental or regulatory authority in or affecting any of the Relevant Jurisdictions; or
- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of God, acts of terrorism (whether or not responsibility has been claimed), epidemic, pandemic, outbreak of infectious disease (including without limitation SARS, H5N1, H7N9 or H1N1 or swine or avian influenza or such related/mutated forms)) in or affecting any of the Relevant Jurisdictions; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared), acts of war or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) the imposition or declaration of (A) any moratorium, suspension, restriction or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or (B) any moratorium on, or disruption in, commercial banking activities or foreign exchange trading or securities settlement or clearing services in or affecting any of the Relevant Jurisdictions; or
- (vi) any change or development involving a change or prospective change in taxation or exchange controls (or the implementation of any exchange control) or currency exchange rates or control or foreign investment regulations in or affecting any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanction, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- (viii) any change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or the value of the Renminbi is determined by reference to a basket of world currencies or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currency; or
- (ix) any change or development or interference or event involving a prospective change in the Company’s assets, liabilities, profit, losses, business performance, financial condition, earnings, trading position or prospects, or any change in capital stock or long-term debt of the Company, which (in any such case) is not set forth in this Prospectus; or

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## UNDERWRITING

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- (x) a demand by any creditor for repayment or payment of any indebtedness of the Company or in respect of which the Company is liable prior to its stated maturity; or
- (xi) non-compliance of this Prospectus and the Application Forms or any aspect of the Global Offering with the Listing Rules or any other applicable law; or
- (xii) any adverse change in or any development involving a prospective adverse change in, or a materialization of, any of the risks set out in “Risk Factors” in this Prospectus; or
- (xiii) any Director, Supervisor, the chairman, chief executive officer or chief financial officer of the Company named in this Prospectus gives notice to resign or retire, or is removed from office,

and which, in any such case (whether individually or in the aggregate) and in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):

- (A) is or will or may be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of the Company taken as a whole; or
  - (B) has or will or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
  - (C) makes or will or may make it impracticable, inadvisable, inexpedient or not commercially viable to proceed with or for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering and/or the Global Offering or the delivery of Shares on the terms and in the manner contemplated by this Prospectus or for any of the above to be performed or implemented as envisaged; or
- (b) any of the following shall have come to the notice of the Joint Bookrunners after the date of the Hong Kong Underwriting Agreement or they have reasonable cause to believe:
- (i) that any statement contained in any of the formal notice to be published in connection with the Hong Kong Public Offering (the “Formal Notice”), this Prospectus and the Application Forms (the “Hong Kong Public Offering Documents”), or the offering circulars (if any), any supplemental offering materials, press announcement, the Formal Notice, the roadshow materials and any other document published or issued by or on behalf of the Company or the International Underwriters for the purposes of or in connection with the Global Offering (the “International Offering Documents”) was or has become untrue or incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in this Prospectus or any announcement issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or

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## UNDERWRITING

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- (ii) any matter which would, if the Formal Notice, the Hong Kong Public Offering Documents or the International Offering Documents and/or any announcement issued or authorized by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) were issued at that time, constitute a material omission therefrom; or
- (iii) other than with the prior approval of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters), the issue or requirement to issue by the Company of a supplemental prospectus or amendment to this Prospectus; or
- (iv) any matter, event, act or omission which gives or is likely to give rise to any liability on the part of the Company or the Controlling Shareholders out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties and/or the indemnities given by the Company, the Controlling Shareholders or any of them under the Hong Kong Underwriting Agreement; or
- (v) any event, act or omission which gives rise or is likely to give rise to any liability of the Company or any of the Controlling Shareholders pursuant to the indemnities in the Hong Kong Underwriting Agreement; or
- (vi) any material breach of any of the obligations or undertakings of the Company or the Controlling Shareholders under the Hong Kong Underwriting Agreement as determined by the Joint Bookrunners in their sole and absolute opinion; or
- (vii) that any profit forecast or estimate which appears in any of the Hong Kong Public Offering Documents or International Offering Documents is or becomes incapable of being met or, in the opinion of the Joint Bookrunners, unlikely to be met; or
- (viii) that any certificate given by the Company or any of the Company's officers to the Joint Bookrunners under or in connection with the Hong Kong Underwriting Agreement is false or misleading in any material respect; or
- (ix) any Director, any Supervisor or any member of senior management named in this Prospectus is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) the commencement by any judicial, regulatory, governmental or political body or law enforcement agency or organization of any investigation, public action or other material action, claim or proceeding against any Director or any Supervisor of the Company or an announcement by any judicial, regulatory, governmental or political body or law enforcement agency or organization that it intends to take any such action; or
- (xi) save as disclosed in the Hong Kong Public Offering Documents and International Offering Documents, a material contravention by the Company of the Listing Rules or any applicable laws or regulations; or
- (xii) any material litigation, legal action or claim being threatened or instigated against the Company; or

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- (xiii) a petition is presented for the winding-up or liquidation of the Company or the Company makes any composition or arrangement with the Company's creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of the Company or a provisional liquidator, receiver or manager is appointed over all or any material part of the assets or undertaking of the Company or anything analogous thereto occurs in respect of the Company; or
- (xiv) a prohibition on the Company for whatever reason from allotting, issuing or selling the Offer Shares (including the H Shares to be sold pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xv) the Company withdraws this Prospectus and/or the Application Forms; or
- (xvi) approval by the Listing Committee for the listing of, and permission to deal in, the H Shares to be issued or sold (including any Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (xvii) any of the experts named in Appendix VI to this Prospectus has withdrawn its respective consent to the issue of this Prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

### ***Undertakings to the Hong Kong Stock Exchange Pursuant to the Listing Rules***

#### **Undertakings by the Company**

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that, 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 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 commencement of dealing), except pursuant to the Global Offering or in the circumstances prescribed by Rule 10.08 of the Listing Rules.

#### **Undertakings by the Controlling Shareholders**

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and to the Company that, except pursuant to the Global Offering (including the Over-allotment Option), he/it will not and will procure that the relevant registered holder(s) will not, without the prior written consent of the Hong Kong Stock Exchange and unless in compliance with the requirements of the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of his/its shareholdings in the Company is made in this Prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or



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otherwise create any options, rights, interests or encumbrances in respect of, any of the H Shares in respect of which he/it is shown by this Prospectus to be the beneficial owners (whether directly or indirectly); and

- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the H Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would then cease to be a Controlling Shareholder of the Company for the purposes of the Listing Rules.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further undertaken to the Hong Kong Stock Exchange and to the Company that within the period commencing on the date by reference to which disclosure of his shareholdings is made in this Prospectus and ending on the date which is 12 months from the Listing Date, he will:

- (a) when he/it pledges or charges any of the H Shares beneficially owned by him/it (whether directly or indirectly) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform the Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged H Shares will be disposed of, immediately inform the Company of such indications.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the matters mentioned in (a) and (b) above by any of the Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

### *Undertakings Pursuant to the Hong Kong Underwriting Agreement*

#### **Undertakings by the Company**

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, and each of the Controlling Shareholders has undertaken to procure that, except pursuant to the Global Offering and unless in compliance with the requirements of the Listing Rules:

- (a) the Company will not offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, Shares or other securities of the Company or any interest therein (including but not limited to, warrants or other convertible or exchangeable securities) or repurchase Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company

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## UNDERWRITING

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or any interest thereon or offer to or agree to do any of the foregoing or announce any intention to do so during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing date (the “First Six Months Period”);

- (b) the Company will not enter into any of the transactions described in paragraph (a) above or agree or contract to or publicly announce any intention to enter into any such transactions such that any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company during the period of six months immediately following the expiry of the First Six Months Period (the “Second Six Months Period”); and
- (c) the Company will ensure that if any of the transactions described in paragraph (a) above are carried out during the Second Six Months Period, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

### **Undertakings by the Controlling Shareholders**

Pursuant to the Hong Kong Underwriting Agreement, each of the Controlling Shareholders has jointly and severally undertaken to the Sole Sponsor (for itself and on behalf of the Hong Kong Underwriters) that:

- (i) during the period commencing on the date of this Prospectus and ending on the expiry date of the First Six Months Period, he/it shall not, and shall procure that the relevant registered holder(s) and his/its close associates and companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not, without the prior written consent of the Sole Sponsor (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, (1) offer, pledge, charge (other than any pledge or charge of the Company’s issued share capital after the Global Offering (assuming the Over-allotment Option is not exercised) in favor of an authorized institution as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any of the Shares or securities of the Company beneficially owned by him/it or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by him/it) which is directly or indirectly a beneficial owner of any of the Shares or securities of the Company or any interest thereon (the “Relevant Securities”); or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; (3) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (1) or (2) above; or (4) announce any intention to enter into or effect any of the transactions referred to in paragraphs (1), (2) or (3) above, which any of the foregoing transactions referred to in paragraphs (1), (2) or (3) is to be settled by delivery of Shares or such other securities, in cash or otherwise;

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## UNDERWRITING

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- (ii) he/it shall, and shall procure that his/its respective close associates and companies controlled by him/it and any nominee or trustees holding in trust for him/it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or by the registered holder controlled by him/it of any Shares; and
- (iii) he/it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (i) or (ii) above or offer to or agree to or publicly 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/it will cease to be a controlling shareholder (as defined in the Listing Rules) of the Company. In the event that he/it enters into any of such transactions or offers to or agrees to or contracts to or announces any intention to effect any such transactions in compliance with this paragraph (iii), he/it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Each of the Controlling Shareholders further undertakes to each of the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, from the date of the Hong Kong Underwriting Agreement up to and including the expiry of the Second Six Months Period, he/it will:

- (i) when he/it pledges or charges any securities or interests in the Relevant Securities, immediately inform the Company and the Joint Bookrunners in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be sold, transferred or disposed of, immediately inform the Company and the Joint Bookrunners in writing of such indications.

The Company will inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by the relevant Controlling Shareholder and disclose such matters by way of a press announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

### *International Offering*

#### **International Underwriting Agreement**

In connection with the International Offering, it is expected that we and the Controlling Shareholders will enter into the International Underwriting Agreement with the Joint Bookrunners and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will, severally and not jointly, agree to purchase, or procure purchasers for, the International Offer Shares being offered pursuant to the International Offering.

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## UNDERWRITING

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We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Stabilizing Manager on behalf of the International Underwriters, on or before 4 February 2015, being the 30th day from the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 45,000,000 additional H Shares, representing in aggregate 15% of the number of the H Shares initially available under the Global Offering at the Offer Price (plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% of the Offer Price) to cover over-allocations, if any, in the International Offering.

### *Commission and Expenses*

The Hong Kong Underwriters will receive a gross commission of 3.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by the Company with respect to the new Offer Shares to be issued by the Company (including pursuant to the exercise of the Over-allotment Option). The Company may also in our sole discretion pay the Sole Sponsor an additional incentive fee of up to 0.5% in the aggregate of the sale proceeds of the offer of Offer Shares under the Global Offering (including pursuant to the exercise of the Over-allotment Option).

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately HK\$52.0 million in total (based on the mid-point of our indicative price range of the Global Offering and assuming the Over-allotment Option is not exercised).

### *Hong Kong Underwriters' Interests in the Company*

Save for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this Prospectus, none of the Hong Kong Underwriters has any shareholding interests in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. China Galaxy International Securities (Hong Kong) Co., Limited, Convoy Investment Services Limited and Guangdong Securities Limited are the Joint Bookrunners.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (a) the Hong Kong Public Offering of 30,000,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described in “— The Hong Kong Public Offering;” and
- (b) the International Offering of 270,000,000 H Shares (subject to adjustment and the Over-allotment Option as mentioned below) to professional and institutional investors as described in “— The International Offering.”

The Offer Shares will represent approximately 25.42% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 28.16% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set forth in “Underwriting — Underwriting Arrangements and Expenses — International Offering — International Underwriting Agreement.”

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors’ indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in “— The Hong Kong Public Offering — Reallocation and Clawback” below.

### THE HONG KONG PUBLIC OFFERING

#### *Number of H Shares Initially Offered*

The Company is initially offering 30,000,000 H Shares at the Offer Price under the Hong Kong Public Offering, representing 10% of the 300,000,000 H Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the

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## STRUCTURE OF THE GLOBAL OFFERING

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number of H Shares initially offered under the Hong Kong Public Offering will represent 2.54% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

The Joint Bookrunners (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Offer Shares.

### *Allocation*

For allocation purposes only, the 30,000,000 H Shares initially being offered under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment at odd lot size): Pool A comprising 15,000,000 Hong Kong Offer Shares and Pool B comprising 15,000,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and only apply for Hong Kong Offer Shares in either Pool A or Pool B. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to Pool A and Pool B, will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### *Reallocation and Clawback*

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of H Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and

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## STRUCTURE OF THE GLOBAL OFFERING

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(iii) 100 times or more, of the number of H Shares initially available under the Hong Kong Public Offering, the total number of H Shares available under the Hong Kong Public Offering will be increased to 90,000,000, 120,000,000 and 150,000,000 H Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this Prospectus as “Mandatory Reallocation.” In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Bookrunners deem appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B. If the Hong Kong Offer Shares are not fully subscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Bookrunners deem appropriate. In addition to any Mandatory Reallocation which may be required, the Joint Bookrunners may, at their discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered.

### *Applications*

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Multiple or suspected multiple applications and any application for more than 15,000,000 Hong Kong Offer Shares, being the maximum number of Hong Kong Offer Shares initially comprised in Pool B in the Hong Kong Public Offering, are liable to be rejected.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$1.39 per H Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in “— Pricing and Allocation” is less than the maximum price of HK\$1.39 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in “How to Apply for Hong Kong Offer Shares.”

References in this Prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE INTERNATIONAL OFFERING

#### *Number of International Offer Shares Offered*

The number of International Offer Shares to be initially offered under the International Offering will be 270,000,000 Offer Shares, representing 90% of the Offer Shares under the Global Offering. Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent approximately 22.88% of our enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

#### *Allocation*

Pursuant to the International Offering, the International Underwriters will conditionally place the International Offer Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and our Shareholders as a whole.

#### *Reallocation*

The total number of International Offer Shares to be transferred pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation and Clawback,” exercise of the Over-allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Offering.

#### *Over-allotment Option*

In connection with the Global Offering, the Company is expected to grant an Over-allotment Option to the International Underwriters, exercisable by the Stabilizing Manager at its sole and absolute discretion on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Stabilizing Manager will have the right to require the Company to issue and allot up to an aggregate of 45,000,000 Shares representing in aggregate 15% of the initial number of the Offer Shares at the Offer Price to cover over-allocations in the International Offering. The Stabilizing Manager may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing



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## STRUCTURE OF THE GLOBAL OFFERING

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arrangements or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations.

### PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 8 January 2015 and, in any event, not later than Sunday, 11 January 2015.

The Offer Price will be not more than HK\$1.39 and is currently expected not to be less than HK\$1.27, unless otherwise announced as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus. If, for any reason, the Offer Price is not agreed by Sunday, 11 January 2015 between the Joint Bookrunners (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Bookrunners (on behalf of the Underwriters) consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of Monday, 5 January 2015, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Hong Kong Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk), and on the Company’s website at [www.zlkcx.com](http://www.zlkcx.com) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as set out in this Prospectus and any other financial information which may change as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering is so reduced. In the absence of any notice being published of a reduction in the number

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## STRUCTURE OF THE GLOBAL OFFERING

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of Offer Shares being offered under the Global Offering stated in this Prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

The Hong Kong Offer Shares and the International Offer Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Joint Bookrunners.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on Monday, 12 January 2015 through a variety of channels as described in “How to Apply for Hong Kong Offer Shares — 11. Publication of Results.”

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager and/or its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of our H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of H Shares will be affected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not exceed the number of Shares that may be issued and/or sold under the Over-allotment Option, namely 45,000,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilizing action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization and stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the H Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of

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## STRUCTURE OF THE GLOBAL OFFERING

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the H Shares; (v) selling or agreeing to sell any H Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the H Shares;
- (b) there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, or any person acting for it, will maintain such a position;
- (c) liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the H Shares;
- (d) no stabilizing action can be taken to support the price of the H Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on 4 February 2015, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the H Shares, and therefore the price of the Shares, could fall;
- (e) the price of the H Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- (f) stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

The Company will procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, the Stabilizing Manager may over-allocate up to and not more than an aggregate of 45,000,000 H Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

### UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Bookrunners (on behalf of the Underwriters) and the Company on the Price Determination Date.

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## STRUCTURE OF THE GLOBAL OFFERING

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We expect that the Company will, on or around the Price Determination Date, enter into the International Underwriting Agreement relating to the International Offering. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in “Underwriting.”

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, *inter alia*:

- the Listing Committee granting the listing of, and permission to deal in, the H Shares being offered pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);
- the Company having submitted to the HKSCC all requisite documents to enable the Offer Shares to be admitted to trade on the Hong Kong Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date;
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Bookrunners, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements; and

in each case on or before the dates and times specified in the respective Underwriting Agreements (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 date which is 30 days after the date of this Prospectus.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in “How to Apply for Hong Kong Offer Shares.” In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

H Share certificates for the Offer Shares are expected to be issued on Monday, 12 January 2015 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on Tuesday, 13 January 2015, provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has

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## STRUCTURE OF THE GLOBAL OFFERING

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been terminated in accordance with its terms. Investors who trade H Shares prior to the receipt of H Share certificates or prior to the H Share certificates bearing valid certificates of title do so entirely at their own risk.

### **H SHARES WILL BE ELIGIBLE FOR CCASS**

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange and we comply with the stock admission requirements of HKSCC, our 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 may be determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange 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.

### **DEALING ARRANGEMENTS**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 13 January 2015, it is expected that dealings in H Shares on the Hong Kong Stock Exchange will commence on Tuesday, 13 January 2015. Our H Shares will be traded in board lot of 2,000 H Share each.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via **White Form eIPO** at [www.eipo.com.hk](http://www.eipo.com.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.

The Company, the Joint Bookrunners, the **White Form eIPO** 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 Hong Kong 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 **White Form eIPO**, 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 your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners 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 **White Form eIPO** for the Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company;
- a Director or chief executive officer of the Company;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### *Which Application Channel to Use*

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong 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, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### *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 Tuesday, 30 December 2014 till 12:00 noon on Monday, 5 January 2015 from:

- (a) any of the following offices of the Hong Kong Underwriters:

China Galaxy International Securities (Hong Kong) Co., Limited	Unit 3501–3507, 35th Floor, COSCO Tower Grand Millennium Plaza, 183 Queen's Road Central Sheung Wan, Hong Kong
Convoy Investment Services Limited	Unit C, 24/F, @ CONVOY, 169 Electric Road North Point, Hong Kong
Guangdong Securities Limited	Units 2505–06, 25/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central, Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(b) any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch:

<u>Area</u>	<u>Branch name</u>	<u>Address</u>
Hong Kong Island	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
	Quarry Bay Sub-Branch	G/F., 981C King's Road, Quarry Bay
Kowloon	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
	Hunghom Sub-Branch	Flat/Rm A6, G/F., Wing Kwai Building, 1-3 Tak Man Street, Whampoa Estate
New Territories	Tseung Kwan O Sub- Branch	Shop 253-255, Metro City Shopping Arcade, Phase I, Tseung Kwan O
	Tai Po Sub-Branch	Shop No.1, G/F., Wing Fai Plaza, 29-35 Ting Kok Road, Tai Po

You can collect a **YELLOW** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Tuesday, 30 December 2014 till 12:00 noon on Monday, 5 January 2015 from the Depository Counter of HKSCC at Hong Kong or from your stockbroker.

### *Time for Lodging Application Forms*

Your completed **WHITE** or **YELLOW** Application Form, together with a check or a banker's cashier order attached and marked payable to "**Bank of Communications (Nominee) Co. Ltd. — Zuoli Kechuang Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Tuesday, 30 December 2014	— 9:00 a.m. to 5:00 p.m.
Wednesday, 31 December 2014	— 9:00 a.m. to 5:00 p.m.
Friday, 2 January 2015	— 9:00 a.m. to 5:00 p.m.
Saturday, 3 January 2015	— 9:00 a.m. to 1:00 p.m.
Monday, 5 January 2015	— 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 5 January 2015, the last application day or such later time as described in "— 10. Effect of Bad Weather on the Opening of the Application Lists."

#### **4. TERMS AND CONDITIONS OF AN APPLICATION**

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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By submitting an Application Form or applying through **White Form eIPO**, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Bookrunners (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, the *PRC Company Law*, the *Special Regulations* and the Articles of Association;
- (c) 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;
- (d) 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;
- (e) confirm that you are aware of the restrictions on the Global Offering in this Prospectus;
- (f) agree that none of the Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this Prospectus (and any supplement to it);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (h) agree to disclose to the Company, our H Share Registrar, the receiving banks, the Joint Bookrunners, 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;
- (i) 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 the Company, the Joint Bookrunners 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;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (l) represent, warrant and undertake that (i) you understand that the Hong Kong 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 Hong Kong 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;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any H Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(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 check(s) in person;
- (p) 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;
- (q) understand that the Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (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 White Form eIPO Service Provider by you or by any one as your agent or by any other person; and
- (s) (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.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 5. APPLYING THROUGH WHITE FORM eIPO SERVICE

#### *General*

Individuals who meet the criteria in “— 2. Who Can Apply” may apply through **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the White Form eIPO Service Provider to apply on the terms and conditions in this Prospectus, as supplemented and amended by the terms and conditions of **White Form eIPO** service.

#### *Time for Submitting Applications under the White Form eIPO*

You may submit your application to the White Form eIPO Service Provider at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 30 December 2014 until 11:30 a.m. on Monday, 5 January 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 5 January 2015 or such later time in “— 10. Effect of Bad Weather on the Opening of the Application Lists.”

#### *No Multiple Applications*

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

#### *Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance*

For the avoidance of doubt, the 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 Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

#### *Environmental Protection*

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “Zuoli Kechuang Micro-

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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finance Company Limited” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### *General*

CCASS Participants may give electronic application instructions to apply for the Hong Kong 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 Center  
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 Hong Kong 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 the Company, the Joint Bookrunners and our H Share Registrar.

#### *Giving Electronic Application Instructions to HKSCC via CCASS*

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) 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;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (b) HKSCC Nominees will do the following things on your behalf:
- agree that the Hong Kong 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 Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - 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 the Company, the Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong 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 the Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);
  - agree to disclose your personal data to the Company, our H Share Registrar, the receiving banks, the Joint Bookrunners, 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;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- 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 the Company agreeing that it will not offer any Hong Kong 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 Hong Kong 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 the Company's announcement of the Hong Kong Public Offering 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 Hong Kong 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 of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, the *PRC Company Law*, the *Special Regulations* and the Articles of Association;
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agrees with the Company, for itself and for the benefit of each Shareholder of the Company 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 of the Company and each Director, Supervisor, manager and other senior officer of the Company, with each CCASS Participant giving electronic application instructions):
  - (i) 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 *PRC 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;
  - (ii) that any award made in such arbitration shall be final and conclusive; and
  - (iii) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agrees with the Company (for the Company itself and for the benefit of each Shareholder of the Company) that H Shares in the Company are freely transferable by their holders; and
- authorizes 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.

### *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 the 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 Hong Kong 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.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *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 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong 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 Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### *Time for Inputting Electronic Application Instructions*

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

Tuesday, 30 December 2014	—	9:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Wednesday, 31 December 2014	—	8:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Friday, 2 January 2015	—	8:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Saturday, 3 January 2015	—	8:00 a.m. to 1:00 p.m. <sup>(1)</sup>
Monday, 5 January 2015	—	8:00 a.m. <sup>(1)</sup> to 12:00 noon

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*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 Tuesday, 30 December 2014 until 12:00 noon on Monday, 5 January 2015 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Monday, 5 January 2015, the last application day or such later time as described in “— 10. Effect of Bad Weather on the Opening of the Application Lists.”

### *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 Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong 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 Hong Kong 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 Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance*

For the avoidance of doubt, the 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 Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *Personal Data*

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the H Share Registrar, the receiving bank, the Joint Bookrunners, 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 Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through **White Form eIPO** service is also only a facility provided by the White Form eIPO 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 Bookrunners, the Joint Lead Managers, and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through **White Form eIPO** service will be allotted any Hong Kong 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 Monday, 5 January 2015.

### **8. HOW MANY APPLICATIONS CAN YOU MAKE**

Multiple applications for the Hong Kong 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 **White Form eIPO** 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,

then the application will be treated as being for your benefit.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*“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 HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Hong Kong 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.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering — Pricing and Allocation.”

### 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,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 5 January 2015. 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 Monday, 5 January 2015 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 “Expected Timetable,” an announcement will be made in such event.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, 12 January 2015 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), on the Company's websites at [www.zlkxcd.cn](http://www.zlkxcd.cn) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's websites at [www.zlkxcd.cn](http://www.zlkxcd.cn) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Monday, 12 January 2015;
- from the designated results of allocations website at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, 12 January 2015 to 12:00 midnight on Sunday, 18 January 2015;
- by telephone enquiry line by calling 2862-8669 between 9:00 a.m. and 10:00 p.m. from Monday, 12 January 2015 to Thursday, 15 January 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 12 January 2015 to Wednesday, 14 January 2015 at all the receiving bank branches and sub-branches.

If the 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 Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure of the Global Offering."

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.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

***If your application is revoked:***

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the White Form eIPO 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

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 the 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 Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Hong Kong 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.

***If the Company or its agents exercise their discretion to reject your application:***

The Company, the Joint Bookrunners, the White Form eIPO 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.

***If the allotment of Hong Kong Offer Shares is void:***

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the 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 Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

***If:***

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- your payment is not made correctly or the check or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Bookrunners believe(s) that by accepting your application, it/they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 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\$1.39 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Global Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Global Offering" 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 check or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Monday, 12 January 2015.

### 14. DISPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (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 H 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:

- H Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and
- refund check(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 Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the 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-

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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named applicant (if you are joint applicants), may be printed on your refund check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund checks and H Share certificates are expected to be dispatched on or before Monday, 12 January 2015. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Tuesday, 13 January 2015 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" in this Prospectus has not been exercised. Investors who trade Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

### *Personal Collection*

#### **If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund check(s) and/or H Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 12 January 2015 or such other date as notified by us in the newspapers.

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 check(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 Hong Kong Offer Shares, your refund check(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, 12 January 2015, by ordinary post and at your own risk.

#### **If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) will be sent to the address on the relevant Application Form on or before Monday, 12 January 2015, by ordinary post and at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 Monday, 12 January 2015, 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 Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong 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 Hong Kong Public Offering in the manner described in "— 11. Publication of Results." You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 12 January 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **If you apply through White Form eIPO service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 12 January 2015, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund checks.

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 Hong Kong Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 12 January 2015 by ordinary post at your own risk.

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-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 check(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### **If you apply via electronic application instructions to HKSCC**

#### *Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong 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 Monday, 12 January 2015, 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, the 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 allotment of the Hong Kong Public Offering in the manner specified in “— 11. Publication of Results” on Monday, 12 January 2015. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 12 January 2015 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 Hong Kong 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 Hong Kong 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 Monday, 12 January 2015. Immediately following the credit of the Hong Kong 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 Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the 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 Monday, 12 January 2015.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 15. H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the 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 Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the 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 and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

30 December 2014

The Directors  
Zuoli Kechuang Micro-finance Company Limited

China Galaxy International Securities (Hong Kong) Co., Limited

Dear Sirs,

## INTRODUCTION

We set out below our report on the financial information relating to Zuoli Kechuang Micro-finance Company Limited (formerly known as Deqing Zuoli Kechuang Micro-finance Company Limited) (the "Company") comprising the statement of financial position of the Company as at 31 December 2011, 2012 and 2013 and 30 June 2014 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement of the Company for the period from 18 August 2011 (date of establishment) to 31 December 2011, for each of the years ended 31 December 2012 and 2013 and for the six months ended 30 June 2014 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 30 December 2014 (the "Prospectus").

The Company was established in Deqing County, Huzhou City, Zhejiang Province, the People's Republic of China (the "PRC") on 18 August 2011 as a limited liability company under the Companies Law of the PRC. Pursuant to a conversion completed on 28 April 2014 as detailed in the section headed "History and Development" in this Prospectus, the Company was converted into a joint stock limited liability company.

The Company has adopted 31 December as its financial year end date. The Company was subject to statutory audit during the Relevant Periods and the details of the name of the respective auditors are set out in Section B Note 24. The statutory financial statements of the Company were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC.

The directors of the Company have prepared the financial statements of the Company for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for the period from 18 August 2011 (date of

establishment) to 31 December 2011, for each of the years ended 31 December 2012 and 2013 and for the six months ended 30 June 2014 were audited by KPMG Huazhen (Special General Partnership) in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

#### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

#### **REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company in respect of any period subsequent to 30 June 2014.

#### **OPINION**

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2011, 2012 and 2013 and 30 June 2014 and the Company's results and cash flows for the Relevant Periods then ended.

#### **CORRESPONDING FINANCIAL INFORMATION**

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Company comprising the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the six months ended 30 June 2013, together with the explanatory notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

## A FINANCIAL INFORMATION OF THE COMPANY

## 1 Statement of profit or loss and other comprehensive income

*(Expressed in Renminbi ("RMB"))*

	Section B Note	Period from 18 August 2011 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 <i>(Unaudited)</i>	2014 RMB'000
Interest income . . . . .		7,820	70,973	90,789	43,362	71,243
Interest and commission expenses . . . . .		(11)	(8,322)	(12,335)	(6,382)	(5,662)
<b>Net interest income . . . . .</b>	2	<b>7,809</b>	<b>62,651</b>	<b>78,454</b>	<b>36,980</b>	<b>65,581</b>
Other revenue . . . . .	3	390	634	5,626	2,355	19,834
Impairment losses . . . . .	4	(3,871)	(17,756)	(2,450)	(1,054)	(16,052)
Administrative expenses . . .		(3,836)	(10,353)	(12,660)	(5,636)	(7,980)
<b>Profit before taxation . . . . .</b>	5	<b>492</b>	<b>35,176</b>	<b>68,970</b>	<b>32,645</b>	<b>61,383</b>
Income tax . . . . .	6	(157)	(8,939)	(17,354)	(8,172)	(15,370)
<b>Profit and total comprehensive income for the period/year . . . . .</b>		<b>335</b>	<b>26,237</b>	<b>51,616</b>	<b>24,473</b>	<b>46,013</b>
<b>Earnings per share</b>						
Basic and diluted (RMB) . . . . .	9	0.00	0.08	0.14	0.07	0.06

The accompanying notes form part of the Financial Information.

**2 Statement of financial position***(Expressed in RMB)*

	Section B Note	At 31 December			At 30 June
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
<b>Assets</b>					
Cash and cash equivalents . . . . .	10	9,576	19,612	81,100	56,068
Trading financial assets . . . . .	11	—	—	150,000	—
Interest receivables . . . . .		1,111	2,828	8,622	7,156
Loans and advances to customers . . . . .	12	214,099	448,063	517,238	1,024,386
Fixed assets . . . . .	13	2,728	2,191	1,630	1,987
Deferred tax assets . . . . .	17(b)	1,023	5,549	6,131	13,408
Other assets . . . . .	14	70	3,465	12,027	17,790
<b>Total assets</b> . . . . .		<b>228,607</b>	<b>481,708</b>	<b>776,748</b>	<b>1,120,795</b>
<b>Liabilities</b>					
Interest-bearing borrowings . . . . .	15	26,000	120,000	171,000	160,000
Accruals and other payables . . . . .	16	1,092	2,779	6,426	17,627
Current tax liabilities . . . . .	17(a)	1,180	9,465	9,842	19,675
<b>Total liabilities</b> . . . . .		<b>28,272</b>	<b>132,244</b>	<b>187,268</b>	<b>197,302</b>
<b>NET ASSETS</b> . . . . .		<b>200,335</b>	<b>349,464</b>	<b>589,480</b>	<b>923,493</b>
<b>CAPITAL AND RESERVES</b>					
Paid-in/share capital . . . . .	18	200,000	320,000	510,000	880,000
Reserves . . . . .		335	29,464	79,480	43,493
<b>TOTAL EQUITY</b> . . . . .		<b>200,335</b>	<b>349,464</b>	<b>589,480</b>	<b>923,493</b>

The accompanying notes form part of the Financial Information.

**3 Statement of changes in equity**  
(Expressed in RMB)

	<u>Paid-in/ share capital</u>	<u>Capital reserve</u>	<u>Surplus reserve</u>	<u>Retained earnings</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Section B Note 18(c)</i>	<i>Section B Note 18(d)(i)</i>	<i>Section B Note 18(d)(ii)</i>		
<b>Balance at 18 August 2011</b> (date of establishment) . . . . .	—	—	—	—	—
<b>Changes in equity for the period:</b>					
Profit and total comprehensive income for the period . . . . .	—	—	—	335	335
Capital injection ( <i>Section B Note 18(c)</i> ) . . .	200,000	—	—	—	200,000
Appropriation to surplus reserve . . . . .	—	—	33	(33)	—
<b>Balance at 31 December 2011</b> . . . . .	<u>200,000</u>	<u>—</u>	<u>33</u>	<u>302</u>	<u>200,335</u>
<b>Balance at 1 January 2012</b> . . . . .	<u>200,000</u>	—	33	302	200,335
<b>Changes in equity for 2012:</b>					
Profit and total comprehensive income for the year . . . . .	—	—	—	26,237	26,237
Capital injection ( <i>Section B Note 18(c)</i> ) . . .	120,000	2,892	—	—	122,892
Appropriation to surplus reserve . . . . .	—	—	2,624	(2,624)	—
<b>Balance at 31 December 2012</b> . . . . .	<u>320,000</u>	<u>2,892</u>	<u>2,657</u>	<u>23,915</u>	<u>349,464</u>
<b>Balance at 1 January 2013</b> . . . . .	<u>320,000</u>	2,892	2,657	23,915	349,464
<b>Changes in equity for 2013:</b>					
Profit and total comprehensive income for the year . . . . .	—	—	—	51,616	51,616
Capital injection ( <i>Section B Note 18(c)</i> ) . . .	190,000	30,400	—	—	220,400
Appropriation to surplus reserve . . . . .	—	—	5,162	(5,162)	—
Dividends to equity holders ( <i>Section B Note 18(b)</i> ) . . . . .	—	—	—	(32,000)	(32,000)
<b>Balance at 31 December 2013</b> . . . . .	<u>510,000</u>	<u>33,292</u>	<u>7,819</u>	<u>38,369</u>	<u>589,480</u>

The accompanying notes form part of the Financial Information.

**3 Statement of changes in equity (continued)***(Expressed in RMB)*

	<u>Paid-in/ share capital</u>	<u>Capital reserve</u>	<u>Surplus reserve</u>	<u>Retained earnings</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Section B</i>	<i>Section B</i>	<i>Section B</i>		
	<i>Note</i>	<i>Note</i>	<i>Note</i>		
	<i>18(c)</i>	<i>18(d)(i)</i>	<i>18(d)(ii)</i>		
<b>Balance at 1 January 2014</b> . . . . .	510,000	33,292	7,819	38,369	589,480
<b>Changes in equity for the six months ended 30 June 2014:</b>					
Profit and total comprehensive income for the period . . . . .	—	—	—	46,013	46,013
Capital injection ( <i>Section B Note 18(c)</i> ) . . .	240,000	48,000	—	—	288,000
Conversion into joint stock limited liability company . . . . .	130,000	(68,989)	(7,819)	(53,192)	—
<b>Balance at 30 June 2014</b> . . . . .	<u>880,000</u>	<u>12,303</u>	<u>—</u>	<u>31,190</u>	<u>923,493</u>
<b>Unaudited</b>					
<b>Balance at 1 January 2013</b> . . . . .	320,000	2,892	2,657	23,915	349,464
<b>Changes in equity for the six months ended 30 June 2013:</b>					
Profit and total comprehensive income for the period . . . . .	—	—	—	24,473	24,473
<b>Balance at 30 June 2013</b> . . . . .	<u>320,000</u>	<u>2,892</u>	<u>2,657</u>	<u>48,388</u>	<u>373,937</u>

The accompanying notes form part of the Financial Information.



**4 Cash flow statement**  
(Expressed in RMB)

	Section B Note	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
<b>Operating activities</b>						
Cash used in operations . . . . .	10(b)	(213,927)	(190,959)	(2,250)	(29,986)	(426,689)
PRC income tax paid . . . . .		—	(5,180)	(17,559)	(8,348)	(12,814)
<b>Net cash used in operating activities . . . . .</b>		<b>(213,927)</b>	<b>(196,139)</b>	<b>(19,809)</b>	<b>(38,334)</b>	<b>(439,503)</b>
<b>Investing activities</b>						
Proceeds from disposal of investments . . . . .		286,070	1,521,434	1,913,578	1,060,879	670,634
Payments for purchase of fixed assets . . . . .		(2,887)	(46)	(30)	(21)	(685)
Payments on acquisition of investments . . . . .		(285,680)	(1,520,800)	(2,062,610)	(1,066,780)	(520,470)
<b>Net cash (used in)/generated from investing activities . . . . .</b>		<b>(2,497)</b>	<b>588</b>	<b>(149,062)</b>	<b>(5,922)</b>	<b>149,479</b>
<b>Financing activities</b>						
Proceeds from capital injection . . . . .		200,000	122,892	220,400	—	288,000
Proceeds from new borrowings . . . . .		26,000	194,000	211,000	40,000	94,000
Repayment of borrowings . . . . .		—	(100,000)	(160,000)	—	(105,000)
Interest paid . . . . .		—	(11,305)	(11,885)	(4,702)	(4,219)
Dividends paid . . . . .		—	—	(29,156)	—	(2,844)
Cash paid for other financing activities . . . . .		—	—	—	—	(4,945)
<b>Net cash generated from financing activities . . . . .</b>		<b>226,000</b>	<b>205,587</b>	<b>230,359</b>	<b>35,298</b>	<b>264,992</b>
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>		<b>9,576</b>	<b>10,036</b>	<b>61,488</b>	<b>(8,958)</b>	<b>(25,032)</b>
<b>Cash and cash equivalents at 18 August/1 January . . . . .</b>		<b>—</b>	<b>9,576</b>	<b>19,612</b>	<b>19,612</b>	<b>81,100</b>
<b>Cash and cash equivalents at 31 December/30 June . . . . .</b>	10(a)	<b>9,576</b>	<b>19,612</b>	<b>81,100</b>	<b>10,654</b>	<b>56,068</b>

The accompanying notes form part of the Financial Information.

**B NOTES TO THE FINANCIAL INFORMATION**

*(Expressed in RMB'000, unless otherwise stated)*

**1 SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards, which collective term includes Hong Kong Accounting Standards ("HKFRSs") and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Company has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2014. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 January 2014 are set out in Note 23.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2013 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

**(b) Basis of measurement**

The Financial Information is presented in RMB, rounded to the nearest thousand. It is prepared on the historical cost basis except for trading financial assets (see Note 1(f)) that are stated at their fair value.

**(c) Use of estimates and judgments**

The preparation of Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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.

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 22.

**(d) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment losses (see Note 1(i)).

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(d) Fixed assets (continued)**

Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	<b>Estimated useful lives</b>
Office and other equipment	5 years
Motor vehicles	5 years
Electronic equipment	5 years
Leasehold improvement	5 years

Where parts of an item of fixed assets have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(e) Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

**(i) Classification of assets leased to the Company**

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases.

**(ii) Operating lease charges**

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

**(f) Financial instruments****(i) Recognition and measurement of financial assets and liabilities**

A financial asset or financial liability is recognized in the statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument.

Financial assets and financial liabilities are measured initially at fair value, plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs.

Financial assets and financial liabilities are categorized as follows:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(f) Financial instruments (continued)****(i) Recognition and measurement of financial assets and liabilities (continued)**

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- (a) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; or
- (b) the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognized in profit or loss.

— Loans and receivables

Loans and receivables are non-derivative financial assets held by the Company with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- (a) those that the Company intends to sell immediately or in the near-term, which will be classified as held for trading;
- (b) those that the Company, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (c) those where the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

— Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

**(ii) Impairment of financial assets**

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Company at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties of the issuer;

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(f) Financial instruments (continued)****(ii) Impairment of financial assets (continued)**

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

*Loans and receivables*

The Company uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

- Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The impairment losses are recognized in profit or loss.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

- Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The Company periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provisions for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

When the Company determines that a loan has no reasonable prospect of recovery after the Company has completed all the necessary legal or other claim proceedings, the loan is written off against its provisions for impairment losses upon necessary approval.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(f) Financial instruments (continued)****(iii) Fair value measurement**

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, the Company considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Company obtains market data from the same market where the financial instrument was originated or purchased.

**(iv) Derecognition of financial assets and financial liabilities**

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Company transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Company continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Company and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

**(v) Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Company has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

**(vi) Equity instruments**

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the Company. Considerations received from issuance of equity instruments net of transaction costs are recognized in equity. Considerations and transaction costs paid by the Company for repurchasing its own equity instruments are deducted from equity.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Interest-bearing borrowings**

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(i) Impairment of non-financial assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that fixed assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

**— Calculation of recoverable amount**

The recoverable amount of an asset is greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

**— Recognition of impairment losses**

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

**— Reversals of impairment losses**

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

**(j) Employee benefits**

Short term employee benefits and contributions to defined contribution retirement plan

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Employee benefits (continued)**

Pursuant to the relevant laws and regulations of the PRC, the Company has joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Company makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis.

**(k) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credit, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.



**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Provisions and contingent liabilities**

Provisions are recognized for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(m) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

**(i) Interest income**

Interest income is recognized as it accrues using the effective interest method.

**(ii) Government grants**

Government grants are recognized in the statements of financial position initially when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them. Grants that compensate the Company for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are deducted from the carrying amount of the assets and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

**(n) Borrowing costs**

Borrowing costs are expensed in the period in which they are incurred.

**(o) Related parties**

(a) A person, or a close member of that person's family, is related to the Company if 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 the Company's parent.

(b) An entity is related to the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) Related parties (continued)**

(b) An entity is related to the Company if any of the following conditions applies: (continued)

- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party;
- (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);
- (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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(p) Segment reporting**

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**2 NET INTEREST INCOME**

The principal activity of the Company is the provision of loans to customers in Deqing County, Zhejiang Province, the PRC. The amount of each significant category of revenue recognized is as follows:

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
<b>Interest income arising from</b>					
— Loans and advances to customers . . . . .	7,563	70,794	90,697	43,288	71,049
— Cash at banks . . . . .	257	179	92	74	194
	<u>7,820</u>	<u>70,973</u>	<u>90,789</u>	<u>43,362</u>	<u>71,243</u>
<b>Interest and commission expenses arising from</b>					
— Borrowings from banks . . . .	(6)	(8,309)	(12,174)	(6,361)	(5,541)
— Borrowings from non-bank institutions . . . . .	—	—	(125)	—	(99)
— Bank charges . . . . .	(5)	(13)	(36)	(21)	(22)
	<u>(11)</u>	<u>(8,322)</u>	<u>(12,335)</u>	<u>(6,382)</u>	<u>(5,662)</u>
<b>Net interest income . . . . .</b>	<u>7,809</u>	<u>62,651</u>	<u>78,454</u>	<u>36,980</u>	<u>65,581</u>

**2 NET INTEREST INCOME (CONTINUED)**

The Company's customer base is diversified and no customer with whom transactions have exceeded 10% of the Company's net interest income during the Relevant Periods. Details of concentration of credit risk are set out in Note 19(a).

For the Relevant Periods, the directors have determined that the Company has only one single business component/reportable segment as the Company is principally engaged in providing lending services which is the basis to allocate resources and assess performance of the Company.

The principal place of the Company's operation is in Deqing County, Huzhou City, Zhejiang Province in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Company regarded Deqing County as its place of domicile. All the Company's revenue and assets are principally attributable to Deqing County, being the sole geographical region.

**3 OTHER REVENUE**

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	Year ended 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
Government grants . . . . .	—	—	4,658	1,636	19,670
Investment income from trading financial assets . . . . .	390	634	968	719	164
<b>Total</b> . . . . .	<b>390</b>	<b>634</b>	<b>5,626</b>	<b>2,355</b>	<b>19,834</b>

**4 IMPAIRMENT LOSSES**

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	Year ended 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
Loans and advances to customers (Note 12) . . . . .	3,871	17,756	2,450	1,054	16,052

**5 PROFIT BEFORE TAXATION**

Profit before taxation is arrived at after charging:

**(a) Staff costs**

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	Year ended 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
Salaries, bonuses and allowance . .	616	1,350	1,581	805	1,085
Contribution to retirement scheme .	15	52	72	36	66
Social insurance and other benefits	67	423	422	186	270
<b>Total</b> . . . . .	<b>698</b>	<b>1,825</b>	<b>2,075</b>	<b>1,027</b>	<b>1,421</b>

## 5 PROFIT BEFORE TAXATION (CONTINUED)

## (a) Staff costs (continued)

The Company is required to participate in the pension scheme organized by the municipal government of Huzhou City, Zhejiang Province whereby the Company is required to pay annual contributions for PRC based employees at certain rate of the standard wages determined by the relevant authorities in the PRC during the period/year. The Company has no other material obligation for payment of retirement benefits to the PRC based employees beyond the annual contributions described above.

## (b) Other items

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
Depreciation expenses (Note 13) . . . . .	159	583	591	295	328
Operating lease charges in respect of building . . . . .	400	400	550	275	258
Auditors' remuneration . . . . .	20	65	90	—	220

## 6 INCOME TAX IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## (a) Taxation in the statement of profit or loss and other comprehensive income represents:

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
<b>Current tax (Note 17(a))</b>					
Provision for PRC income tax for the period/year . . . . .	1,180	13,465	17,936	8,360	22,647
<b>Deferred tax (Note 17(b))</b>					
Origination and reversal of temporary differences . . . . .	(1,023)	(4,526)	(582)	(188)	(7,277)
	<u>157</u>	<u>8,939</u>	<u>17,354</u>	<u>8,172</u>	<u>15,370</u>

6 INCOME TAX IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
Profit before taxation . . . . .	492	35,176	68,970	32,645	61,383
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (Note) . . . . .	123	8,794	17,242	8,161	15,346
Effect of non-deductible expenses . . . . .	34	145	112	11	24
Actual income tax expense . . . . .	157	8,939	17,354	8,172	15,370

Note: The Company is subject to PRC income tax at the statutory tax rate of 25%.

7 DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration during the Relevant Periods which was included in the staff costs as disclosed in Note 5(a) is as follows:

	Period from 18 August 2011 (date of establishment) to 31 December 2011			
	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<b>Chairman</b>				
Yu Yin (俞寅) . . . . .	—	160	—	160
<b>Executive directors</b>				
Zheng Xuegen (鄭學根) . . . . .	—	—	—	—
Hu Haifeng (胡海峰) . . . . .	—	72	—	72
Chu Nongying (褚農穎) . . . . .	—	—	—	—
<b>Non-executive directors</b>				
Zhang Jianming (張建明) . . . . .	—	—	—	—
Qiu Weiguo (邱偉國) . . . . .	—	—	—	—
Yu Chao (俞超) . . . . .	—	—	—	—
<b>Supervisors</b>				
Xia Jing (夏靜) (Appointed on 26 October 2011) . . . . .	—	75	—	75
Shen Yamin (沈婭敏) . . . . .	—	31	—	31
Fan Haimin (范海民) . . . . .	—	—	—	—
Bai Hairong (白海榮) (Resigned on 26 October 2011) . . . . .	—	32	—	32
	—	370	—	370

## 7 DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

	Year ended 31 December 2012			
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Chairman</b>				
Yu Yin (俞寅)	—	432	100	532
<b>Executive directors</b>				
Zheng Xuegen (鄭學根)	—	—	—	—
Hu Haifeng (胡海峰)	—	96	100	196
Chu Nongying (褚農穎)	—	—	—	—
<b>Non-executive directors</b>				
Zhang Jianming (張建明)	—	—	—	—
Qiu Weiguo (邱偉國)	60	—	—	60
Tang Hairong (唐海榮)				
(Appointed on 10 March 2012)	—	—	—	—
Yu Chao (俞超)	—	—	—	—
Shen Detang (沈德堂)				
(Appointed on 10 March 2012)	—	—	—	—
<b>Supervisors</b>				
Xia Jing (夏靜)	—	96	34	130
Shen Yamin (沈姪敏)	—	47	—	47
Fan Haimin (范海民)	—	—	—	—
	<u>60</u>	<u>671</u>	<u>234</u>	<u>965</u>
<b>Year ended 31 December 2013</b>				
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Chairman</b>				
Yu Yin (俞寅)	6	332	100	438
<b>Executive directors</b>				
Zheng Xuegen (鄭學根)	6	—	—	6
Hu Haifeng (胡海峰)	6	106	100	212
Chu Nongying (褚農穎)	6	36	—	42
<b>Non-executive directors</b>				
Zhang Jianming (張建明)	6	—	—	6
Qiu Weiguo (邱偉國)	66	—	—	66
Tang Hairong (唐海榮)	6	—	—	6
Yu Chao (俞超)	6	—	—	6
Shen Detang (沈德堂)	6	—	—	6
<b>Supervisors</b>				
Xia Jing (夏靜)	6	99	60	165
Shen Yamin (沈姪敏)	6	50	—	56
Fan Haimin (范海民)	6	—	—	6
	<u>132</u>	<u>623</u>	<u>260</u>	<u>1,015</u>

## 7 DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

	Six months ended 30 June 2013 (Unaudited)			
	<u>Director's fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Discretionary bonuses</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Chairman</b>				
Yu Yin (俞寅) . . . . .	3	54	50	107
<b>Executive directors</b>				
Zheng Xuegen (鄭學根) . . . . .	3	—	—	3
Hu Haifeng (胡海峰) . . . . .	3	53	50	106
Chu Nongying (褚農穎) . . . . .	3	18	—	21
<b>Non-executive directors</b>				
Zhang Jianming (張建明) . . . . .	3	—	—	3
Qiu Weiguo (邱偉國) . . . . .	43	—	—	43
Tang Hairong (唐海榮) . . . . .	3	—	—	3
Yu Chao (俞超) . . . . .	3	—	—	3
Shen Detang (沈德堂) . . . . .	3	—	—	3
<b>Supervisors</b>				
Xia Jing (夏靜) . . . . .	3	49	30	82
Shen Yamin (沈姪敏) . . . . .	3	25	—	28
Fan Haimin (范海民) . . . . .	3	—	—	3
	<u>76</u>	<u>199</u>	<u>130</u>	<u>405</u>

## 7 DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

	Six months ended 30 June 2014			
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Chairman</b>				
Yu Yin (俞寅) . . . . .	3	89	27	119
<b>Executive directors</b>				
Zheng Xuegen (鄭學根) . . . . .	3	45	27	75
Hu Haifeng (胡海峰) . . . . .	3	76	27	106
Ding Maoguo (丁茂國) (Appointed on 28 April 2014) . . . . .	1	25	13	39
Chu Nongying (褚農穎) (Resigned on 18 February 2014) . . . . .	1	—	—	1
<b>Non-executive directors</b>				
Chu Nongying (褚農穎) (Appointed on 18 February 2014 and resigned on 27 April 2014) . . . . .	1	—	—	1
Zhang Jianming (張建明) (Resigned on 27 April 2014) . . . . .	2	—	—	2
Qiu Weiguo (邱偉國) (Resigned on 27 April 2014) . . . . .	2	—	—	2
Tang Hairong (唐海榮) (Resigned on 27 April 2014) . . . . .	2	—	—	2
Yu Chao (俞超) (Resigned on 27 April 2014) . . . . .	2	—	—	2
Shen Detang (沈德堂) (Resigned on 27 April 2014) . . . . .	2	—	—	2
<b>Independent non-executive directors</b>				
Ho Yuk Ming (何育明) (Appointed on 28 April 2014) . . . . .	16	—	—	16
Jin Xuejun (金雪軍) (Appointed on 28 April 2014) . . . . .	16	—	—	16
Huang Lianxi (黃廉熙) (Appointed on 28 April 2014) . . . . .	16	—	—	16
<b>Supervisors</b>				
Tang Hairong (唐海榮) (Appointed on 28 April 2014) . . . . .	1	—	—	1
Yu Chao (俞超) (Appointed on 28 April 2014) . . . . .	1	—	—	1
Shen Yamin (沈姪敏) . . . . .	3	29	13	45
Xia Jing (夏靜) (Resigned on 28 April 2014) . . . . .	2	33	18	53
Fan Haimin (范海民) (Resigned on 28 April 2014) . . . . .	2	—	—	2
	<u>79</u>	<u>297</u>	<u>125</u>	<u>501</u>

There were no amounts paid during the Relevant Periods to the directors and supervisors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the Relevant Periods.



## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three are directors or supervisor of the Company for the period from 18 August 2011 (date of establishment) to 31 December 2011, for the years ended 31 December 2012 and 2013 and for the six months ended 30 June 2013 and all five are directors or supervisor of the Company for the six months ended 30 June 2014, whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other two individuals for the period from 18 August 2011 (date of establishment) to 31 December 2011, for the years ended 31 December 2012 and 2013 and for the six months ended 30 June 2013 are as follows:

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
Salaries, allowance and benefits in kind . . . . .	95	166	173	111	—
Discretionary bonuses . . . . .	12	138	20	10	—
	<u>107</u>	<u>304</u>	<u>193</u>	<u>121</u>	<u>—</u>

The emoluments of the two individuals for the period from 18 August 2011 (date of establishment) to 31 December 2011, for the years ended 31 December 2012 and 2013 and for the six months ended 30 June 2013 with the highest emoluments fell within band from HKD nil up to HKD1,000,000.

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Company or as compensation for loss of office during the Relevant Periods.

## 9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of ordinary shares in issue for the Relevant Periods as follows:

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011	2012	2013	2013 (Unaudited)	2014
Profit attributable to the equity shareholders of the Company (RMB'000) . . . . .	335	26,237	51,616	24,473	46,013
Weighted average number of ordinary shares in issue ('000). . . . .	<u>234,667</u>	<u>341,229</u>	<u>376,688</u>	<u>375,467</u>	<u>741,534</u>
Basic earnings per share (RMB) . . . . .	<u>0.00</u>	<u>0.08</u>	<u>0.14</u>	<u>0.07</u>	<u>0.06</u>

## 9 EARNINGS PER SHARE (CONTINUED)

## (i) Weighted average number of ordinary shares

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011 '000	2012 '000	2013 '000	2013 '000	2014 '000
				<i>(Unaudited)</i>	
Issued ordinary shares at 18 August 2011/1 January	200,000	200,000	320,000	320,000	510,000
Effect of capital injection . . . . .	—	90,820	1,041	—	121,989
Effect of capitalisation issue ( <i>Note 18(c)</i> ) . . . . .	34,667	50,409	55,647	55,467	109,545
Weighted average number of ordinary shares at 31 December/30 June . . . . .	<u>234,667</u>	<u>341,229</u>	<u>376,688</u>	<u>375,467</u>	<u>741,534</u>

There were no dilutive potential ordinary shares during the Relevant Periods, and therefore, diluted earnings per share are the same as the basic earnings per share.

## 10 CASH AND CASH EQUIVALENTS

## (a) Cash and cash equivalents comprise:

	At 31 December			At 30 June
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cash in hand . . . . .	4	16	17	17
Cash at banks . . . . .	<u>9,572</u>	<u>19,596</u>	<u>81,083</u>	<u>56,051</u>
Cash and cash equivalents in the cash flow statement . . . . .	<u>9,576</u>	<u>19,612</u>	<u>81,100</u>	<u>56,068</u>

The Company's operation of micro-loan business in the PRC are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

## 10 CASH AND CASH EQUIVALENTS (CONTINUED)

## (b) Reconciliation of profit before taxation to cash used in operating activities:

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
Profit before taxation . . . . .	492	35,176	68,970	32,645	61,383
Adjustment for:					
Impairment losses . . . . .	3,871	17,756	2,450	1,054	16,052
Depreciation and amortisation . . . . .	159	583	591	295	328
Interest expenses . . . . .	6	8,309	12,299	6,361	5,640
Investment income . . . . .	(390)	(634)	(968)	(719)	(164)
Changes in working capital:					
Increase in loans and advances to customers . . .	(217,970)	(251,720)	(71,625)	(66,160)	(523,200)
Increase in interest receivables and other assets . . . . .	(1,181)	(1,969)	(14,583)	(2,521)	(886)
Increase/(decrease) in accruals and other payables . . . . .	1,086	1,540	616	(941)	14,158
Cash used in operations . . . . .	<u>(213,927)</u>	<u>(190,959)</u>	<u>(2,250)</u>	<u>(29,986)</u>	<u>(426,689)</u>

## 11 TRADING FINANCIAL ASSETS

Trading financial assets at 31 December 2013 were wealth management products issued by a bank in the PRC, which are unlisted securities.

## 12 LOANS AND ADVANCES TO CUSTOMERS

## (a) Analysed by nature

	At 31 December			At 30 June
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Retail loans . . . . .	146,570	323,420	235,905	352,715
Enterprise loans . . . . .	71,400	146,270	305,410	711,800
Gross loans and advances to customers . . . . .	<u>217,970</u>	<u>469,690</u>	<u>541,315</u>	<u>1,064,515</u>
Less: Allowances for impairment losses				
— Collectively assessed . . . . .	(3,871)	(13,181)	(18,696)	(35,151)
— Individually assessed . . . . .	—	(8,446)	(5,381)	(4,978)
Total allowances for impairment losses . . . . .	<u>(3,871)</u>	<u>(21,627)</u>	<u>(24,077)</u>	<u>(40,129)</u>
Net loans and advances to customers . . . . .	<u>214,099</u>	<u>448,063</u>	<u>517,238</u>	<u>1,024,386</u>

## 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (b) Analysed by type of collateral

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured loans . . . . .	45,680	6,150	41,750	28,850
Guaranteed loans ( <i>Note</i> ) . . . . .	154,640	383,340	418,460	910,570
Collateralized loans . . . . .	17,650	62,600	78,705	124,095
Pledged loans . . . . .	—	17,600	2,400	1,000
Gross loans and advances to customers . . . . .	<u>217,970</u>	<u>469,690</u>	<u>541,315</u>	<u>1,064,515</u>
Less: Allowances for impairment losses				
— Collectively assessed . . . . .	(3,871)	(13,181)	(18,696)	(35,151)
— Individually assessed . . . . .	—	(8,446)	(5,381)	(4,978)
Total allowances for impairment losses . . . . .	<u>(3,871)</u>	<u>(21,627)</u>	<u>(24,077)</u>	<u>(40,129)</u>
Net loans and advances to customers . . . . .	<u>214,099</u>	<u>448,063</u>	<u>517,238</u>	<u>1,024,386</u>

*Note: Certain loans and advances to customers are guaranteed by the Company's related parties (See Note 21(b), (c)).*

## (c) Analysed by industry sector

	At 31 December						At 30 June	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing . . . . .	24,500	11%	49,750	10%	42,180	8%	106,150	10%
Agriculture, forestry, animal husbandry and fishery . . . . .	23,900	11%	27,250	6%	181,200	33%	207,300	20%
Construction . . . . .	11,000	5%	23,550	5%	28,500	5%	214,000	20%
Wholesale and retail . . . . .	—	—	13,620	3%	37,530	7%	117,700	11%
Others . . . . .	12,000	6%	32,100	7%	16,000	3%	66,650	6%
Enterprise loans . . . . .	71,400	33%	146,270	31%	305,410	56%	711,800	67%
Retail loans . . . . .	146,570	67%	323,420	69%	235,905	44%	352,715	33%
Gross loans and advances to customers . . . . .	<u>217,970</u>	<u>100%</u>	<u>469,690</u>	<u>100%</u>	<u>541,315</u>	<u>100%</u>	<u>1,064,515</u>	<u>100%</u>
Less: Allowances for impairment losses . . . . .	<u>(3,871)</u>		<u>(21,627)</u>		<u>(24,077)</u>		<u>(40,129)</u>	
Net loans and advances to customers . . . . .	<u>214,099</u>		<u>448,063</u>		<u>517,238</u>		<u>1,024,386</u>	

## (d) Overdue loans analysed by type of collateral and overdue period

	At 31 December 2012					
	Overdue within 3 months (inclusive)	Overdue more than 3 months to 6 months (inclusive)	Overdue more than 6 months to one year (inclusive)	Overdue more than one year	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	Collateralized loans . . . . .	<u>900</u>	<u>—</u>	<u>10,000</u>	<u>—</u>	<u>10,900</u>

## 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (d) Overdue loans analysed by type of collateral and overdue period (continued)

	At 31 December 2013				
	Overdue within 3 months (inclusive) RMB'000	Overdue more than 3 months to 6 months (inclusive) RMB'000	Overdue more than 6 months to one year (inclusive) RMB'000	Overdue more than one year RMB'000	Total RMB'000
Collateralized loans . . . . .	—	600	175	—	775
	At 30 June 2014				
	Overdue within 3 months (inclusive) RMB'000	Overdue more than 3 months to 6 months (inclusive) RMB'000	Overdue more than 6 months to one year (inclusive) RMB'000	Overdue more than one year RMB'000	Total RMB'000
Guaranteed loans . . . . .	500	—	—	—	500
Collateralized loans . . . . .	—	—	300	175	475
Total . . . . .	500	—	300	175	975

The Company did not have overdue loans at 31 December 2011. Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more. All amounts are shown as gross amount of overdue loans and advances to customers before any allowances for impairment losses.

## (e) Analysed by methods for assessing allowances for impairment losses

	At 31 December 2011		
	Loans and advances for which allowances are collectively assessed RMB'000	Loans and advances for which allowances are individually assessed RMB'000	Total RMB'000
Gross loans and advances to customers . . . . .	217,970	—	217,970
Less: Allowances for impairment losses . . . . .	(3,871)	—	(3,871)
Net loans and advances to customers . . . . .	214,099	—	214,099
	At 31 December 2012		
	Loans and advances for which allowances are collectively assessed RMB'000	Loans and advances for which allowances are individually assessed RMB'000	Total RMB'000
Gross loans and advances to customers . . . . .	444,190	25,500	469,690
Less: Allowances for impairment losses . . . . .	(13,181)	(8,446)	(21,627)
Net loans and advances to customers . . . . .	431,009	17,054	448,063

## 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (e) Analysed by methods for assessing allowances for impairment losses (continued)

	At 31 December 2013		
	Loans and advances for which allowances are collectively assessed <i>RMB'000</i>	Loans and advances for which allowances are individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
Gross loans and advances to customers . . . . .	526,240	15,075	541,315
Less: Allowances for impairment losses . . . . .	(18,696)	(5,381)	(24,077)
Net loans and advances to customers . . . . .	<u>507,544</u>	<u>9,694</u>	<u>517,238</u>

	At 30 June 2014		
	Loans and advances for which allowances are collectively assessed <i>RMB'000</i>	Loans and advances for which allowances are individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
Gross loans and advances to customers . . . . .	1,050,840	13,675	1,064,515
Less: Allowances for impairment losses . . . . .	(35,151)	(4,978)	(40,129)
Net loans and advances to customers . . . . .	<u>1,015,689</u>	<u>8,697</u>	<u>1,024,386</u>

## (f) Movements of allowances for impairment losses

	Period from 18 August 2011 (date of establishment) to 31 December 2011		
	Provision for impairment losses which is collectively assessed <i>RMB'000</i>	Provision for impairment losses which is individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
At 18 August . . . . .	—	—	—
Charge for the period . . . . .	3,871	—	3,871
At 31 December . . . . .	<u>3,871</u>	<u>—</u>	<u>3,871</u>

	Year ended 31 December 2012		
	Provision for impairment losses which is collectively assessed <i>RMB'000</i>	Provision for impairment losses which is individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January . . . . .	3,871	—	3,871
Charge for the year . . . . .	9,310	8,446	17,756
At 31 December . . . . .	<u>13,181</u>	<u>8,446</u>	<u>21,627</u>

## 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (f) Movements of allowances for impairment losses (continued)

	Year ended 31 December 2013		
	Provision for impairment losses which is collectively assessed <i>RMB'000</i>	Provision for impairment losses which is individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January . . . . .	13,181	8,446	21,627
Charge for the year . . . . .	5,515	5,206	10,721
Reversal for the year . . . . .	—	(8,271)	(8,271)
At 31 December . . . . .	<u>18,696</u>	<u>5,381</u>	<u>24,077</u>

	Six months ended 30 June 2014		
	Provision for impairment losses which is collectively assessed <i>RMB'000</i>	Provision for impairment losses which is individually assessed <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January . . . . .	18,696	5,381	24,077
Charge for the period . . . . .	16,455	4,079	20,534
Reversal for the period . . . . .	—	(4,482)	(4,482)
At 30 June . . . . .	<u>35,151</u>	<u>4,978</u>	<u>40,129</u>

## (g) Analysed by credit quality

	At 31 December			At 30 June
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Gross balance of loans and advances to customers				
Neither overdue nor impaired . . . . .	217,970	444,190	526,240	1,050,840
Impaired . . . . .	—	25,500	15,075	13,675
	<u>217,970</u>	<u>469,690</u>	<u>541,315</u>	<u>1,064,515</u>
Less: allowances for impairment losses				
Neither overdue nor impaired . . . . .	(3,871)	(13,181)	(18,696)	(35,151)
Impaired . . . . .	—	(8,446)	(5,381)	(4,978)
	<u>(3,871)</u>	<u>(21,627)</u>	<u>(24,077)</u>	<u>(40,129)</u>
Net balance				
Neither overdue nor impaired . . . . .	214,099	431,009	507,544	1,015,689
Impaired . . . . .	—	17,054	9,694	8,697
	<u>214,099</u>	<u>448,063</u>	<u>517,238</u>	<u>1,024,386</u>

## 13 FIXED ASSETS

	Office and other equipment	Motor vehicles	Electronic equipment	Leasehold improvement	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>					
At 18 August 2011 (date of establishment) . .	—	—	—	—	—
Additions . . . . .	533	562	247	1,545	2,887
At 31 December 2011 and 1 January 2012 . .	533	562	247	1,545	2,887
Additions . . . . .	37	—	9	—	46
At 31 December 2012 and 1 January 2013 . .	570	562	256	1,545	2,933
Additions . . . . .	—	—	30	—	30
At 31 December 2013 and 1 January 2014 . .	570	562	286	1,545	2,963
Additions . . . . .	18	622	45	—	685
At 30 June 2014 . . . . .	588	1,184	331	1,545	3,648
<b>Accumulated depreciation:</b>					
At 18 August 2011 (date of establishment) . .	—	—	—	—	—
Charge for the period . . . . .	(18)	—	(12)	(129)	(159)
At 31 December 2011 and 1 January 2012 . .	(18)	—	(12)	(129)	(159)
Charge for the year . . . . .	(111)	(112)	(51)	(309)	(583)
At 31 December 2012 and 1 January 2013 . .	(129)	(112)	(63)	(438)	(742)
Charge for the year . . . . .	(114)	(113)	(55)	(309)	(591)
At 31 December 2013 and 1 January 2014 . .	(243)	(225)	(118)	(747)	(1,333)
Charge for the period . . . . .	(58)	(87)	(29)	(154)	(328)
At 30 June 2014 . . . . .	(301)	(312)	(147)	(901)	(1,661)
<b>Net book value:</b>					
At 31 December 2011 . . . . .	515	562	235	1,416	2,728
At 31 December 2012 . . . . .	441	450	193	1,107	2,191
At 31 December 2013 . . . . .	327	337	168	798	1,630
At 30 June 2014 . . . . .	287	872	184	644	1,987

## 14 OTHER ASSETS

	At 31 December			At 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred expenses . . . . .	70	3,364	2,986	1,392
Other receivables . . . . .	—	—	9,000	9,000
IPO service fees . . . . .	—	—	—	7,337
Others . . . . .	—	101	41	61
	70	3,465	12,027	17,790

Except for the IPO costs which will be debited to equity upon the issuance of H shares, all of the other assets were expected to be recovered or recognized as expense within one year.



## 15 INTEREST-BEARING BORROWINGS

	At 31 December			At 30 June
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Bank loans (Note (i))				
— Guaranteed by related parties . . . . .	26,000	120,000	160,000	160,000
Other loans (Note (ii))				
— Unsecured . . . . .	—	—	11,000	—
	<u>26,000</u>	<u>120,000</u>	<u>171,000</u>	<u>160,000</u>

## Notes:

(i) All of the Company's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Company was to breach the covenants, the loans would become payable on demand. The Company regularly monitors its compliance with these covenants. Further details of the Company's management of liquidity risk are set out in Note 19(b). At 31 December 2011, 2012, 2013 and 30 June 2014, none of the covenants relating to the bank loans had been breached.

(ii) Other loans bear interest at a range from 7.28% to 10.00% per annum and are unsecured.

## 16 ACCRUALS AND OTHER PAYABLES

	At 31 December			At 30 June
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Accrued staff cost . . . . .	234	580	463	527
Business tax and surcharges and other taxation payable . . . . .	226	643	3,978	1,190
Interest payable . . . . .	6	153	340	227
Conditional government grants (Note) . . . . .	—	—	—	13,000
IPO service fees payable . . . . .	—	—	—	2,392
Other payables . . . . .	<u>626</u>	<u>1,403</u>	<u>1,645</u>	<u>291</u>
	<u>1,092</u>	<u>2,779</u>	<u>6,426</u>	<u>17,627</u>

Note: The Company received conditional government grants of RMB13.0 million from Deqing County in 2014, which is conditional on the Company's successful listing of its H Shares on the Main Board of The Stock Exchange of Hong Kong Limited by 2016 according to the special meeting minutes by Deqing County Government.

## 17 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Movements in current taxation in the statement of financial position are as follows:

	At 31 December			At 30 June
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Balance of income tax payable at the beginning of the period/year . . . . .	—	1,180	9,465	9,842
Provision for PRC income tax for the period/year (Note 6(a)) . . . . .	1,180	13,465	17,936	22,647
Income tax paid during the period/year . . . . .	<u>—</u>	<u>(5,180)</u>	<u>(17,559)</u>	<u>(12,814)</u>
<b>Balance of income tax payable at the end of the period/year . . . . .</b>	<u>1,180</u>	<u>9,465</u>	<u>9,842</u>	<u>19,675</u>

## 17 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

## (b) Deferred tax assets recognized:

The components of deferred tax assets recognized in the statement of financial position and the movements during the Relevant Periods are as follows:

Deferred tax assets arising from:	Provision for impairment losses	Accrued staff cost	Conditional government grants	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 18 August 2011 (date of establishment) . . . . .	—	—	—	—
Credited to profit or loss ( <i>Note 6(a)</i> ) . . . . .	968	55	—	1,023
At 31 December 2011 and 1 January 2012 . . . . .	968	55	—	1,023
Credited to profit or loss ( <i>Note 6(a)</i> ) . . . . .	4,439	87	—	4,526
At 31 December 2012 and 1 January 2013 . . . . .	5,407	142	—	5,549
Credited/(charged) to profit or loss ( <i>Note 6(a)</i> ) . . . . .	612	(30)	—	582
At 31 December 2013 and 1 January 2014 . . . . .	6,019	112	—	6,131
Credited to profit or loss ( <i>Note 6(a)</i> ) . . . . .	4,013	14	3,250	7,277
At 30 June 2014 . . . . .	<u>10,032</u>	<u>126</u>	<u>3,250</u>	<u>13,408</u>

## 18 CAPITAL, RESERVES AND DIVIDENDS

## (a) Movement in components of equity

The reconciliation between the opening and closing of each component of the Company's equity for the Relevant Period is set out in the statement of changes in equity.

## (b) Dividends

The Company declared cash dividends of RMB32.0 million during the year ended 31 December 2013, which were attributable to the years of and before 2013.

## (c) Paid-in/share capital

The capital injections from equity holders of the Company are RMB200.0 million, RMB120.0 million, RMB190.0 million and RMB240.0 million on 18 August 2011, 30 March 2012, 30 December 2013 and 31 March 2014, respectively. Pursuant to a conversion completed on 28 April 2014 as detailed in the section headed "History and Development" in this Prospectus, the Company was converted into a joint stock limited liability company from a limited liability company. As at 30 June 2014, the share capital represented 880,000,000 ordinary shares of the Company at RMB1 each, which were allotted and issued at par.

## (d) Nature and purpose of reserves

## (i) Capital reserve — Capital/share premium

The capital reserve mainly comprises capital/share premium, which represents the difference between the paid-in capital/par value of the shares of the Company and capital injection/proceeds received from the issuance of the shares of the Company.

**18 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)****(d) Nature and purpose of reserves (continued)****(ii) Surplus reserve**

The surplus reserve represents statutory surplus reserve fund. The Company is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC ("MOF"), to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

Subject to the approval of equity holders of the entities established in the PRC, statutory surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders. Subject to the approval of shareholders, discretionary surplus reserves may be used to offset previous years' losses, if any, and may be converted into capital.

**(iii) General risk reserve**

Pursuant to relevant regulations, the Company is required to set aside a general reserve through appropriations of profit after tax according to 1.5% of the ending balance of gross risk-bearing assets to cover potential losses against these assets before 30 June 2017. As at 30 June 2014, the Company has not set aside any general reserve. The directors of the Company decided to set aside a general risk reserve in compliance with the relevant regulations in the period from 1 July 2014 to 30 June 2017.

**(e) Distributable reserves**

At 31 December 2011, 2012 and 2013 and 30 June 2014, the aggregate amounts of reserves available for distribution to equity owners/shareholders of the Company, as calculated under the provisions of Company Law of the PRC, were RMB0.3 million, RMB23.9 million, RMB38.4 million and RMB26.6 million respectively.

**(f) Capital management**

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for equity holders/shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity holders/shareholders returns that might be possible with higher levels of borrowings and the advantages and stability resulted from a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Company's approach to capital management during the Relevant Periods.

Particularly for credit loan business, the Company monitors regularly the residual balance of outstanding credit loans for single customers and multiples of the total outstanding credit loans in relation to paid-in/share capital of the Company, so as to keep the capital risk within an acceptable limit. The decision to manage the paid-in/share capital of the Company to meet the needs of developing credit loans business rests with the directors.

**19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS**

Exposure to credit, liquidity and interest risks arises in the normal course of the Company's business. The Company's exposure to these risks and the financial risk management policies and practice used by the Company to manage these risks are described below.

**(a) Credit risk**

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations or commitment to the Company provided. It arises primarily from the Company's micro-finance business and treasury business such as investment in wealth management products.

*Credit risk arising from micro-finance business*

The Company's credit risk mainly arises from micro-finance business. The Company has established relevant mechanisms to cover credit risk in key operational phases of micro-finance business, including pre-lending evaluations, credit approval, and post-lending monitoring. The Company conducts customer acceptance and due diligence by business and marketing department and risk management department in pre-lending evaluations. In the credit approval phase, all loan applications are subject to the assessment and approval of the Company's deputy general manager, general manager or loan assessment committee, depending on the amount of the loans. During the post-lending monitoring, the Company conducts on-site inspections and off-site inquiries to detect potential risks by evaluating various aspects, including but not limited to the customers' operational and financial conditions, status of collaterals and other sources of repayment.

The Company adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss of the loan portfolio is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour 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.

When a certain number of clients undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfil contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Company's operating results to a particular industry or geographic location. As the Company mainly conducts micro-finance business in Deqing County, Zhejiang Province, a certain level of geographical concentration risk exists for its loan portfolios in that it might be affected by changes of economic conditions.

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the Relevant Periods.

## 19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

## (a) Credit risk (continued)

Other credit risk

The Company adopts a credit rating approach in managing the credit risk of the treasury business, counterparties' rating are evaluated before transactions with reference to major rating agencies generally recognized by the People's Bank of China.

In respect of interest receivables and other assets, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluation focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Company does not obtain collateral from customers.

## (b) Liquidity risk

Management regularly monitors the Company's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following tables provide an analysis of the remaining contractual maturities, which are based on contractual undiscounted cash flows (including interest payments, computed using contractual rates) of the financial assets and liabilities of the Company at the end of the Relevant Periods:

	At 31 December 2011					Balance sheet book value
	Overdue/ Repayment on demand	Within three months	Between three months and one year	Between one year and five years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>						
Cash and cash equivalents . . . . .	6,576	3,001	—	—	9,577	9,576
Interest receivables . . . . .	1,111	—	—	—	1,111	1,111
Loans and advances to customers . . . . .	—	99,829	138,902	60	238,791	214,099
Total . . . . .	<u>7,687</u>	<u>102,830</u>	<u>138,902</u>	<u>60</u>	<u>249,479</u>	<u>224,786</u>
<b>Liabilities</b>						
Interest-bearing borrowings . . . . .	—	(334)	(27,021)	—	(27,355)	(26,000)
Accruals and other payables . . . . .	(632)	—	—	—	(632)	(632)
Total . . . . .	<u>(632)</u>	<u>(334)</u>	<u>(27,021)</u>	<u>—</u>	<u>(27,987)</u>	<u>(26,632)</u>
	<u>7,055</u>	<u>102,496</u>	<u>111,881</u>	<u>60</u>	<u>221,492</u>	<u>198,154</u>
	At 31 December 2012					Balance sheet book value
	Overdue/ Repayment on demand	Within three months	Between three months and one year	Between one year and five years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>						
Cash and cash equivalents . . . . .	19,612	—	—	—	19,612	19,612
Interest receivables . . . . .	2,828	—	—	—	2,828	2,828
Loans and advances to customers . . . . .	10,900	104,715	410,530	56	526,201	448,063
Other assets . . . . .	101	—	—	—	101	101
Total . . . . .	<u>33,441</u>	<u>104,715</u>	<u>410,530</u>	<u>56</u>	<u>548,742</u>	<u>470,604</u>
<b>Liabilities</b>						
Interest-bearing borrowings . . . . .	—	(1,277)	(124,290)	—	(125,567)	(120,000)
Accruals and other payables . . . . .	(1,556)	—	—	—	(1,556)	(1,556)
Total . . . . .	<u>(1,556)</u>	<u>(1,277)</u>	<u>(124,290)</u>	<u>—</u>	<u>(127,123)</u>	<u>(121,556)</u>
	<u>31,885</u>	<u>103,438</u>	<u>286,240</u>	<u>56</u>	<u>421,619</u>	<u>349,048</u>

## 19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

## (b) Liquidity risk (continued)

	At 31 December 2013					Balance sheet book value RMB'000
	Overdue/ Repayment on demand	Within three months	Between three months and one year	Between one year and five years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Assets</b>						
Cash and cash equivalents . . . . .	81,100	—	—	—	81,100	81,100
Trading financial assets . . . . .	150,000	—	—	—	150,000	150,000
Interest receivables . . . . .	8,622	—	—	—	8,622	8,622
Loans and advances to customers. . . . .	775	90,694	500,639	111	592,219	517,238
Other assets . . . . .	41	—	9,000	—	9,041	9,041
Total . . . . .	<u>240,538</u>	<u>90,694</u>	<u>509,639</u>	<u>111</u>	<u>840,982</u>	<u>766,001</u>
<b>Liabilities</b>						
Interest-bearing borrowings. . . . .	—	(12,803)	(166,291)	—	(179,094)	(171,000)
Accruals and other payables . . . . .	(1,985)	—	—	—	(1,985)	(1,985)
Total . . . . .	<u>(1,985)</u>	<u>(12,803)</u>	<u>(166,291)</u>	<u>—</u>	<u>(181,079)</u>	<u>(172,985)</u>
	<u>238,553</u>	<u>77,891</u>	<u>343,348</u>	<u>111</u>	<u>659,903</u>	<u>593,016</u>
<b>At 30 June 2014</b>						
	Overdue/ Repayment on demand	Within three months	Between three months and one year	Between one year and five years	Total	Balance sheet book value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>						
Cash and cash equivalents . . . . .	56,068	—	—	—	56,068	56,068
Interest receivables . . . . .	7,156	—	—	—	7,156	7,156
Loans and advances to customers. . . . .	975	203,027	957,258	108	1,161,368	1,024,386
Other assets . . . . .	61	1,125	7,875	—	9,061	9,061
Total . . . . .	<u>64,260</u>	<u>204,152</u>	<u>965,133</u>	<u>108</u>	<u>1,233,653</u>	<u>1,096,671</u>
<b>Liabilities</b>						
Interest-bearing borrowings. . . . .	—	(21,869)	(144,296)	—	(166,165)	(160,000)
Accruals and other payables . . . . .	(2,920)	—	—	—	(2,920)	(2,920)
Total . . . . .	<u>(2,920)</u>	<u>(21,869)</u>	<u>(144,296)</u>	<u>—</u>	<u>(169,085)</u>	<u>(162,920)</u>
	<u>61,340</u>	<u>182,283</u>	<u>820,837</u>	<u>108</u>	<u>1,064,568</u>	<u>933,751</u>

## (c) Interest risk

The Company is principally engaged in the provision of micro-finance services. Its interest rate risk arises primarily from deposits with banks, loans and advances to customers and interest-bearing borrowings.

## 19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

## (c) Interest risk (continued)

## (i) Interest rate profile

The following tables details the interest rate profile of the Company's assets and liabilities as at the end of the Relevant Periods:

	At 31 December			At 30 June
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Fixed interest rate				
Financial assets				
— Cash and cash equivalent . . . . .	3,000	—	—	—
— Loans and advances to customers . . .	214,099	448,063	517,238	1,024,386
	<u>217,099</u>	<u>448,063</u>	<u>517,238</u>	<u>1,024,386</u>
Financial liabilities				
— Interest-bearing borrowings . . . . .	(26,000)	(120,000)	(171,000)	(160,000)
	<u>(26,000)</u>	<u>(120,000)</u>	<u>(171,000)</u>	<u>(160,000)</u>
<b>Net</b> . . . . .	<u>191,099</u>	<u>328,063</u>	<u>346,238</u>	<u>864,386</u>
Variable interest rate				
Financial assets				
— Cash and cash equivalents . . . . .	6,572	19,596	81,083	56,051
<b>Net</b> . . . . .	<u>6,572</u>	<u>19,596</u>	<u>81,083</u>	<u>56,051</u>
Net fixed rate borrowings as a percentage of total borrowings . . . . .	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

## (ii) Sensitivity analysis

At 31 December 2011, 2012, 2013 and 30 June 2014, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Company's net profit during the period/year by approximately RMB9,000, RMB73,000, RMB304,000 and RMB105,000 respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Company at the end of the reporting period.

## (d) Fair value

## (i) Financial assets and liabilities measured at fair value

## Fair value hierarchy

The following table presents the fair value of the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

## 19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

## (d) Fair value (continued)

## (i) Financial assets and liabilities measured at fair value (continued)

The Company has a team headed by the finance manager performing valuations for wealth management products, which are categorized into Level 3 of the fair value hierarchy. The Company determines the fair values of wealth management products by discounted cash flow or other valuation methods. The team reports directly to the Chief Financial Officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the Chief Financial Officer. Discussion of the valuation process and results with the Chief Financial Officer and the directors is held twice a year, to coincide with the reporting dates.

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Level 3 . . . . .	—	—	150,000	—

During the Relevant Periods, there were no transfers between instruments in Level 1 and Level 2. The movement during the Relevant Periods in the balance of Level 3 fair value measurements is as follows:

	<u>Period from 18 August 2011 (date of establishment) to 31 December</u>			<u>Six months ended 30 June</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the period/year . . . . .	—	—	—	150,000
Payment for purchases . . . . .	285,680	1,520,800	2,062,610	520,470
Proceeds from sales . . . . .	<u>(285,680)</u>	<u>(1,520,800)</u>	<u>(1,912,610)</u>	<u>(670,470)</u>
At the end of the period/year . . . . .	<u>—</u>	<u>—</u>	<u>150,000</u>	<u>—</u>

## (ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Company's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2011, 2012 and 2013 and 30 June 2014.



## 20 COMMITMENTS

At the end of the Relevant Periods, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	At 31 December			At 30 June
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Within 1 year . . . . .	400	400	—	515
After 1 year but within 5 years . . . . .	400	—	—	773
<b>Total</b> . . . . .	<b>800</b>	<b>400</b>	<b>—</b>	<b>1,288</b>

The Company is the lessee in respect of a certain properties held under operating leases. The leases typically run for an initial period of 1–3 years, at the end of which period all terms are renegotiated. None of the leases include contingent rentals.

## 21 MATERIAL RELATED PARTY TRANSACTIONS

## (a) Transactions with key management personnel

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
Key management personnel remuneration ( <i>Note (i)</i> ) . . . . .	370	965	1,015	405	603
Operating lease charges ( <i>Note (ii)</i> ) . . . . .	400	400	550	275	258
Receiving guarantee for loans and advances to customers . . . . .	4,400	9,400	30,100	18,600	—
Releasing guarantee for loans and advances to customers . . . . .	(1,000)	(8,400)	(30,200)	(18,300)	(4,300)

Notes:

- (i) Remuneration for key management personnel includes amounts paid to certain directors of the Company as disclosed in Note 7 and the highest paid employees as disclosed in Note 8.
- (ii) Operating lease charges are paid to the Chairman of the Company for the lease in respect of the Company's office. The lease was carried out on normal commercial terms.

## (b) Balances with key management personnel

	At 31 December			At 30 June
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
<b>Liabilities</b>				
Accruals and other payables . . . . .	—	—	—	258
<b>Off-balance sheet items</b>				
Guarantee received for loans and advances to customers . . . . .	3,400	4,400	4,300	—

## 21 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

## (c) Other related party transactions

	Period from 18 August 2011 (date of establishment) to 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (Unaudited)	2014 RMB'000
Interest income . . . . .	—	45	122	90	1
License fees . . . . .	100	100	100	50	—
Additions of loans and advances to customers . . . . .	—	900	900	900	1,000
Repayment of loans and advances to customers . . . . .	—	—	(1,800)	(900)	(1,000)
Receiving guarantee for bank loans	26,000	194,000	200,000	40,000	70,000
Releasing guarantee for bank loans	—	(100,000)	(160,000)	—	(70,000)
Receiving guarantee for loans and advances to customers . . . . .	2,650	23,450	26,250	16,850	3,900
Releasing guarantee for loans and advances to customers . . . . .	—	(25,150)	(25,000)	(16,950)	(6,100)

All the transactions set out above were carried out on normal commercial terms.

## (d) Balances with other related parties

	At 31 December			At 30 June
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
<b>Assets</b>				
Loans and advances to customers (Note (i)) . . .	—	900	—	—
Interest receivables . . . . .	—	5	—	—
<b>Off-balance sheet items</b>				
Guarantee received for bank loans (Note (ii)) . .	26,000	120,000	160,000	160,000
Guarantees received for loans and advances to customers (Note (iii)) . . . . .	2,650	950	2,200	—

## Notes:

- (i) The outstanding balances with the related parties bear interest at a rate of 19.2% per annum, are unsecured and repayable on 29 May 2013. No allowance for impairment losses have been made in respect of these loans.
- (ii) The guarantees were provided by the related parties of the Company with no charges, and will be expired by the earlier of the listing date or the maturity dates, when the related bank loans are mature and repayable.
- (iii) The guarantees were provided by the related parties of the Company for repayment of the loans borrowed by some of the customers, which are not related parties to the Company. These guarantees are expired on the same date of the mature date of the related loans from the customers.

**22 ACCOUNTING JUDGEMENTS AND ESTIMATES**

In the process of applying the Company's accounting policies, the key sources of estimation uncertainty are as follows:

**(a) Impairment of receivables and loans and advances**

The Company reviews portfolios of receivables and loans and advances periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for receivables and loans and advances. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for receivables and loans and advances that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

As described in Note 1(f), receivables stated at amortized cost are reviewed at the end of each reporting period to assess whether impairment losses exist. The Company makes judgements as to whether there is any objective evidence that a receivables are impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for receivables. It also includes observable data indicating adverse changes in the repayment status of the debtors. If, in a subsequent period, the amount of the impairment losses on receivables decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss.

**(b) Impairment of long-lived assets**

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in accordance with accounting policy for impairment of long-lived assets as described in Note 1(i). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Company uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

**(c) Depreciation and amortisation**

Fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account estimated residual value. The useful lives and residual value are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation, the rate of depreciation is revised.

**(d) Tax**

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Company carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

## 23 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the financial statements.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 19, <i>Employee benefits</i> :	
<i>Defined benefit plans: Employee contribution</i> . . . . .	1 July 2014
Annual Improvements to HKFRSs 2010–2012 Cycle . . . . .	1 July 2014
Annual Improvements to HKFRSs 2011–2013 Cycle . . . . .	1 July 2014
HKFRS 14, <i>Regulatory deferral accounts</i> . . . . .	1 January 2016
Amendments to HKFRS 11, <i>Accounting for acquisitions of interests in joint operations</i> . . . . .	1 January 2016
Amendments to HKAS 16 and HKAS 38,	
<i>Clarification of acceptable methods of depreciation and amortisation</i> . . . . .	1 January 2016
HKFRS 15, <i>Revenue from contracts from customers</i> . . . . .	1 January 2017
HKFRS 9, <i>Financial instruments (2009)</i> . . . . .	1 January 2018
HKFRS 9, <i>Financial instruments (2010)</i> . . . . .	1 January 2018
Amendments to HKFRS 9, <i>Financial instruments and HKFRS 7</i> ,	
<i>Financial instruments: Disclosures — Mandatory effective date and transition disclosures</i> . . . . .	1 January 2018

The Company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position. In particular with reference to HKFRS 9 (revised) which would require companies to assess impairment provisions using 12-month or lifetime expected credit losses approach, given that the Company principally operates a short-term financing business, with terms generally less than 12 months, the Company concluded that the adoption of HKFRS 9 (revised) is unlikely to have a significant impact on the Company's results of operations and financial position.

## 24 STATUTORY AUDIT

The financial statements of the Company which are subject to statutory audit during the Relevant Periods were audited by the following auditor:

<u>Name of company</u>	<u>Financial period/years</u>	<u>Name of auditor (Note)</u>
Zuoli Kechuang Micro-finance Company Limited (佐力科創小額貸款股份有限公司) . . . . .	Period from 18 August 2011 (date of establishment) to 31 December 2011, the years ended 31 December 2012 and 2013	Huzhou Hengsheng Certified Public Accountants Co., Ltd (湖州恒生會計師事務所有限公司)

*Note: The English translation of the names of the Company and the auditor is for reference only. The official names of the Company and the auditor are in Chinese.*

## 25 SUBSEQUENT EVENTS

The Company had no material events for disclosure subsequent to 30 June 2014 and up to the date of the Accountants' Report.

**C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2014. No dividend or distribution has been declared or made by the Company in respect of any period subsequent to 30 June 2014.

Yours faithfully,

**KPMG**

*Certified Public Accountants*

Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I in this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma statement of adjusted net tangible assets of Zuoli Kechuang Micro-finance Company Limited (the "Company") is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below to illustrate the effect of the proposed offering by the Company of its shares (the "Global Offering") on the net tangible assets of the Company attributable to the shareholders of the Company as of 30 June 2014, as if the Global Offering had taken place on 30 June 2014.

The unaudited 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 financial position of the Company had the Global Offering been completed as of 30 June 2014 or at any future date.

	<b>Audited net tangible assets attributable to shareholders of the Company as of 30 June 2014</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Pro forma adjusted net tangible assets</b>	<b>Pro forma adjusted net tangible assets per share</b>	
	<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)/(5)</i>	<i>Note (3)</i>	<i>Note (4)</i>	<i>Note (6)</i>
Based on an offer price of					
HK\$1.27 per share . . . . .	923,493	261,732	1,185,225	1.00	1.27
Based on an offer price of					
HK\$1.39 per share . . . . .	923,493	289,165	1,212,658	1.03	1.29

*Notes:*

- (1) The net tangible assets attributable to shareholders of the Company as of 30 June 2014 is based on the net assets attributable to shareholders of the Company of RMB923.5 million as of 30 June 2014.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.27 (being the minimum offer price) and HK\$1.39 per H Share (being the maximum offer price) and the assumption that there are 300,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by the Company, assuming that the Over-allotment Option is not exercised and without taking into account any discretionary incentive fees.
- (3) The unaudited pro forma adjusted net tangible assets do not take into account the financial results or other transactions of the Company subsequent to 30 June 2014.

- (4) *The unaudited pro forma adjusted net tangible assets per share is arrived on the basis of 1,180,000,000 shares in issue assuming that the Global Offering has been completed on 30 June 2014 and that the Over-allotment Option is not exercised.*
- (5) *The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.7938 to HK\$1.00, the exchange rate set by the PBOC prevailing on 30 June 2014. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.*
- (6) *The unaudited pro forma adjusted net tangible assets per share is translated into Hong Kong dollars at exchange rate of RMB0.7938 to HK\$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars at that rate or at any other rate.*

**B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Company's pro forma financial information for the purpose of incorporation in this prospectus.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

30 December 2014

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****To the Directors of Zuoli Kechuang Micro-Finance Company Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Zuoli Kechuang Micro-finance Company Limited. (the "Company") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 30 June 2014 and related notes as set out in Part A of Appendix II to the prospectus dated 30 December 2014 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Company's financial position as at 30 June 2014 as if the Global Offering had taken place at 30 June 2014. As part of this process, information about the Company's financial position as at 30 June 2014 has been extracted by the Directors from the Company's historical financial statements included in the Accountants' Report as set out in Appendix I to the Prospectus.

**Directors' Responsibilities for the Pro Forma Financial Information**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").



**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the 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 (“HKSAE”) 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 comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 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 an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or 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 events or transactions as at 30 June 2014 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 event or 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' judgement, having regard to the reporting accountants' understanding of the nature of the Company, the event or 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.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Use of Proceeds" in the Prospectus.

**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 purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**

*Certified Public Accountants*

Hong Kong

**TAXATION OF SECURITY HOLDERS**

*The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect as of the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.*

*This section of this Prospectus does not address any aspects of Hong Kong or PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.*

**THE PRC*****Taxation of Dividends******Individual Investors.***

According to the *Individual Income Tax Law of China* (中華人民共和國個人所得稅法) (the “IIT Law”), as amended on 30 June 2011 and effective on 1 September 2011, dividends paid by PRC companies are ordinarily subject to PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the *Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45* (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 SAT recently, generally the PRC individual income tax at the rate of 10% is applicable to dividends paid by non-foreign invested enterprises which have had their public offering in Hong Kong to the individual holders of H shares who are non-PRC nationals. For the individual holders of H shares receiving dividends who are citizens from countries that have entered into income tax treaties with the PRC with the tax rates lower than 10%, non-foreign invested enterprises which have had their public offering in Hong Kong will apply on behalf of the such holders to seek entitlement of the lower preferential tax treatments, and upon approval by the tax authorities, the amounts which are over the withheld tax will be refunded. For the individual holders of H shares receiving dividends who are citizens from countries that entered into income tax treaties with the PRC with the tax rates higher than 10% but lower than 20%, non-foreign invested enterprises which have had their public offering in Hong Kong are required to withhold the tax at the agreed rates under the treaties, and no application procedures will be necessary. For the individual holders of H shares receiving dividends who are citizens from countries without taxation agreements with the PRC or are under other situations, non-foreign invested enterprises which have had their public offering in Hong Kong are required to withhold the tax at the rate of 20%.

*Enterprises.* According to the new *EIT Law* and the *Provision for Implementation of Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) which both became effective on 1 January 2008, the non-resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the dividends and bonuses received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

According to the *Notice Regarding Questions on Withholding Enterprise Income Tax When PRC Resident Enterprises Distribute Dividends to Non-resident Enterprise Shareholders of H Shares* (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) issued by SAT, which became effective on 6 November 2008, PRC resident enterprises should withhold EIT at a rate of 10% when they distribute dividends to non-resident enterprise shareholders of H shares from the year of 2008. The *Response to Questions on Levying Enterprises Income Tax on Dividends Derived by Non-resident Enterprises from Holding B-shares* (國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆) issued by SAT on 24 July 2009 further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold EIT at a rate of 10% on dividends that it distributes to non-resident enterprise(s). Such tax rate may be reduced pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable. In accordance with the above two regulations, such withholding tax may be reduced pursuant to an applicable double taxation treaty.

*Tax Treaties.* According to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion* (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) with respect to taxes on income signed on 21 August 2006, the PRC Government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds at least 25% equity interest in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by the PRC company. Investors who do not reside in the PRC and reside in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of the Company who do not reside in the PRC.

The PRC currently has double-taxation treaties with many nations in the world, which include but not limited to:

- Australia;
- Canada;
- France;
- Germany;
- Japan;
- Malaysia;

- the Netherlands;
- Singapore;
- the United Kingdom; and
- the United States.

#### *Taxation of Capital Gains*

In accordance with *IIT Law* and the *Implementation Rules of IIT Law* (中華人民共和國個人所得稅法實施條例) (the “Implementation Rules”), individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. The Implementation Rules also provide that the MOF shall draft measures for collection of individual income tax from income on the transfer of shares, and such measures are subject to the approval of the State Council. However, as of the Latest Practicable Date, no such measures had been drafted and enacted. 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 MOF and SAT on 30 March 1998, from 1 January 1997, income of individuals from the transfer of shares in listed enterprises continues to be exempted from individual income tax. Furthermore, on 31 December 2009, MOF, SAT and 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), 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 defined in such Circular and its supplementary notice issued on 10 November 2010). As of the Latest Practicable Date, no legislation had expressly provided 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, and in practice such tax has not been collected by the PRC tax authorities.

According to the new *EIT Law* and the *Provision for Implementation of Enterprise Income Tax Law of the PRC*, the non-resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the gains received and the offices or premises established by the non-resident enterprises. As of the Latest Practicable Date, no legislation had expressly provided that EIT shall be collected from non-Chinese resident enterprises on their income derived by them from sale of the shares in PRC companies listed on overseas stock exchanges. However the possibility cannot be entirely excluded that taxation administrations will seek to collect EIT on such income in the future. In addition, such tax may be exempted in China if the tax treaty or agreement that China concluded with relevant jurisdictions, where applicable, states that China may not tax capital gains.

*Taxation of the Company in the PRC***Income tax**

From 1 January 1994, income tax payable by PRC enterprises, including state-owned enterprises and share system enterprises, was governed by the *PRC Enterprise Income Tax Provisional Regulations* (中華人民共和國企業所得稅暫行條例) (the “EIT Regulations”) which took effect from 1 January 1994, and which provided for an income tax rate of 33% unless a lower rate is provided by law, administrative regulations or State Council regulations.

On 16 March 2007, the 10th NPC adopted the new *EIT Law*. The new *EIT Law* came into effect on 1 January 2008, according to which the EIT rate in the PRC was reduced from 33% to 25% and is in line with the rate applicable to foreign investment enterprises and foreign enterprises. At the same time, the *Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises* and the *EIT Regulations* has ceased to be effective.

**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.

*Taxation on Gains from Sale*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the H shares. However, trading gains from the sale of property 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 trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate on individuals of 15%.

Certain categories of taxpayers (for examples, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment. Trading gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

*Stamp Duty*

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for, or the market value of, the H shares, will be payable by the purchaser on every purchase and by the seller on every sale of H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H shares. Where one of the parties to a transfer is

resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. 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 abolished estate duty in respect of deaths occurring on or after 11 February 2006.

### **FOREIGN EXCHANGE CONTROL**

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible at the present time. SAFE, under the authority of PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On 29 January 1996, the State Council promulgated *the Regulations of the PRC for the Control of Foreign Exchange* (中華人民共和國外匯管理條例) (the “Foreign Exchange Regulations”), which took effect on 1 April 1996. The *Foreign Exchange Regulations* classifies all cross-border foreign exchange payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to approval of SAFE while capital account items still are. The *Foreign Exchange Regulations* was subsequently amended on 14 January 1997 and on 5 August 2008. This latest amendment affirmatively states that the state will not restrict cross-border current account payments and transfers.

On 20 June 1996, PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理規定) (the “Settlement Regulations”), which took effect on 1 July 1996. The *Settlement Regulations* superseded the *Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯暫行規定) and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On 25 October 1998, PBOC and the SAFE promulgated the *Notice Concerning Closure of the Foreign Exchange Swap Business Activities* (關於停辦外匯調劑業務的通知) pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprises shall come under the banking system for the settlement and sale of foreign exchange.

On 21 July 2005, PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the Renminbi was no longer only pegged to the U.S. dollar from then on. PBOC would announce the closing price of a foreign currency such as the U.S. dollar against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day. This closing price will be used as the middle price for quoting the Renminbi exchange rate on the following working day.

On 5 August 2008, the State Council promulgated the revised *Foreign Exchange Control Regulations* (the “Revised Foreign Exchange Control Regulations”), which have made substantial changes to the foreign exchange supervision system of the PRC. First, the Revised Foreign Exchange Control Regulations have adopted an approach of balancing the inflow and outflow of foreign exchange and foreign exchange settlement funds under repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are requirement to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. Second, the Revised Foreign Exchange Control Regulations have improved the mechanism for determining the RMB rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations have enhanced the monitoring of cross-border foreign currency fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary or control measures. Fourth, the Revised Foreign Exchange Control Regulations have enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enforce its supervisory and administrative powers.

Since 4 January 2006, PBOC improved the method of generating the middle price for quoting the Renminbi exchange rate by introducing an enquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. In addition, PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market. After the introduction of the enquiry system, the generation of the middle price for quoting the Renminbi was replaced by a new mechanism under which PBOC authorized the China Foreign Exchange Trading System to determine and announce the middle price for quoting the Renminbi against the U.S. dollar, based on the enquiry system, at 9:15 a.m. on each business day.

The foreign exchange income under the current items may be reserved by the company or sold to financial institutions operating foreign exchange sale of settlement business. Before reserving the foreign exchange income under the capital items or selling it to any financial institution operating foreign exchange sale of settlement business, approvals of the competent foreign exchange administrative authorities shall be obtained, unless it is otherwise provided by the State.

PRC enterprises (including foreign-invested enterprises) which are in need of foreign exchange funds for their transactions relating to current account items, may, without the prior approval of the SAFE, effect payment from their foreign exchange account or convert and pay through the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. Foreign-invested enterprises, which need foreign exchange for the distribution of profits to their shareholders and the PRC enterprises, which in accordance with regulations are required to pay dividends to shareholders in foreign currency, may, on the strength of general meeting resolutions of such PRC enterprises or board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay through the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction and prior approval from the SAFE and the relevant branch must be sought.

Dividends to holders of H shares are fixed in Renminbi but must be paid in Hong Kong dollars.

We prepare our financial statements in Renminbi.



In addition, the Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (國家外匯管理局關於境外上市外匯管理有關問題的通知) promulgated and implemented by SAFE on January 28, 2013 stipulates the foreign control matters for the domestic companies listed overseas:

1. SAFE and its branches (hereafter as the “Foreign Exchange Bureaus”) supervises, manages and inspects the business registration, account opening and its use, the cross-border receipts and payments, capital exchange, etc., involved in the overseas listing of the domestic companies.
2. Domestic companies shall register in relation to its offshore listing with Foreign Exchange Bureaus in the place it registered with related materials within 15 working days upon the completion of the initial public offering of shares for its overseas listing.
3. Domestic companies shall open a special domestic account in the banks in the place it registered to handle capital exchange and transfer of funds corresponding to the relevant business for its initial public offering (or enhancement) or repurchase transactions.
4. Domestic companies may repatriate the capital raised overseas to its own corresponding special domestic account or retain at its own special overseas account. The use of the proceeds shall be consistent with the content of the prospectus or other disclosure documents such as documents for the issuance of corporate bonds, circulars to shareholders and resolutions of shareholders’ meetings; the proceeds which is from the issuance of convertible bonds and intends to be remitted to the domestic account shall be remitted to its foreign debts account and used in accordance with the relevant regulations of foreign debts administration; the proceeds which is from the issuance of other types of securities and intends to be remitted to the domestic account shall be remitted to its corresponding special domestic account for overseas listing.
5. A domestic company applying for a special domestic account for settlements of funds for overseas listing shall apply to the Foreign Exchange Bureaus in the place it registered with relevant documents. The local Foreign Exchange Bureaus will issue an approval document for settlements to the domestic companies upon verification so that the domestic company can complete the settlement procedures with the approval documents at bank.

#### ADDITIONAL CHINESE TAX CONSIDERATIONS

*PRC Stamp Duty.* PRC stamp duty imposed on the transfer of shares of the PRC publicly traded companies under the *Provisional Regulations* should not apply to the acquisition and disposal by non-PRC investors of H shares outside of the PRC by virtue of the *Provisional Regulations of China Concerning Stamp Duty* (中華人民共和國印花稅暫行條例), which became effective on 1 October 1988 and which provide that PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and are protected under the PRC law.

*Estate Tax.* No liability for estate tax under the PRC law will arise from a non-PRC national’s holding of H shares.

*This Appendix sets out summaries of certain aspects of PRC laws and regulations which are relevant to our operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in “Appendix III — Taxation and Foreign Exchange” in this Prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of the PRC issuers.*

## PRC JUDICIAL SYSTEM

Under 《中華人民共和國憲法》(the *PRC Constitutional Law*\*) and 《中華人民共和國人民法院組織法》(the *Law of the PRC of Organization of the People’s Courts*\*), the judicial system in 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 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 higher level people’s courts supervise the basic and intermediate people’s courts. The people’s procuratorates are state organs for legal supervision. 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 generally employ a “second instance as final” 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 awards given at the next higher level are final. First judgments or awards of the Supreme People’s Court are also final. If, however, 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 according to the judicial supervision procedures.

《中華人民共和國民事訴訟法》(the *Civil Procedure Law of the PRC*\*) (the “PRC Civil Procedure Law”), which was adopted on 9 April 1991 and amended on 31 August 2012, 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 may, by an express agreement, select a court of jurisdiction where civil actions may be brought, provided that the court of jurisdiction is located in 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 other places which have substantial connections with the dispute. However, such selection cannot violate the stipulations of jurisdiction by level and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country’s judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may impose the same limitations on the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgment or an order made by a people’s court or an award granted by an arbitration panel in the PRC, the other party

may apply to the people's court to request for the 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. If a party fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by the other party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or an order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. In case of an application or request for recognition and enforcement of a legally effective judgment or an order of a foreign court, the people's court shall, after having examined it in accordance with the international treaties entered into or acceded to by the PRC or with the principle of reciprocity and having arrived at the conclusion that it does not contravene the primary principles of the laws of the PRC nor does it violate the sovereignty, security or social and public interests of the PRC, recognize the validity of the judgment or order, and, if required, issue a writ of enforcement and enforce it in accordance with the relevant regulations. If the application or request contravenes the primary principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people's court shall not recognize and enforce it.

#### THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

On 29 December 1993, the Standing Committee of the Eighth NPC adopted 《中華人民共和國公司法》(the *PRC Company Law*\*) which came into effect on 1 July 1994 and was amended for the first time at the 13th Session of the Standing Committee of the Ninth NPC on 25 December 1999, amended for the second time at the 11th Session of the Standing Committee of the Tenth NPC on 28 August 2004, revised for the third time at the 18th Session of the Standing Committee of the Tenth NPC on 27 October 2005, and revised for the fourth time at the 6th Session of the Standing Committee of the Twelfth NPC on 28 December 2013. The newly amended *PRC Company Law* has been promulgated and became effective from 1 March 2014.

On 4 July 1994, 《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》(the *Special Regulations*\*) were passed at the Twenty-Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 1994. The *Special Regulations* are formulated according to the provisions of Sections 85 and 155 of the *PRC Company Law* (1993) in respect of the overseas share subscription and listing of joint stock limited companies. 《到境外上市公司章程必備條款》(the *Mandatory Provisions*\*) were issued jointly by the former Securities Commission of the State Council and the former State Economic 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. Accordingly, the *Mandatory Provisions* have been incorporated into the Articles of Association (which are summarized in “Appendix V — Summary of Articles of Association” in this Prospectus). References to a “company” are to a joint stock limited liability company established under the *PRC Company Law* with overseas listed foreign invested shares.

Copies of the Chinese text of the *PRC Company Law*, the *Special Regulations* and the *Mandatory Provisions* together with copies of their unofficial English translations are available for inspection as mentioned in “Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection” in this Prospectus.

*General*

A “joint stock limited liability company” (hereinafter referred to as “company”) is a business entity enterprise incorporated under the *PRC Company Law*, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A company shall, when engaging in business activities, abide by laws and administrative regulations, observe social moralities and business ethics, act in good faith, accept the supervision of the government and the general public, and undertake social responsibilities.

*Incorporation*

A company may be incorporated by promotion or public subscription.

A company shall be incorporated by 2 to 200 promoters, but at least a majority of the promoters must reside in the PRC.

The *PRC Company Law* stipulates that for a joint stock limited liability company, the total share capital subscribed by all promoters or total amount of paid-up share capital raised shall comply with the requirements of the company’s articles of association. The provisions otherwise prescribed by laws, administrative regulations and the decisions of the State Council on the actual payment of registered capital and the minimum registered capital of a joint stock limited liability company shall prevail.

Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by public subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of the company unless otherwise stipulated by laws and regulations, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

For companies incorporated by promotion, the registered capital has to be the total share capital subscribed for by all promoters as registered with the relevant AIC; the said company is not allowed to offer shares to others for subscription before the shares subscribed by its promoters are fully paid up; for companies established by public subscription, the registered capital is the amount of total paid-up share capital as registered with the relevant AIC.

Pursuant to 《中華人民共和國證券法》(the *PRC Securities Law*\*), the total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB30 million.

The payments for the issued shares shall, after being fully made, be subject to capital verification and issuance of a certification by a lawfully-established capital verification agency. The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days before the meeting.

The inaugural meeting may be convened only with the presence of promoters and subscribers holding shares representing more than 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of the draft articles of association and the election of the members of board of directors and board of supervisors of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A company is formally established and has the status of a legal person after the approval for registration has been given by the relevant AIC and a business license has been issued.

A company's promoters shall jointly and severally 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 money 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.

#### *Share Capital*

The promoters of a company can make capital contributions in cash, or in kind that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value.

A shareholder may make capital contributions in cash, or alternatively may make capital contributions with appraised non-monetary property such as physical assets, intellectual property rights, and land-use rights that may be appraised in currency and may be transferred in accordance with the law, excluding the property that shall not be used for capital contributions as specified in laws and administrative regulations. The non-monetary property that is used for capital contributions shall be valued and verified, and shall not be over-valued or under-valued. The provisions on the valuation of such property as prescribed by laws or administrative regulations shall prevail.

A company may issue registered or bearer share. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered share 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 Renminbi and subscribed for in foreign currency.

Under the *Special Regulations* and the *Mandatory Provisions*, shares issued to foreign investors and investors from the territories of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the *Special Regulations*, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

#### ***Increase in Capital***

Under the *PRC Company Law*, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the *PRC Securities Law* provides that the company shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents in the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the relevant AIC and issue a public notice accordingly.

#### ***Reduction of Share Capital***

A company may reduce its registered capital in accordance with the following procedures prescribed by the *PRC Company Law*:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant AIC for registration of the reduction in registered capital.

*Repurchase of Shares*

A company may not purchase its own shares other than for the purpose of:

- (i) reducing its capital by cancelling its shares or merging with another company holding its shares;
- (ii) granting shares as a reward to the staff of the company; or
- (iii) purchasing 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.

The shares of the company to be repurchased by itself as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any funds for such purpose shall be paid out of after-tax profits of the company, and the shares so purchased shall be transferred to the company's staff within a year. The *Mandatory Provisions* provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or through an off-market contract.

*Transfer of Shares***Shares may be transferred in accordance with the relevant laws and regulations**

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by law or administrative regulation. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the shares held by each of them 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 year after the listing date. There is no restriction under the *PRC Company Law* as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

*Shareholders*

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the *PRC Company Law* and the *Mandatory Provisions*, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his/her/its shares in accordance with applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors' resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;
- (iv) if any of the directors or senior officers damages the shareholder's interests by violating any laws or administrative regulations or article of association, the shareholders may lodge an action in the people's court;
- (v) to receive dividends and other distributions in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his/her/its shareholding; to claim against other shareholders who abuse their shareholders' rights for damages; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares subscribed by him/her/it, not to abuse shareholders' rights to damage the interests of the company or other shareholders of the company, not to abuse the independent status of the company as a legal person and its limited liability so as to damage the interests of the creditors of the company, and any other shareholders' obligations specified in the company's articles of association.

#### ***Shareholders' General Meetings***

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the *PRC Company Law*.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove directors and supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee or the supervisors;



- (v) to consider and approve the company's proposed annual financial budget and financial accounts;
- (vi) to consider and approve the company's proposals for profit distribution and for recovery of losses;
- (vii) to decide on any increase or reduction in the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to decide on the appointment, resignation or dismissal of the accounting firm;
- (xi) to amend the articles of association of the company; and
- (xii) other powers specified in the articles of association of the company.

Shareholders' general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the *PRC Company Law* or less than two-thirds of the number specified in the company's articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company's total paid up share capital;
- (iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors;
- (v) when the supervisory committee proposes convening it; or
- (vi) other matters required by the company's articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the *PRC Company Law* and 45 days under the *Special Regulations* and the *Mandatory Provisions*, stating the matters to be considered at the meeting.

Each shareholder shall be notified by a notice of an extraordinary general meeting 15 days before the meeting is held under the *PRC Company Law*. Under the *Special Regulations* and the *Mandatory Provisions*, shareholders wishing to attend are required to give the company a written confirmation of their attendance 20 days prior to the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be adopted by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

A shareholder may entrust a proxy to attend shareholders' general meetings on his/her/its behalf by a power of attorney which sets out the scope of exercising the voting rights.

There is no specific provision in the *PRC Company Law* regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, 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% or more of the voting rights in the company have been received 20 days before the proposed date of meeting, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders 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 5 to 19 members and there can be staff representatives of the company. Under the *PRC Company Law*, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the *PRC Company Law*, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders' general meeting;

- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) 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;
- (x) to formulate the company's basic management system; and
- (xi) any other power given under the articles of association of the company.

In addition, the *Mandatory Provisions* provide that the board of directors is also responsible for formulating the proposals for amendments to the articles of association of a company.

Meetings of the board of directors shall 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.

If 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 to attend the meeting on his/her behalf.

If 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 passing of the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objection were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the *PRC Company Law*, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense 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 offenses, where less than five years have elapsed since the date of the completion of implementation of such deprivation;

- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who 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;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or business operation shut down due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively large amount of debt due and outstanding; or
- (vi) 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 — Summary of Articles of Association” in this Prospectus).

The board of directors shall appoint a chairman, who shall be elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers:

- (i) to preside over shareholders’ general meetings and convene and preside over meetings of the board of directors; and
- (ii) to check on the implementation of the resolutions of the board of directors.

The legal representative of a company in accordance with the company’s articles of association, is 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 benefits. The *Mandatory Provisions* (which have been incorporated into the Articles of Association, a summary of which is set out in “Appendix V — Summary of Articles of Association” in this Prospectus) contain further elaborations of such duties.

### *Supervisors*

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor shall be three years and he may serve consecutive terms if re-elected.

The supervisory committee shall be made up of shareholders representatives and an appropriate proportion of the company’s staff representatives, and the percentage of the number of the company’s staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the supervisory committee under the *PRC Company Law* are as follows:

- (i) to examine the company's financial affairs;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders' resolutions;
- (iii) to require any director or senior management to rectify their act which is detrimental to the company's interests;
- (iv) to propose the convening of extraordinary general meetings and, to convene and preside over shareholders' meetings when the board of directors fails to perform such duties;
- (v) to put forward proposals at shareholders' general meetings;
- (vi) to commence action against any directors or senior management; and
- (vii) other powers specified in the company's 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.

The *Special Regulations* provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefits.

#### ***Managers and Senior Officers***

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial officers and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);

(vii) attend board meetings as a non-voting attendant; and

(viii) other powers conferred by the board of directors or the company's articles of association.

The *Special Regulations* and the *Mandatory Provisions* provide that the other senior management of a company includes the financial officer, secretary of the board of directors and other executives as specified in the article 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. The provisions of the *Mandatory Provisions* regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in "Appendix V — Summary of Articles of Association" in this Prospectus.

#### ***Eligibility and Obligations of Directors, Supervisors, Managers and Senior Officers***

The following persons may not serve as a director, supervisor, manager and other senior officer of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense 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 offense, where less than five years have elapsed since the date of completion of implementation of such deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and are personally liable for the bankrupt of such company or enterprise, where less than five years have elapsed since the date of completion of the bankrupt and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of laws and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license; and
- (v) persons who have a relatively large amount of debts due and outstanding.

A director, supervisor, manager and other senior officer of a company are required under the *PRC Company Law* to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company.

A director, supervisor, manager and other 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 save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and other senior officer who contravenes any laws, regulations or the company's articles of association in the performance of his/her 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 directors, supervisors, managers 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 benefits.

#### ***Finance and Accounting***

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company incorporated by public subscription must publish its financial statements.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

When distributing after-tax profits for each year, the company shall set aside 10% of its after-tax profits for the company's statutory surplus reserve (except where the 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 profits, subject to a resolution of the shareholders' general meeting, the company may make an allocation to a discretionary common reserve.

When the company's statutory surplus reserve is not sufficient to make up for the company's losses of the previous years, current year profits shall be used to make up for the losses before allocations are set aside for the statutory surplus reserve.

After the company has made up for its losses and make allocations to its statutory surplus reserve, the remaining profits could be made available for distribution to shareholders in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a 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 relevant governmental authorities to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses other than the capital common reserve;
- (ii) to expand the business operations of the company; and
- (iii) to increase the registered capital of the company by issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the nominal value of the shares currently held by the shareholders provided that if the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital of the company before such conversion.

#### ***Appointment and Retirement of Auditors***

The *Special Regulations* require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and to audit and review other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the *Special Regulations* to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

#### ***Distribution of Profits***

The *PRC Company Law* provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve has been drawn. 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 authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the relevant authority must also be changed.



*Dissolution and Liquidation*

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the people's court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the *PRC Company Law*, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or
- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss to the interests 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 (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or any other people as determined by the shareholders' 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.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public announcement in the newspapers within 60 days. A creditor shall lodge his/her/its claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public announcement if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;

- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If 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.

During the liquidation period, a company shall not engage in operating activities not relating 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 of 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 people's court for confirmation. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public announcement 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 liquidation committee is liable to indemnify the company and its creditors in respect of any losses arising from his/her wilful or material default.

#### ***Overseas Listing***

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the *Special Regulations*, a company's plan to issue overseas listed foreign invested shares and domestic invested shares, which has been approved by the securities regulatory authority of the State Council, may be implemented by the board of directors of a company by way of separate issues within 15 months after approval is obtained from the CSRC.

#### ***Loss of Share Certificates***

A shareholder may apply, in accordance with the relevant provisions set out in the *PRC Civil Procedure Law*, to a people's court in the event that his/her/its share certificate in registered form are either stolen or lost, for a declaration that such certificate will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of a replacement certificate.

The *Mandatory Provisions* provide for a separate procedure regarding loss of H share certificates which has been incorporated in the Articles of Association, a summary of which is set out in “Appendix V — Summary of Articles of Association.”

#### *Suspension and Termination of Listing*

The *PRC Company Law* has deleted provisions governing suspension and termination of listing. The new *PRC Securities Law* has been amended as follows:

The trading of shares of a company on a stock exchange may be suspended if so decided by the stock exchange under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer complies with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company’s financial report with the possibility of misleading investors;
- (iii) the company has committed a major breach of the law;
- (iv) the company has incurred losses for three consecutive years; or
- (v) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the *PRC Securities Law*, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (i) above, or the company has refused to rectify the situation in the case described in (ii) above, or the company fails to become profitable in the next subsequent year in the case described in (iv) above, and other two situations such as the company has been dissolved or declared bankrupt; and such other circumstances as may be so prescribed in the listing rules of the stock exchange, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

#### *Merger and Demerger*

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies shall be dissolved.

### **SECURITIES LAW AND REGULATIONS**

The PRC has promulgated a number of regulations that relate to the issue and trading of the Shares and disclosure of information by us. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities

companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee and assigned its function to the CSRC. The CSRC is also responsible for the regulation and supervision of the national stocks and futures market according to the laws, regulations and authorizations.

The *PRC Securities Law* took effect on 1 July 1999 and was revised for the first time on 28 August 2004, amended for the second time on 27 October 2005, revised for the third time on 29 June 2013, and revised for the fourth time on 31 August 2014. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The *PRC Securities Law* comprehensively regulates activities in the PRC securities market. Article 238 of the *PRC Securities Law* provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Article 239 of the *PRC Securities Law* provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

#### ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

《中華人民共和國仲裁法》(*the Arbitration Law of the PRC\**) (the "Arbitration Law") was passed by the Standing Committee of the NPC on 31 August 1994, and became effective on 1 September 1995 and amended on 27 August 2009. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the *Arbitration Law*. Under the *Arbitration Law*, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the *Arbitration Law* and the *PRC Civil Procedure Law*. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Listing Rules and the *Mandatory Provisions* require an arbitration clause to be included in the articles of association of a company and, in the case of the Listing Rules, also in contracts with each of the directors and supervisors, to the effect that whenever any disputes or claims arise between holders of the H shares and us, holders of the H shares and the directors, supervisors, managers or other officers, or holders of the shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the articles of association, the *PRC Company Law* or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the

resolution of such dispute or claim, if they are Shareholders, Directors, Supervisors, managers or officers of us, shall be subject to the arbitration. Disputes in respect of who is the Shareholder and disputes in relation to our register of Shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the CIETAC in accordance with its rules or the HKIAC 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 elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

Under the *Arbitration Law* and the *PRC Civil Procedure Law*, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

According to the new 《中國國際經濟貿易仲裁委員會仲裁規則》 (*Arbitration Rules of China International Economic and Trade Arbitration Commission*\*) implemented on 1 May 2012, the CIETAC shall deal with disputes over contractual or non-contractual transactions, including disputes in Hong Kong in accordance with the agreement of the parties. The arbitration commission was established in Beijing and its branches and centers were set up in Shenzhen, Shanghai, Tianjin and Chongqing.

A party seeking to enforce an arbitral award of a PRC arbitration panel against a party who, or whose property, is not within the 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 in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to 《承認及執行外國仲裁裁決公約》 (*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 to the *New York Convention*, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity; and (ii) the PRC will only apply the *New York Convention* to disputes considered under PRC laws to have arisen from contractual and non-contractual mercantile legal relations.

In June 1999, an arrangement was made between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was 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 is made in accordance with the spirit of the *New York Convention*.

Under the arrangement, awards made by PRC arbitration bodies pursuant to the *Arbitration Law* can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

## HONG KONG LAWS AND REGULATIONS

### *Summary of Material Differences between Hong Kong and PRC Company Law*

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies (WUMP) Ordinance, and the Companies Ordinance, and supplemented by common law and rules of equity applicable in Hong Kong. The Company, which is a joint stock limited company established in the PRC, is governed by the *PRC Company Law* and all other rules and regulations promulgated pursuant to the *PRC Company Law*.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the *PRC Company Law* applicable to a joint stock limited company established and existing under the *PRC Company Law*. This summary is, however, not intended to be an exhaustive comparison.

#### **Corporate existence**

Under Hong Kong company law, a company having a share capital is incorporated and will acquire an independent corporate existence after the Registrar of Companies in Hong Kong has issued 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 *PRC Company Law*, a joint stock limited liability company may be incorporated by either promotion or public subscription. The *PRC Company Law* stipulates that for a joint stock limited liability company, the total share capital subscribed for by all promoters or the total amount of paid-up share capital raised shall comply with the requirements of the company's articles of association.

The provisions otherwise prescribed by laws, administrative regulations and the decisions of the State Council on the actual payment of registered capital and the minimum registered capital of a joint stock limited liability company shall prevail.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company. There is no minimum monetary contribution restriction on a Hong Kong company under Hong Kong law.

#### **Share capital**

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The *PRC Company Law* provides that any increase in our registered capital must be approved by our Shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the *PRC Company 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 *PRC Company Law*, the shares may be subscribed for in the form of money or non-monetary assets that may be valued in cash and lawfully transferable. For non-monetary assets to be used as capital contributions, appraisals must be carried out to ensure no over-valuation or under-valuation of the assets.

#### **Restrictions on shareholding and transfer of shares**

Under PRC law, the domestic shares (“domestic shares”) in the share capital of a joint stock limited liability company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the domestic investors of the PRC. 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 Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC, as well as other qualified institutions.

Under the *PRC 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 restriction on shareholding and transfer of shares under Hong Kong law apart from the six-month lock up on the Company’s issue of Shares and the 12-month lock up on Controlling Shareholders’ disposal of Shares, as illustrated by the undertakings given by the Company to the Stock Exchange as described in “Underwriting” in this Prospectus.

#### **Financial assistance for acquisition of shares**

Although the *PRC 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.

#### **Variation of class rights**

The *PRC Company Law* makes no specific provision relating to variation of class rights. However, the *PRC Company Law* states that the State Council can promulgate regulations relating to other kinds of shares. The *Mandatory Provisions* contain detailed 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.

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 general meeting, (ii) with the written consent of the holders representing at least 75% of the total voting rights of holders of shares in the class in question, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the 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) the 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 exist as of 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 the Company transfer their Shares to overseas investors and such Shares are listed and traded in foreign markets.

### **Directors**

The *PRC 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 such as prohibition against compensation for loss of office without shareholders' approval. The *PRC Company Law* provides restrictions on interested directors voting on a resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested in or connected with. 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 VI.

### **Board of Supervisors**

Under the *PRC 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/her powers, to act in good faith and honestly in what he/she 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.



**Derivative action by minority shareholders**

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors for their misfeasance committed against the company, if such directors control a majority of votes at a general meeting and thereby effectively preventing a company from suing the directors for their misfeasance committed against the company in its own name. The *PRC Company Law* gives shareholders of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by the shareholders in a general meeting or by the board of directors that violates any law or damages the lawful rights and interests of the shareholders. The *PRC Company Law* also provides that a shareholder can initiate proceedings if the director or senior management of the company violates the law, administrative regulation or articles of association of the company and thus damage the shareholder's interests. The *Mandatory Provisions* further provide remedies to the company against directors, supervisors and senior management in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against the directors and supervisors in default.

**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/her/its interests may make a petition to court to either wind up the company or seek 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 *PRC Company Law* provides that where a company encounters any serious difficulty in its operations or management so that the shareholders will sustain serious loss of their interests 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 apply to 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/her 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.

**Notice of shareholders' meetings**

Under the *PRC Company Law*, notice of a shareholders' general meeting must be given not less than 20 days before the meeting, while notice at an extraordinary general meeting must be given 15 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 the meeting. 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.

#### **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 *PRC 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.

#### **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 *PRC 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 amendments 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.

#### **Financial disclosure**

A company is required under the *PRC 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 *PRC 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 (if held in accordance with the Companies Ordinance). 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.

#### **Information on directors and shareholders**

The *PRC 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.

#### **Receiving agent**

Under both the *PRC 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.

#### **Corporate reorganization**

Corporate reorganization 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 (WUMP) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Division 2 of Part 13 of the Companies Ordinance which requires the sanction of the court. Under *PRC Company Law*, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

#### **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 Hong Kong International Arbitration Centre ("HKIAC") or the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) ("CIETAC") at the claimant's choice.

#### **Mandatory deductions**

Under the *PRC 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 be required 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.

#### **Remedies of a company**

Under the *PRC 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 Listing Rules.

#### **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.

#### **Fiduciary duties**

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the *PRC 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.

#### **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 *PRC 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.

#### **Listing Rules**

The 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.

**Compliance adviser**

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 first full year's financial results, to provide the company with professional advice on continuous compliance with the 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 Listing Rules and any new or amended laws, regulations or codes 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.

**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.

**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/her/its appointment, the termination of his/her/its appointment and his/her/its contact particulars.

**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 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.

**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.

**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 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 Takeovers Code 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.

**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 VI.

**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.

**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 to materially 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 of 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.

### **Supervisors**

The 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 (set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange. The 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 the Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires the 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 appraisal committee of the 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 close associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its Shareholders as a whole and advise Shareholders on how to vote.

### **Amendment to the Articles of Association**

The Company is required not to permit or cause any amendments to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules and the *Mandatory Provisions* or the *PRC Company Law*.

### **Documents for inspection**

The 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;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;

- reports showing the number and nominal value of securities repurchased by the 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 filed with the relevant branches of AIC or other competent PRC authority; and
- for Shareholders only, copies of minutes of meetings of Shareholders.

#### **Receiving agents**

The 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.

#### **Statements in H share certificates**

The 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 the Company and each Shareholder of the Company, and the Company agrees with each Shareholder of the Company, to observe and comply with the *PRC Company Law*, the *Special Regulations*, the Articles of Association and other relevant laws and administrative regulations;
- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the 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 *PRC Company Law* or other relevant laws and administrative regulations concerning the affairs of the 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 open hearings and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each Shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his/her/its behalf with each Director, Supervisors, managers and officer of the Company whereby each such Director and officer undertakes to observe and comply with his/her obligations to Shareholders as stipulated in the Articles of Association.



**Compliance with the *PRC Company Law*, the *Special Regulations* and the Articles of Association**

The Company is required to observe and comply with the *PRC Company Law*, the *Special Regulations* and the Articles of Association.

**Contract between the Company and its Directors, officers and Supervisors**

The 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 the Company to observe and comply with the *PRC Company Law*, the *Special Regulations*, the Articles of Association, the Takeovers Code and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his/her office is capable to be assigned;
- an undertaking by the Director or officer to the Company acting as agent for each Shareholder to observe and comply with his/her 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 *PRC Company Law* or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the 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;
- Disputes over who is a Shareholder and over the register of Shareholders do not have to be resolved through arbitration;
- 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 officer with the 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 open hearings and to publish its award. The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

**Subsequent listing**

The 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.

**English translation**

All notices or other documents required under the Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in English language, or accompanied by a certified English translation.

**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 the 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 Listing Rules to impose additional requirements and make special conditions in respect of the Company's Listing.

***Other Legal and Regulatory Provisions***

Upon the 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 the Company.

***Securities Arbitration Rules***

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong 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 Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

*This Appendix sets out summaries of the main clauses of our Articles of Association adopted on 19 May 2014 and its subsequent amendments on 8 August 2014, 18 October 2014, 4 November 2014, 21 November 2014 and 18 December 2014 which shall become effective as of the date on which the H Shares are listed on the Stock Exchange. As the main purpose of this Appendix is to provide potential investors with an overview of the Articles of Association, it may not necessarily contain all information that is important to investors. As discussed in “Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection” in this Prospectus, the full text of the Articles of Association in Chinese is available for examination.*

## **DIRECTORS AND BOARD OF DIRECTORS**

### ***Power to Allot and Issue Shares***

The Articles of Association does not contain any clauses that authorize the Board of Directors to allot or issue Shares. The Board of Directors shall prepare proposals for Share allotment or issue, which are subject to approval by the Shareholders at a Shareholders’ general meeting by way of special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws and administrative regulations.

### ***Power to Dispose of Assets of the Company or Our Subsidiaries***

If the aggregate of the expected value of the fixed assets proposed to be disposed of, and the amount or value of the costs received from the fixed assets of the Company proposed to be disposed of within the four months immediately preceding this proposal for disposal exceeds 33% of the value of fixed assets of the Company as indicated in the latest audited balance sheet submitted to the 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 disposal refers to the transfer of rights and interests in certain assets, but does not include the provision of guarantees to fixed assets. The validity of the transactions with respect to the disposal of fixed assets of the Company shall not be affected by the violation of the above restrictions contained in the Articles of Association.

### ***Indemnification or Compensation for Loss of Office***

As provided in the contract entered into between the Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of the Company, subject to the approval of the Shareholders at the Shareholders’ general meeting in advance. Acquisition of the Company refers to any of the following circumstances:

- (i) an offer made to all Shareholders; or
- (ii) an offer is made by any person such that the offeror will become the Controlling Shareholder of the Company (as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received shall belong to the persons who have sold their Shares by accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments on a pro rata basis amongst these persons and all related expenses shall not be deducted from these payments distributed.

***Loans to Directors, Supervisors or Other Management Personnel***

The Company shall neither provide the Directors, Supervisors or senior management of the Company or our parent company with loans or loan guarantees either directly or indirectly nor provide persons related to the above personnel with loans or loan guarantees.

The following transactions are exempted from the above restriction:

- (i) the provision of loans or loan guarantees by the Company to our subsidiaries;
- (ii) the provision to any of the Directors, Supervisors or senior management with loans, loan guarantees or any other funds by the Company pursuant to the employment contracts approved at the Shareholders' meeting to pay all expenses incurred for the purpose of the Company or for performing their duties; and
- (iii) in case that the ordinary scope of business of the Company includes the provision of loans or loan guarantees, the Company may provide any of the Directors, Supervisors or senior management or other related personnel with loans or loan guarantees, provided that the terms governing the loans or loan guarantees shall be on normal commercial terms.

In the event that the Company provides loan(s) in violation of this restriction, a person who receives the loan(s) must repay the loan(s) immediately, regardless of the terms of the loan(s). Any loan(s) provided by the Company in violation of the above requirements shall not become mandatorily enforceable against us, unless under the following circumstances:

- (i) the loan provider unknowingly provides loans to personnel related to the Directors, Supervisors or senior management of the Company or its parent company; or
- (ii) the collateral provided by the Company is sold lawfully by the lender to the buyer in good faith.

For the purpose of the above provisions, "guarantee" includes the acts of the guarantor undertaking the liabilities or providing properties to secure the obligor to perform the obligations.

***Provide Financial Assistance for Acquiring the Shares or Shares of Any of Our Subsidiaries***

Pursuant to the Articles of Association:

- (i) the Company or our subsidiaries shall not provide any financial assistance at any time or in any manner to any person who acquires or plans to acquire our Shares. Such persons include those have incurred obligations, directly or indirectly, in acquiring the Shares; and

- (ii) the Company or any of our subsidiaries shall not provide persons mentioned in the preceding paragraph with financial assistance at any time or in any manner to reduce or discharge their obligations.

The following transactions are not prohibited:

- (i) related financial aid provided by the Company which is in good faith and in our interests and the main purpose of the financial aid is not to acquire our Shares or is an incidental part of a overall plan of the Company;
- (ii) the lawful distribution of our assets by way of dividend;
- (iii) distribution of dividends in the form of Shares;
- (iv) reducing the registered capital, redeeming the Shares or adjusting the equity structure pursuant to the Articles of Association;
- (v) the Company granting loans within our business scope and in the ordinary course of our business, provided that such loans shall not result in reduction in the net assets of the Company or even if the net assets are reduced, this financial assistance is provided out of the profits available for distribution; and
- (vi) the Company funding the employee share ownership scheme, provided that such loans shall not result in reduction in the net assets of the Company or, even if the net assets are reduced, such financial assistance is provided out of the profits available for distribution.

For the purpose of the above provisions:

- (i) “Financial assistance” includes, but is not limited to:
  - (aa) gifts;
  - (bb) guarantees (including acts of the guarantor assuming liabilities or providing properties to secure the obligor to perform the obligations), compensation (excluding compensation arising from defaults of the Company), release or waiver of rights;
  - (cc) provision of loans or signing of contracts whereby the Company fulfil some obligations before the obligations of other party to the contract, change of the parties to the loans/ contracts as well as the assignment of the rights in the loans/contracts; or
  - (dd) financial aid provided by the Company in any other manner when it is insolvent, has no net assets, or may suffer significant reduction in net assets.
- (ii) “Assuming obligations” includes obligator undertaking obligations by signing agreements or making arrangements (whether or not the agreements or arrangements are enforceable on demand or the obligations are assumed by the obligor personally or jointly with any other person) or changing its financial status in any other manner.

*Disclose Matters Relating to the Contract Rights of the Company and Voting on the Contract/s*

When any of the Directors, Supervisors and senior management has material interests in a contract, transaction or arrangement that the Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that the Company has entered into with the Directors, Supervisors and senior management), the above personnel shall disclose the nature and extent of their interests to the Board of Directors as soon as possible regardless of whether the above contract, transaction, arrangement or proposal is subject to the approval of the Board of Directors in normal circumstances.

With respect to any contract, transaction, arrangement or proposal in which a Director or his/her close associates have a material interest, subject to certain exceptions available under the Listing Rules or such exceptions as the Stock Exchange may approve, the Director shall withdraw from or shall not participate in voting; and the Director shall not be counted when determining whether the number of Directors attending the meeting forms a quorum.

Unless the Directors, Supervisors and senior management who have interests have made disclosure to the Board of Directors in accordance with the above requirements and the Board of Directors approves the relevant matters at a meeting in which the interested personnel were not counted in the quorum nor had they participated in voting, the Company shall have the right to rescind a contract, transaction or arrangement, except as against a bona fide party acting in good faith without knowledge of the acts of related Directors, Supervisors and senior management violating their obligations.

Where associates of the Directors, Supervisors and senior management have interests in certain contracts, transactions and arrangements, the related Directors, Supervisors and senior management shall be deemed to have interests.

*Remuneration*

The Company shall sign written agreements with the Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the Shareholders' general meeting, including:

- (i) remuneration for providing services as the Directors, Supervisors or senior management of the Company;
- (ii) remuneration for providing services as the Directors, Supervisors or senior management of our subsidiaries;
- (iii) remuneration for providing other services for management of the Company and our 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 proceedings against the Company over any of their interests in relation to the above unless provided for in the above contracts.

*Resignation, Appointment and Dismissal*

None of the following persons shall serve as a Director, Supervisor or other senior management:

- (i) anyone who has no civil capacity or has limited civil capacity;
- (ii) anyone who has been convicted of the offenses of corruption, bribery, trespass of property, misappropriation of property, or disrupting the social economic order and where less than five years have elapsed since the date of completion of implementation of the penalty, or anyone who has committed crimes and has been deprived of his/her political rights where less than five years have elapsed since the date of completion of implementation of such deprivation;
- (iii) anyone who has served as a director, factory manager or manager of a company or enterprise that has become insolvent and has been liquidated as a result of improper management, was personally liable for the insolvency of the company or enterprise, and less than three years have elapsed since the date of completion of insolvency and liquidation of the company or enterprise;
- (iv) anyone who has served as the legal representative of a company or enterprise which had its business license revoked due to violation of the law, was personally liable, and less than three years have elapsed since the date on which the business license of the company or enterprise was revoked;
- (v) anyone who has a relatively large sum of debt which was not paid when due;
- (vi) anyone who is investigated by the judicial authorities for violation of criminal law and whose case has not been concluded;
- (vii) anyone who may not serve as a head of a company pursuant to the provisions of the laws and administrative regulations;
- (viii) anyone who is not a natural person; and
- (ix) anyone convicted by the competent authorities to have violated the provisions of relevant securities laws, and has been involved in fraud or dishonest acts, where less than five years have elapsed since the date of conviction.

The validity of the acts of the Directors, managers or other senior management on behalf of the Company to bona fide third parties shall not be affected by any irregularities in their appointment, election or qualifications.

The Board of Directors consists of eight Directors and they are elected at the Shareholders' general meeting. The Directors need not hold any of our Shares.

The chairman and the vice chairman of the Board shall be elected and dismissed by a vote of more than one half of the Directors. Subject to compliance with related laws and administrative regulations, the Shareholders' general meeting may remove any Director whose term of office has not expired by an ordinary resolution without affecting any claims for damages that may be made pursuant to any contracts.

The Directors serve three-year terms. Upon expiration of the term of office, the Directors may be re-elected.

Written notice concerning proposed nomination of a person to be elected as a Director and indication of his/her intention to accept the nomination shall be sent to the Company seven days before the Shareholders' general meeting is convened (the period shall commence on the day after the dispatch of the notice of the general meeting appointed for such election by the Company).

#### ***Power to Obtain Loans***

The Articles of Association does not include any special provision regarding the manner in which the Directors may exercise the rights to obtain loans or the manner in which such rights may be created except (a) the provisions regarding the powers of the Directors to formulate proposals for the Company to issue bonds, and (b) the provisions that the issue of the bonds must be approved by the Shareholders through a special resolution at the Shareholders' general meeting.

#### ***Responsibilities***

The Directors, Supervisors and senior management shall assume the obligations to act in good faith and exercise diligence for the Company. In the event of violation of obligations owed to the Company by the Directors, Supervisors and senior management, our Company shall have the right to take the following measures in addition to various rights and remedial measures stipulated in laws and administrative regulations:

- (i) require related Directors, Supervisors or senior management to compensate the Company for losses as a result of their neglect of duties;
- (ii) rescind any contracts or transactions entered into between the Company and related Directors, Supervisors or senior management as well as any contracts or transactions entered into between the Company and any third parties when such third parties knew or should have known that the Directors, Supervisors or senior management acting on behalf of the Company violated their obligations owed to the Company;
- (iii) require the relevant Directors, Supervisors or senior management to turn over the proceeds obtained from the violation of their obligations;
- (iv) recover funds received by the relevant Directors, Supervisors or senior management that should have been received for the Company, including but not limited to commissions;
- (v) require the relevant Directors, Supervisors or senior management to return the interest earned or may have earned from funds that should have been paid to the Company.



When performing their duties, the Directors, Supervisors and senior management must comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have undertaken. This principle includes, but is not limited to, performing the following obligations:

- (i) taking any actions honestly in the best interests of the Company;
- (ii) exercising their rights within but not exceeding the scope of authority;
- (iii) exercising conferred discretionary powers personally without being manipulated by others; not delegating discretionary powers to other persons unless and to the extent permitted by laws and administrative regulations or with the informed consent of Shareholders given in a general meeting;
- (iv) treating Shareholders of the same class equally and Shareholders of different classes fairly;
- (v) entering into any contracts, transactions or arrangements with the Company is not allowed, unless in accordance with the Articles of Association or with the approval of the Shareholders' general meeting with informed consent;
- (vi) obtaining personal gain by using the assets of the Company in any manner is not allowed, unless agreed by the Shareholders' general meeting with informed consent;
- (vii) using their positions to accept bribes or other illegal income is not allowed, nor is any form of trespass of our assets, including but not limited to, opportunities beneficial to the Company;
- (viii) accepting commissions associated with transactions of the Company is not allowed unless agreed by the Shareholders' general meeting with informed consent;
- (ix) compliance with the Articles of Association, discharging duties in a faithful manner, safeguarding the interests of the Company rather than obtaining personal gain by taking advantage of their positions and authorities in the Company;
- (x) competing with the Company in any manner is not allowed, unless agreed by the Shareholders at the Shareholders' general meeting with informed consent;
- (xi) misappropriation of our funds or lending of our funds to third parties is not allowed, nor is it allowed to deposit the assets of the Company in an account opened in their own names or other names and using the assets of the Company to provide guarantees to debts of the Shareholders or other individuals; and
- (xii) disclosure of any confidential information relating to the Company obtained during their employment without the informed consent of the Shareholders' general meeting is not allowed; unless it is in the interests of the Company, using of such information is also not allowed; however, under the following circumstances the information may be disclosed to a court or other competent government authorities as required by (1) the provisions of the law; (2) the public interests; (3) the interests of the Directors, Supervisors or senior management.

The Directors, Supervisors and senior management may not direct the following persons or institutions (the “related persons”) to do acts that the Directors, Supervisors and senior management are prohibited from doing:

- (i) spouses or minor children of the Directors, Supervisors and senior management;
- (ii) trustees of the Directors, Supervisors and senior management or the persons mentioned in (i);
- (iii) partners of the Directors, Supervisors and senior management or persons mentioned in (i) and (ii);
- (iv) the company under de facto control by the Directors, Supervisors and senior management individually or jointly with the persons mentioned in (i), (ii) and (iii) or other Directors, Supervisors and senior management of the Company; or
- (v) Directors, Supervisors or senior management of the controlled companies mentioned in (iv).

The fiduciary duties owed by the Directors, Supervisors and senior management may not necessarily terminate with the expiration of their terms of office; their obligations to keep the trade secrets of the Company in confidence shall survive the termination of their terms of office. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the time elapsed between the occurrence of the events and the time of termination, as well as the circumstances and conditions under which the relationship with the Company is terminated.

Except as otherwise provided in the Articles of Association, liabilities of Directors, Supervisors and senior management arising from the breaches of specific duties may be released by informed consent of Shareholders in general meetings.

Apart from the obligations set forth in related laws, administrative regulations or the listing rules of the stock exchange where the Shares are listed, the Directors, Supervisors or senior management shall assume the following obligations for each of the Shareholders when exercising their rights granted by the Company:

- (i) they may not cause the Company to operate beyond the scope of business indicated in our business license;
- (ii) they shall act honestly in the best interests of the Company;
- (iii) they may not deprive the Company of its assets in any manner, including but not limited to, opportunities beneficial to the Company; and
- (iv) they may not deprive the Shareholders of personal rights and interests, including but not limited to, the right to receive dividends and to vote, except for restructuring of the Company approved at the Shareholders’ general meeting pursuant to the provisions of the Articles of Association.

The Directors, Supervisors and senior management have the responsibility when exercising their rights or fulfilling their obligations to act with the care, diligence and skill due from a reasonably prudent person under similar circumstances.

**MODIFICATION OF THE ARTICLES OF ASSOCIATION**

We may amend the Articles of Association based on the provisions of the relevant laws, administrative regulations and the Articles of Association.

Any amendments to the Articles of Association that involves *Mandatory Provisions* shall be approved by company approval authorities authorized by the State Council and CSRC before taking effect. Where any amendments of the Articles of Association involve our registration, application for registration change shall be made in accordance with the prescribed procedures and the laws.

**SPECIAL VOTING PROCEDURES OF CLASS SHAREHOLDERS**

Shareholders who hold different classes of Shares are class Shareholders. Any plans of the Company to change or abolish the rights of a class Shareholder is subject to the approval of the Shareholders' general meetings in the form of a special resolution and the approval of the affected class Shareholders at a separately convened Shareholders' meeting in accordance with the Articles of Association before they can be implemented. The rights of a class Shareholder shall be viewed as changed or abolished under any of the following circumstances:

- (a) increase or reduce the number of Shares of such class, or increase or reduce the number of a class of Shares with equal or superior voting rights, distribution rights and other privileges of Shares of such class;
- (b) convert all or part of Shares of such class into another class or convert another class of Shares, partly or wholly, into such class of Shares or grant such conversion rights;
- (c) cancel or reduce the rights of Shares of such class to obtain accrued dividends or cumulative dividends;
- (d) reduce or cancel the right of Shares of such class to receive dividends or assets distribution in the liquidation of the Company with priority;
- (e) increase or cancel or reduce the rights of Shares of such class to convert Share rights, options rights, voting rights, transfer rights, and pre-emptive rights, or the rights to acquire the securities of the Company;
- (f) cancel or reduce the rights of Shares of such class to receive funds payable by the Company in specified currencies;
- (g) create new class of Shares entitled to equal or superior voting rights, distribution rights, or other privileges than Shares of such class;
- (h) impose restrictions on the transfer of ownership of Shares of such class or increase such restrictions;
- (i) issue subscription or conversion rights for such or other class(es) of Shares;
- (j) increase the rights and privileges of other class(es) of Shares;

- (k) the restructuring plan of the Company may result in different class(es) of Shareholders to assume responsibilities disproportionately;
- (l) amend or abolish clauses stipulated in our Articles of Association.

Whether or not the affected class Shareholders have voting rights at the Shareholders' general meetings, in the event of matters described above in (b) through (h), (k) and (l), they have voting rights at the class Shareholders' meetings, but the Shareholders that have interests at stake (as defined in our Articles of Association) shall have no voting rights at the class Shareholders' meetings.

A resolution of the class Shareholders' meetings shall be passed by votes representing more than two-thirds of Shareholders with voting rights attending the class Shareholders' meeting.

When convening a class Shareholders' meeting, 45 days (excluding the date of the meeting) before the meeting is convened, the Company shall send a written notice to inform all registered holders of the class Shares of matters to be considered at the meeting, as well as the date and venue of the meeting. Shareholders planning to attend the meeting shall send the Company a written reply 20 days before the meeting.

In the event that the number of Shares with voting right represented by Shareholders planning to attend the meeting accounts for more than one half of the total number of said class Shares with voting right at the meeting, the Company may convene a class Shareholders' meeting. If this number is not reached, the Company shall again inform the Shareholders of the matters to be considered as well as the date and venue of the meeting within five days in the form of an announcement and the Company may convene a class Shareholders' meeting once the announcement is made.

The notice of a class Shareholders' meeting needs only to be sent to the Shareholders who have the rights to vote at the meeting.

Insofar as possible, any class Shareholders' meetings shall be held in accordance with the same procedures as those of the Shareholders' general meeting, and any clauses that relates to the procedures for convening the Shareholders' general meetings in the Articles of Association shall apply to any class Shareholders' meetings.

Apart from the holders of other class Shares, the holders of Domestic Shares and the holders of overseas listed foreign Shares are considered as different class Shareholders.

The special procedures for voting by the class Shareholders shall not apply under the following circumstances:

- (a) upon the approval by a special resolution at the Shareholders' general meeting, the Company either separately or concurrently issues Domestic Shares and overseas-listed foreign Shares once every 12 months, and the number of the Shares to be issued shall not account for more than 20% of the existing issued Shares of the two classes;
- (b) the plan to issue Domestic Shares and overseas listed foreign Shares upon the establishment of the Company is completed within 15 months of the date of approval by the securities regulatory authorities of the State Council; or

- (c) upon the approval by the securities regulatory authorities of the State Council, the Domestic Shares held by the domestic Shareholders can be converted into overseas listed foreign invested Shares and become listed or traded on an overseas stock exchange.

### **SPECIAL RESOLUTIONS NEEDED TO BE ADOPTED BY MAJORITY VOTE**

The resolutions of the Shareholders' meetings are categorized as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by a simple majority of the votes held by the Shareholders (including proxies) attending the Shareholders' general meeting.

A special resolution can be adopted by a two-thirds majority of the votes held by the Shareholders (including proxies) attending the Shareholders' general meeting.

### **VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)**

The ordinary Shareholders have the right to attend or appoint a proxy to attend and vote at the Shareholders' general meeting. When voting at the Shareholders' general meetings, the Shareholders (or proxies) may exercise their voting rights in accordance with the number of Shares with voting right held with each Share representing one vote.

When voting at a general meeting, Shareholders (including their proxies) who are entitled to two or more votes are not required to vote against or in favor with their total number of votes.

When the number of dissenting votes equals the number of affirmative votes, the chairman of the meeting is entitled to one additional vote.

### **SHAREHOLDERS' GENERAL MEETINGS**

The Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings are called by the Board of Directors. An annual general meeting shall be convened once a year and be held within six months at the end of the previous fiscal year.

### **ACCOUNTING AND AUDITS**

#### *Financial and Accounting Policies*

The Company shall develop its financial accounting policies pursuant to PRC laws, administrative regulations, as well as accounting standards developed by the competent financial departments under the State Council.

The Board of Directors shall submit the financial reports of the Company, as required by the laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by the Company, at every annual general meeting.

Apart from the Chinese accounting standards for business enterprises and regulations, the financial reports of the Company shall also conform to international accounting standards and the accounting standards of overseas places where the Shares are listed. In the event of any major discrepancy between the financial reports prepared in accordance with the two accounting standards, such difference must be provided in the notes to the financial reports. As to the distribution of after-tax profits of the Company in a fiscal year, the after-tax profits indicated on the two financial reports, whichever is lower, shall prevail.

The Company shall make its financial reports available for inspection by the Shareholders 20 days before the annual general meeting is convened. Each Shareholder is entitled to obtain one copy of the financial reports.

The Company shall send the aforesaid reports to each of the holders of overseas-listed foreign Shares by the manner as stipulated in the Articles of Association of the Company or by prepaid mail at least 21 days before the annual general meeting is convened and the recipients' addresses shall be the addresses as shown in the register of Shareholders.

The Company's interim results or financial information published or disclosed by the Company shall at the same time be prepared in accordance with PRC accounting standards, regulations, international accounting standards as well as the accounting standards of the place where the Shares are listed overseas.

The Company must publish the financial reports twice in each fiscal year. Interim financial reports shall be published within 60 days at the end of the first six months of a fiscal year, while the annual financial report shall be published within 120 days of the completion of each fiscal year.

The Company shall not keep any books of accounts other than those specified by law. No asset of the Company shall be deposited in any accounts opened in the name of any individuals.

#### ***Appointment and Dismissal of Accountants***

The Company shall appoint an independent accounting firm with qualifications that meets appropriate requirements of the state to be responsible for auditing its annual reports and reviewing its other financial reports.

The term of the accounting firm appointed by the Company shall start at the close of an annual general meeting and continue until the close of the next annual general meeting.

Without prejudice to the right of the accounting firm to claim for compensation (if any) for being dismissed and replaced, the Shareholders may remove and replace the accounting firm through an ordinary resolution at the Shareholders' general meeting prior to the termination of the term of office of any accounting firm notwithstanding the terms and conditions of the contract entered into between the Company and the accounting firm.

Remuneration of an accounting firm and the manner in which the remuneration is determined shall be decided by the Shareholders at the Shareholders' general meeting. The remuneration of the accounting firm appointed by the Board of Directors shall be confirmed by the Board of Directors.

Appointment, dismissal/replacement or termination of the contract of an accounting firm of the Company is subject to the resolution of the Shareholders at the Shareholders' general meeting and shall be reported to the securities regulatory authorities of the State Council for records.

Before dismissing, reappointing, replacing or terminating the contract with an accounting firm, the Company shall send a notice to the accounting firm in advance notifying it of the matters relating to the dismissal, reappointment, replacement or contract termination, and the accounting firm shall be entitled to attend the Shareholders' general meeting and make a representation thereat.

In the event that the accounting firm requests to resign, it shall declare to the Shareholders' general meeting whether the Company is affected by any improprieties.

The accounting firm shall resign by sending a written resignation notice to the Company's legal address. The notice shall take effect on the date of delivery to that address or on the date specified in the notice, whichever is later.

The notice shall include the following statements:

- (i) its resignation does not involve any statements that should be disclosed to the Shareholders or creditors of the Company; or
- (ii) any statement that should be disclosed.

Within 14 days of receipt of the notice mentioned above, the Company shall send the copy of the notice to related competent authorities. If the notice includes statements mentioned in (ii) of the preceding paragraph, the Company shall retain a copy thereof for inspection by the Shareholders and deliver such copy in accordance with Articles of Association or send a copy of the above-mentioned statements to Shareholders of overseas listed foreign invested Shares to the addresses registered on the register of Shareholders by prepaid mail.

In the event that the resignation notice of the accounting firm includes any statement that should be disclosed to the Shareholders or creditors, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanations regarding the resignation.

#### **NOTIFICATION AND AGENDA OF SHAREHOLDERS' GENERAL MEETINGS**

The Shareholders' general meeting is the authorized organ of the Company that perform duties and exercise powers in accordance with the laws.

Apart from special circumstances such as where the Company is in crisis, without the approval of a special resolution of the Shareholders' general meeting, the Company shall not enter into a contract with any persons other than the Directors, Supervisors and senior management by which such persons would be made responsible for the management of all or part of the important business of the Company.

Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- (a) the number of Directors is less than the number specified in the *PRC Company Law* or less than two-thirds of the number required in the Articles of Association;

- (b) the unaccounted losses of the Company reach one-third of its total paid-in share capital;
- (c) the Shareholders with 10% or more voting right individually or jointly request to convene an extraordinary general meeting in writing;
- (d) the Board of Directors considers it necessary or the Supervisory Committee proposes convening an extraordinary general meeting; or
- (e) any other circumstances stipulated in laws, administrative regulations, regulations of the competent authorities or the Articles of Association.

When convening a general Shareholders' meeting, the Company shall send a written notice to inform all registered Shareholders of the matters to be considered at the meeting as well as the date and venue of the meeting 45 days before it is convened (excluding the date of meeting). Shareholders planning to attend shall send to the Company a written reply to that effect 20 days before the meeting is held.

At the Company's Shareholders' general meeting, the Shareholders jointly holding 3% or more of the Shares with voting right are entitled to submit written proposals to the Company.

The Company shall calculate the number of Shares with voting right represented by the Shareholders planning to attend the Shareholders' general meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of Shares with voting right represented by the Shareholders planning to attend reaches more than one half of our total number of Shares with voting right, the Company may convene the Shareholders' general meeting. If this number is not reached, the Company shall again inform the Shareholders of the matters to be considered and the date and venue of the meeting within five days in form of an announcement before the Shareholders' general meeting may be convened.

The notice of the Shareholders' general meeting shall be in writing and meet the following requirements:

- (a) specified venue, date and time of the meeting;
- (b) specified matters to be considered at the meeting;
- (c) provision to the Shareholders of the detailed information and contract(s) to the Shareholder, and the materials and explanations about the cause and consequence necessary for the Shareholders to make a wise judgment about the matters to be considered. This principle includes (but is not limited to) the provision of the detailed terms and contract(s) (if any) and proper explanation about the related causes and effects of the Company proposed merger, redemption of Shares, restructuring of share capital or other restructuring;
- (d) in the event that any of the Directors, Supervisors, managers or other senior management has material interests in matters to be considered, the nature and extent of the interests shall be disclosed. If the matters to be considered affect any Director, Supervisor, manager or other senior management as a Shareholder in a manner different from how they affect other Shareholders of the same class, the difference shall be explained;



- (e) inclusion of the full text of any special resolutions to be proposed for adoption at the meeting;
- (f) a clear explanation that the Shareholder is entitled to attend and vote at the Shareholders' general meeting, or to appoint one or more proxies to attend and vote at the meeting on his/her/its behalf and that a proxy may not necessarily be a Shareholder;
- (g) specified delivery time and place of the power of attorney for proxy voting at the meeting;
- (h) share registration date of any Shareholder entitled to attend the Shareholders' general meeting; and
- (i) name and telephone number of the related contact person in charge of the matters of the Shareholders' general meeting.

The notice of the Shareholders' general meeting and circular of the Company shall be served in person or by prepaid mail to the holders of H Shares in accordance with the relevant provisions of the Listing Rules regardless of whether such Shareholders have the right to vote at the Shareholders' general meeting, and each recipient's address shall be the address indicated in the register of Shareholders. For holders of Domestic Shares, the notice of our Shareholders' general meeting may be given in form of an announcement.

This announcement shall be published in one or more newspapers designated by the securities governing authority of the State Council within a period of 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of Domestic Shares shall be deemed to have received the notice of our Shareholders' general meeting. In the event that the notice of the meeting has not sent to persons entitled to receive it due to accident or oversight, or such persons have failed to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be thereby affected.

The independent Director shall have the right to require the Board to convene an extraordinary general meeting. Within ten days after receipt of the requisition, the Board shall, in accordance with laws, regulations and the Articles of Association, give a written response in respect of whether or not it agrees to convene an extraordinary general meeting. If the Board agrees to convene an extraordinary general meeting, a notice of the meeting shall be issued within five days after the Board has passed such resolution. If the Board refuses to convene an extraordinary general meeting, an explanation and relevant announcement shall be made.

The Supervisory Committee shall have the right to require the Board to convene an extraordinary general meeting. Within ten days after receipt of the requisition, the Board shall, in accordance with laws, regulations and the Articles of Association, give a written response in respect of whether or not it agrees to convene an extraordinary general meeting. If the Board agrees to convene an extraordinary general meeting, a notice of the meeting shall be issued within five days after the Board has passed such resolution. Where the notice alters the original proposal(s), the approval of the Supervisory Committee shall be required. If the Board refuses to convene an extraordinary general meeting, or fails to respond within ten days after receipt of the requisition, it shall be deemed as a failure of the Board to convene and preside over a meeting, and the Supervisory Committee shall be entitled to convene and preside over the meeting.

Shareholder(s) individually or jointly holding 10% or more of the Shares shall have the right to require the Board to convene an extraordinary general meeting by a written requisition. Within ten days after receipt of the requisition, the Board shall, in accordance with laws, regulations and this Articles of Association, give a written response in respect of whether or not it agrees to convene an extraordinary general meeting.

If the Board agrees to convene an extraordinary general meeting, a notice of the meeting shall be issued within five days after the Board has passed such resolution. Where the notice alters the original proposal(s), the approval of the relevant Shareholders shall be required.

If the Board refuses to convene an extraordinary general meeting, or fails to respond within ten days after receipt of the requisition, the Shareholder(s) alone or in aggregate holding 10% or more of the Shares shall have the right to propose to the Supervisory Committee by a written requisition that the Supervisory Committee convene an extraordinary general meeting.

If the Supervisory Committee agrees to convene an extraordinary general meeting, a notice of the meeting shall be issued within five days after receipt of the requisition. Where the notice alters the original proposal(s), the approval of the relevant Shareholders shall be required.

Failure of the Supervisory Committee to issue a notice of the Shareholders' meeting within the stipulated period shall be deemed as failure of the Supervisory Committee to convene and preside over the meeting, and Shareholder(s) alone or in aggregate holding 10% or more of the Company's Shares for 90 consecutive days or more shall be entitled to convene and preside over the meeting.

The Shareholders are required to convene an extraordinary general meeting or class Shareholders' meeting in accordance with the following procedures:

- (a) Shareholder(s) who individually or jointly hold 10% or more of the Shares carrying voting right may request the Board to convene an extraordinary general meeting or class Shareholders' meeting through a written request or several copies of such request in the same form and to illustrate the subject of the meeting. The Board shall convene an extraordinary general meeting or class Shareholders' meeting as soon as practicably upon receipt of the foresaid written request. The aforesaid number of Share holdings shall be calculated as of the date of the submission of the written request by the Shareholder(s).
- (b) A Shareholder's general meeting shall be convened in accordance with the Articles of Association.

If the Shareholders call and convene a meeting by themselves since the Board has failed to convene a meeting in accordance with the aforesaid requirements, the expenses reasonably incurred therefrom shall be borne by the Company and be deducted from the amounts payable to the Directors as a result of loss of office.

The Shareholders' general meeting shall be convened by the Board and chaired by the chairman; if the chairman cannot or fails to attend the meeting, the Shareholders' general meeting shall be convened and chaired by a Director elected by more than half of the Directors. If no chairman is being elected, the

Shareholders presented at the meeting can elect the chairman. If the Shareholders cannot elect the chairman due to any reasons, the Shareholder (including his/her proxy) presented at the meeting who hold the Shares carrying the largest voting right shall act as the chairman of the meeting.

The following matters shall be approved by the Shareholders' general meeting through ordinary resolutions:

- (a) work reports of the Board of Directors and Supervisory Committee;
- (b) plans for profits distribution and making up losses drafted by the Board of Directors;
- (c) appointment or dismissal of the members of the Board of Directors and the members of Supervisory Committee who are not staff representatives, their remuneration and payment methods;
- (d) annual budget, final account reports, balance sheet, income and other financial statements of the Company;
- (e) other matters in addition to those approved by special resolutions stipulated in the laws, administrative regulations or the Articles of Association.

The following matters shall be approved by a special resolution at a Shareholders' general meeting:

- (a) increases/reduction of the Company's share capital and issues of any classes of Shares, warrants and other similar securities;
- (b) the Company's bond issues;
- (c) division, merger, dissolution and liquidation or change of form of the Company;
- (d) amendments to the Articles of Association; or
- (e) other matters as required by the laws, administrative regulations or the Articles of Association, and as approved by ordinary resolutions of the Shareholders' general meeting which are believed may have materially effect on the Company and need to be approved by special resolutions.

## **SHARE TRANSFERS**

The Company shall not accept any pledge of its Shares.

Upon obtaining the approval from the State Council's securities regulatory authority, our Shareholders may list and trade their Domestic Shares on an overseas stock exchange. The listing and trading of such Shares shall comply with the procedures, regulations and requirements prescribed by the relevant overseas stock market. No class Shareholder voting is required for such listing and trading of Shares on an overseas stock exchange.

The Shares held by the Promoters may not be transferred within one year of our establishment. Shares issued by the Company prior to the public offering may not be transferred within one year of the date on which the Shares are listed and traded on the stock exchange.

The Directors, Supervisors and senior management shall report to our Company the number of Shares held by them as well as the subsequent changes in their shareholdings. The number of Shares which a Director, Supervisor or senior management may transfer each year during his/her term of office may not exceed 25% of the total number of the Shares owned by them, and the Shares may not be transferred within one year from the date on which the Shares are listed and traded on the stock exchange. The above personnel may not transfer the Shares held by them within six months after resignation. Where otherwise provided by national or local authorities responsible for the administration and supervision of the industry in which the Company operates, those provisions shall prevail.

In the event that Directors, Supervisors, senior management or Shareholders holding 5% or more of the Shares sell their Shares within six months after purchasing them, or buy them back within six months after selling them, all proceeds obtained therefrom shall be vested in by the Company and the Board of Directors shall forfeit such proceeds from the above-mentioned personnel. However, the six-month restriction shall not apply to a securities company holding 5% or more of the Company's Shares as a result of its underwriting of the untaken Shares in an offer.

If the Board of the Company fails to comply with the provision set forth in the preceding paragraph, a Shareholder shall have the right to require the Board to effect the same within 30 days. If the Board fails to do so within the said time period, a Shareholder shall have the right to initiate proceedings in a court directly in his/her own name in the interests of the Company.

If the Board of the Company fails to comply with the provisions set forth in this paragraph, the responsible Directors shall be legally liable jointly and severally.

All fully paid up overseas listed foreign Shares listed in Hong Kong shall be exempted from any restrictions on the right to transfer (except when permitted by the 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 recognize any transfer documents without giving any reason:

- (a) the payment to the Company of HK\$2.50 per transfer document or a higher amount of fee decided by the Board of Directors, but such fee shall not exceed the maximum fee provided by the Stock Exchange in the Listing Rules from time to time to register the Share transfer documents and other documents that are related to or may affect the ownership of the Shares;
- (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 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; and
- (f) the Company does not have any lien on the relevant Shares.

No change may 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 the Company has decided to distribute dividends.

#### **RIGHTS OF THE COMPANY TO BUY BACK OUR OUTSTANDING ISSUED SHARES**

Under any of the following circumstances, the Company may buy back our outstanding issued Shares pursuant to the requirements of the laws, administrative rules and regulations and the Articles of Association:

- (a) cancellation of the Shares to reduce the Company's share capital;
- (b) merger with other companies which hold the Shares;
- (c) granting Shares to the staff of the Company as incentives;
- (d) buying back the Shares from Shareholders who vote against any resolutions adopted at the Shareholders' general meeting concerning the merger and division of the Company; or
- (e) other circumstances as required by the laws and administrative regulations and as approved by the competent authorities of the PRC.

If the Company buys back the Shares according to the provisions of the preceding paragraph under the circumstance set forth in (a), the Shares so bought back must be cancelled within ten days of the date on which they were bought back. In the event of the circumstances set forth in (b) and (d) the Shares so bought back must be transferred or cancelled within six months.

In the event that the Company buys back the Shares pursuant to the provisions of (c) in the preceding paragraph, the Shares so bought back may not exceed 5% of the total Shares issued. The funds used for such buyback must be allocated from the after-tax net profits of the Company and the Shares so bought back must be transferred to the staff within one year.

The Company may buy back Shares in any of the following ways:

- (a) making a buyback offer on a pro-rata basis to all Shareholders;
- (b) buying back Shares through public trading on the stock exchange;
- (c) buying back Shares by an off-market agreement; or
- (d) in other ways approved by the competent authorities of the PRC.

Where the Company buys back the Shares by an off-market agreement, it shall obtain prior approval at the Shareholders' general meeting pursuant to the Articles of Association. Likewise, subject to the prior approval of the Shareholders' general meeting, the Company may rescind or change the contract signed in the aforesaid manner or waive any of its rights in the contract. As for the redeemable Shares that the Company is entitled to buy back, if they are not bought back from the market or by tender, the price may not exceed a certain maximum limit. If the Shares are bought back by tender, the tender must be made to all Shareholders on equal terms. A contract for buying back the Shares includes (but is not limited to) an agreement that consents to undertake the obligations to buy back the Shares and obtain the rights of the Shares repurchase.

The Company shall not transfer any contracts that buy back the Shares or any rights conferred under the contract.

Unless the Company has entered into the liquidation process, it must observe the following provisions for the buy-back of issued Shares:

- (a) where the Company buys back Shares at par value, the funds shall be deducted from the book surplus of our distributable profits and the proceeds obtained from the issue of new Shares for buying back the old Shares;
- (b) where the Company buys back the Shares at a premium to the par value, the portion of funds equivalent to par value shall be deducted from the surplus of our distributable profits and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares, while the portion of funds in excess of the par value shall be dealt with in the following manners:
  - (i) where the Shares being bought back were issued at par value, the funds shall be deducted from the surplus of our distributable profits; and
  - (ii) where the Shares being bought back were issued at a premium to the par value, the funds shall be deducted from the surplus of our distributable profits and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares. However, the amount deducted from the proceeds obtained from the issue of new Shares shall not exceed the total premium amount obtained when the Shares being bought back were issued or the amount (including the premium amount of the issue of new Shares) in our capital reserve account when the Shares are bought back.
- (c) The funds paid by the Company for the following purposes shall be allocated from our distributable profits:
  - (i) to obtain the right to buy back the Shares;
  - (ii) to modify any contract to buy back the Shares; or
  - (iii) to release any obligations of the Company under the Share buyback contract.

- (d) After the total par value of the cancelled Shares is deducted from our registered capital pursuant to the relevant provisions, the amount deducted from the distributable profits for paying up the par value portion of the Shares being bought back shall be credited to our capital reserve account.

#### **DIVIDEND AND DISTRIBUTION METHODS**

The Company may distribute dividends by way of cash or Shares.

The Company shall appoint, on behalf of holders of overseas listed foreign Shares, receiving agents to receive dividends and other payable funds that are distributed with respect to our overseas listed foreign Shares and the receiving agent shall be a trust company registered under the Trustee Ordinance.

The receiving agents appointed by the Company shall comply with related provisions of the laws or the securities exchange where the Shares are listed.

#### **SHAREHOLDER PROXIES**

A Shareholder who is entitled to attend and vote at our Shareholders' general meetings shall have the right to appoint one or more persons (who may not be Shareholders) as his/her/its proxy to attend and vote at the meeting in his/her/its place. Pursuant to the authorization of the Shareholder, a proxy may exercise the following rights:

- (a) speak for the Shareholder at the Shareholders' general meeting;
- (b) demand a poll on his/her/its own or together with others; and
- (c) exercise the right to vote by show of hands or a poll, but the proxy may only exercise the right to vote by a poll when more than one proxy is appointed.

The instrument appointing the 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 entity, the seal of the legal entity shall be affixed thereon, or it is to be signed by a director or a duly authorized attorney. The instrument appointing a proxy must be deposited at the residence or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is put to vote is convened or 24 hours before the designated time at which the resolution is to be adopted. If the instrument is signed by a person authorized by the appointer by mean of a power of attorney or other instrument of authorization, the power of attorney or other instrument must be notarized. The power of attorney or other instrument certified by the notary must be kept together with the instrument appointing the proxy at our residence or other location designated at the notice convening the meeting.

Where the appointer is a legal entity, a power of attorney may be signed by its duly authorized persons to authorize its legal representative or any persons authorized by resolutions of its board of directors or other governing body, to attend the Shareholders' general meeting of our Company as a representative.

Any form sent by the Directors to a Shareholder for appointing a proxy shall allow the Shareholder, according to his/her/its free will, to instruct the proxy to vote and to provide respective instructions for matters to be put to vote in the meeting agenda. The power of attorney to appoint a proxy shall specify that the proxy may vote at his/her own discretion if the Shareholder has not provided instructions.

The votes of the proxy given pursuant to the terms of an instrument of proxy shall remain valid notwithstanding the previous death, 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 Shares in respect of which the proxy is given, provided that the Company has not received any written notice concerning such matters before the related meeting is convened.

#### **REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS**

Pursuant to the understanding reached and agreements entered into between the competent securities authority under the State Council and the overseas securities regulatory institutions, the Company may keep a register of the holders of the overseas listed foreign Shares aboard and appoint an overseas entity to manage it. The original register of the holders of the overseas listed foreign Shares listed in Hong Kong shall be kept in Hong Kong.

The Company shall keep a copy of the register of the holders of the overseas listed foreign Shares at our residence. The appointed overseas entity shall at all times maintain consistency between the original and duplicate of the register of the holders of the overseas listed foreign Shares.

In case of inconsistency between the original and duplicate of the register of the holders of the overseas listed foreign Shares, the original shall prevail.

The Company must keep a complete register of Shareholders.

The register of Shareholders shall include the following:

- (a) register of Shareholders kept at our residence other than those specified in (b) and (c);
- (b) register of the holders of our overseas listed foreign Shares kept at the location of the stock exchange where such Shares are listed;
- (c) register of Shareholders kept in other location(s) according to the decision(s) of the Board of Directors as required for the listing of the Shares.

Different parts of the Shareholders' register shall not overlap. The transfer of Shares registered in a certain part of the register of Shareholders shall not be registered elsewhere in the register of Shareholders as long as the Shares remain registered. Any alteration or rectification to any part of the register of Shareholders shall be made in accordance with the laws in the place where such part of the register of Shareholders is maintained.

No change of the register of Shareholders as a result of Share transfer shall be made within 30 days before the Shareholders' general meeting is convened or within five days prior to the record date on which the Company decides to pay dividends.



When the Company convenes the Shareholders' general meeting, pays dividends, goes into liquidation or is involved in other activities that require the determination of shareholding, the Board of Directors shall fix a date as the book closure date, upon expiration of which the Shareholders whose names appear on the register of Shareholders shall be the Shareholders.

Any person who objects to the register of Shareholders and requests to register his/her/its name (title) in the register of Shareholders or to remove his/her/its name (title) from the register of Shareholders may apply to the court with jurisdiction to amend the register of Shareholders.

The Shareholders are entitled to obtain the following information, including (but not limited to):

- (a) the Articles of Association after paying the costs;
- (b) The right to inspect and copy the following after paying a reasonable fee:
  - (i) all parts of the register of Shareholders;
  - (ii) personal particulars of the Directors, Supervisors and senior management;
  - (iii) status of the share capital of the Company;
  - (iv) the latest audited financial reports and reports of the Board of Directors, audit and Supervisory Committee;
  - (v) special resolutions of the Shareholders' meetings;
  - (vi) reports on the aggregate of par value, quantity, highest and lowest price paid for each class of Shares repurchased by the Company since the previous accounting year and all expenses paid by the Company for this purpose;
  - (vii) the latest annual inspection report filed with the AIC or other relevant authorities;
  - (viii) minutes of the Shareholders' general meeting, resolutions of meeting of the Board of Directors, resolutions of meeting of the Supervisory Committee; and
  - (ix) counterfoils of bonds of the Company.

#### **QUORUM OF SHAREHOLDERS' GENERAL MEETINGS**

If the number of Shares carrying voting right represented by the Shareholders intending to attend the meeting exceeds one half of the total number of Shares carrying voting right, the Company may convene a Shareholders' general meeting. If the number of a class of Shares carrying voting right represented by the Shareholders intending to attend the meeting exceeds one half of the total number of such class of Shares, the Company may convene a class Shareholders' meeting.

**RESTRICTIONS ON RIGHTS OF OUR CONTROLLING SHAREHOLDERS**

Apart from the obligations required in laws, administrative regulations or the listing rules of the stock exchange on which the Shares are listed, our Controlling Shareholders shall not make any decision that is detrimental to the interests of all or part of the Shareholders on the following issues by exercising his/her/its Shareholder voting rights:

- (a) absolving the Directors and Supervisors from the responsibilities to act honestly in the best interests of the Company;
- (b) permitting the Directors and Supervisors (for their own or others' interests) to deprive the Company of assets in any form, including (but not limited to) any opportunity that is beneficial to the Company;
- (c) permitting the Directors and Supervisors (for their own or others' interests) to deprive the Shareholders of their personal rights and interests, including (but not limited to) any dividends distribution or voting rights, but excluding the restructuring of the Company approved at the Shareholders' general meeting pursuant to the Articles of Association;
- (d) Controlling Shareholders and actual controller(s) of the Company shall not use their associated relationships to damage the interests of the Company. Otherwise, they shall be liable to compensate the Company against losses the Company has thus suffered in violation of the regulations. Controlling Shareholders and actual controllers shall owe a fiduciary duty to the Company and other public Shareholders. Controlling Shareholders shall strictly in compliance with the laws exercise the rights in the capacity of capital contributors and shall not impair the lawful rights of the Company and other public Shareholders by such means as profit distribution, assets reorganization, external investment, appropriation of funds, borrowing and loan guarantees, nor shall they with their controlling status damage the interests of the Company and other public Shareholders.

**COMPANY LIQUIDATION**

Under any of the following circumstances, the Company shall be lawfully dissolved and liquidated:

- (a) the Shareholders' general meeting adopts a resolution to dissolve the Company;
- (b) the Company needs to be dissolved for the purpose of merger or division;
- (c) the business license is revoked, or the Company is ordered to close or be eliminated according to applicable law;
- (d) the Company is legally declared insolvent due to its failure to repay debts due; or
- (e) where the Company encounters significant difficulties in business and management so that the interests of the Shareholders will face significant loss if it continues to exist, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request the court to dissolve the Company.

Where the Company is dissolved due to the provisions set forth in (a), (c) and (e) above, the liquidation team shall be established within 15 days and the personnel of the liquidation team shall be consist of the persons determined by the Board of Directors or the Shareholders' general meeting. In the event the liquidation team is not established during such period, the creditors can request the people's court to appoint relevant personnel to establish the liquidation team for liquidation. In the event that the Company is dissolved in accordance with the provisions set forth in (d) above, the people's court shall organize the Shareholders, related departments and professionals to form the liquidation team pursuant to relevant provisions of the law.

If the Board of Directors decides to liquidate the Company (except where the Company is liquidated after declaring bankruptcy), the Board of Directors shall state in the notice of the Shareholders' general meeting convened for this purpose that the Board of Directors has performed a comprehensive investigation of the status of the Company and believes that the Company is able to pay all of our debts within 12 months from the commencement of liquidation.

After the resolution to liquidate the Company is adopted by the Shareholders' general meeting, the powers and duties of the Board of Directors shall terminate immediately.

In accordance with the instructions of the Shareholders' general meeting, the liquidation team shall at least once a year report at the Shareholders' general meeting on the income and expenditure of the liquidation team, progress of the business and liquidation of the Company, and submit a final report at the Shareholders' general meeting upon completion of liquidation.

Within ten days of the establishment of the liquidation team, the creditors shall be notified and an announcement shall be published in newspapers within 60 days. The creditors shall declare their claims to the liquidation team within 30 days from the date on which the notice is received or 45 days from the date of announcement if the notice is not received. The liquidation team shall carry out registration of the creditors' claims.

The liquidation team shall exercise the following powers during the liquidation period:

- (a) take stock of the Company's assets and prepare a balance sheet and a list of assets respectively;
- (b) notify or publish an announcement to all creditors;
- (c) deal with and liquidate any outstanding business associated with the Company;
- (d) pay all outstanding taxes and taxes in connection with liquidation;
- (e) settle claims and debts;
- (f) dispose of the remaining assets of the Company after paying all the debts; and
- (g) represent the Company in any civil litigation proceedings.

After taking stock of the assets of the Company and preparing the balance sheet and list of assets, the liquidation team shall draw up a liquidation proposal and submit it to the Shareholders' meeting or the people's court for confirmation.

In the event of liquidation in connection with dissolution of the Company and the liquidation team finds that, after taking stock of the Company's assets and preparing the balance sheet and list of assets, that the assets are insufficient to pay the debts, it shall immediately apply to the court to declare insolvency.

After the Company is declared insolvent by ruling of the court, the liquidation team shall turn over matters regarding the liquidation to the court. Upon completion of liquidation of the Company, the liquidation team shall prepare a liquidation report, income and expenditure reports and financial record during the liquidation period, which, after being verified by a China-registered accountant, shall be submitted to our Shareholders' general meeting or the people's court for confirmation.

Within 30 days from the date of approval by the Shareholders' meeting or people's court, the liquidation team shall submit the above-mentioned documents to the company registration authority and apply for cancellation of our registration and publish an announcement on our termination.

## **OTHER IMPORTANT PROVISIONS FOR THE COMPANY OR THE SHAREHOLDERS**

### ***General Provisions***

The Company is a joint stock limited liability company of perpetual existence.

The Company may invest in other limited liability companies or joint stock limited liability companies, provided that the liabilities of the Company to be invested in are limited to the amount of its capital contribution.

The Articles of Association is binding on the Company, the Shareholders, Directors, Supervisors and senior management. These personnel may assert their rights in connection with the affairs of the Company based on the Articles of Association. Pursuant to the Articles of Association, Shareholders may sue Shareholders, Shareholders may sue the Directors, Supervisors and senior management, Shareholders may sue the Company, and the Company may sue Shareholders, Directors, Supervisors and senior management.

The Shares of the Company take the form of stocks.

All Shares issued by the Company have a par value of RMB1 per Share.

The Company shall issue Shares under the principles of openness, fairness and equality that Shares of the same class shall rank *pari passu*. The issuing conditions and price of each Share of the same class in the same issue shall be same. Each of such Shares subscribed for by any entity or individual shall be paid at the same value.

The Company may increase share capital by the following means:

- (i) issue new Shares to unspecified investors;
- (ii) place new Shares with existing Shareholders;
- (iii) give new Shares to existing Shareholders;

- (iv) issue new Shares to specified investors;
- (v) convert the reserve funds into share capital;
- (vi) other means approved by the laws and administrative regulations.

Upon approval to increase the Company's share capital according to the provisions of the Articles of Association, the matter shall be dealt with in accordance with the procedures of related laws and administrative regulations of the PRC.

Subject to compliance with the related laws and administrative rules and regulations of the PRC, the Company may reduce its registered share capital in accordance with the provisions of the Articles of Association.

If the Company reduce its registered capital, we must prepare a balance sheet and a list of assets.

After the Company's reduction in capital, its registered capital may not be less than the statutory minimum amount.

### ***Shareholders***

The Shareholders are persons lawfully holding the Shares and whose names (titles) are already listed in the register of Shareholders. Each Share of the same class has the same rights.

Shares issued by the Company to overseas investors and subscribed for in foreign currencies are known as foreign Shares. Foreign Shares that listed overseas are known as overseas listed foreign Shares. Overseas investors refer to investors in other countries, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan who subscribe for the Shares issued by the Company. Domestic Shareholders refer to investors within the territory of the PRC that subscribe for the Shares issued by the Company. Both domestic Shareholders and foreign Shareholders are ordinary Shareholders who entitle to the same rights and assume the same obligations. The rights of our ordinary Shareholders are as follows:

- (i) to receive distribution of dividends and other forms of benefits according to the number of Shares held;
- (ii) to participate in or appoint a proxy to participate in and exercise voting rights at the Shareholders' meetings;
- (iii) to supervise and manage our business and operational activities, provide proposals or submit queries;
- (iv) to transfer the Shares held according to the provisions of the laws, administrative regulations and the Articles of Association;
- (v) to obtain relevant information according to the provisions of the Articles of Association;
- (vi) to participate in the distribution of the surplus assets of the Company according to the number of Shares held upon its termination or liquidation;

(vii) other rights conferred by laws, administrative regulations and the Articles of Association.

When any person is interested directly or indirectly in the Shares, the Company shall not freeze or otherwise impair any of the rights attaching to any Share by reason only that the person has failed to disclose his interests to the Company.

The Company shall adopt the registered method for the Shares.

The Share certificates are signed by the chairman of the Board of Directors. Where the stock exchange on which the Shares are listed requires our other senior management to sign the Share certificates, they shall also be signed by such other personnel. The Share certificates shall become effective after being affixed with the seal of the Company (including our securities seal) or machine-imprinted seal. Affixation of the Company seal or our securities seal to the Share certificates is subject to the authorization of the Board of Directors. The signature of the chairman of the Board of Directors or other related senior management may also be printed on the Share certificates.

If any person whose name appears in the register of Shareholders or requests to register his/her/its name (title) in the register of Shareholders loses his/her/its Share certificate (the “original Share certificate”), he/she/it may apply to the Company to reissue new Share certificates for those Shares.

In the event a holder of Domestic Shares applies to the Company for a reissue after losing a Share certificates, the matter shall be dealt with pursuant to related provisions of the *PRC Company Law*.

In the event a holder of overseas listed foreign Shares applies to the Company for reissue after losing a Share certificate, the matter shall be dealt with pursuant to the laws and rules of the stock exchange where the original register of holders of the overseas listed foreign Shares is kept, or other related provisions. If a holder of H Shares loses a Share certificate and applies for a replacement issue, the Share certificate shall be reissued in compliance with the following requirements:

- (i) An applicant shall submit the application in the standard format designated by the Company and attach a notary certificate or statutory declaration. The contents of the notary certificate or statutory declaration shall include the reason for the applicant’s request, circumstances and evidence of loss of the Share certificate, as well as a statement that no other person may request to be registered as a Shareholder with respect to the relevant Shares.
- (ii) Before deciding to issue the new Share certificate, the Company does not receive any statement in which any person other than the applicant requests to be registered as the Shareholder with respect to the Shares.
- (iii) If the Company decides to issue the new Share certificate to the applicant, it shall publish an announcement in a newspaper designated by the Board of Directors indicating that it plans to reissue the new Share certificate. The announcement period shall be 90 days and the announcement shall be published at least once every 30 days.
- (iv) Before publishing the announcement indicating that the Company plans to reissue the new Share certificate, the Company shall submit a copy of the announcement to be published to the stock exchange on which the Shares are listed and may publish the announcement after

receiving a reply from the stock exchange confirming that the announcement has been displayed at the stock exchange. The period of displaying the announcement at the stock exchange is 90 days.

If the application for reissue of the new Share certificate is not approved by the registered Shareholders of the related Shares, the Company shall mail the copy of the announcement to be published to the Shareholders.

- (v) In the event that no person raises any objection to the reissue of the new Share certificate to the Company, upon expiration of the 90-day display period of the announcement specified in (iii) and (iv) above, the new Share certificate may be reissued according to the application.
- (vi) When re-issuing the new Share certificate, the Company shall immediately cancel the original Share certificate and register the cancellation and replacement issue on the register of Shareholders.
- (vii) All expenses incurred by the Company from the cancellation of the original Share certificates and replacement issue of the new Share certificate shall be borne by the applicant. Before the applicant has provided reasonable security, the Company shall have the right to refuse to take any action.

***Shareholders Failing to be Contacted***

The Company is entitled to reclaim without payment the Shares of a Shareholder failing to be contacted under the circumstances indicated below and sell them to any other persons:

- (i) the Company has paid dividends at least three times on these Shares within 12 years, but no one has claimed the dividends during that period; or
- (ii) upon the expiration of the 12-year period, the Company has published an announcement in a newspaper indicating its intention to sell the Shares and notified the Stock Exchange of such intention.

***Regulations on the Powers of the Board of Directors and Convening the Board of Directors' Meetings***

The Board of Directors is responsible to the Shareholders' general meeting and exercises the following powers:

- (i) to convene the Shareholders' general meetings and report on work to the Shareholders' general meeting;
- (ii) implement the resolutions of the Shareholders' general meeting;
- (iii) determine our business and investment plans;
- (iv) devise our annual financial budget and final account plans;
- (v) devise our profits distribution and loss offset plans for making up for losses;

- (vi) formulate plans for increasing or reducing our registered capital and the issuance of corporate bonds;
- (vii) formulate plans for material acquisition, purchase of the Company's Shares, corporate merger, division and dissolution or change of the form of the Company;
- (viii) decide on the setup of the Company's internal management organization;
- (ix) appoint or dismiss the president of the Company; based on the nomination of the general manager, appoint or dismiss the deputy general manager, the chief financial officer; appoint or dismiss the secretary of the Board of Directors, and determine their remuneration;
- (x) set up our basic management system;
- (xi) formulate the amendment proposals to the Articles of Association;
- (xii) to deal with disclosures of information on the Company;
- (xiii) to propose to the Shareholders' general meetings the appointment or replacement of the auditors of the Company;
- (xiv) to hear work reports submitted by the president of the Company and to review his performance;
- (xv) within the scope of authorization granted by the Shareholders' meeting, to decide on such matters as external investment, acquisition and sale of assets, mortgage of assets, external guarantees, entrusted management of wealth and connected transactions; and
- (xvi) other powers and duties authorized by the Articles of Association as well as the general Shareholders' meeting.

All of the above resolutions adopted by the Board of Directors, except those in (vi), (vii) and (xi) and those that must be approved by more than a two-thirds vote of the Directors otherwise specified in laws, administrative regulations and the Articles of Association, shall be approved by a simple majority of votes by the Directors.

Meetings of the Board of Directors shall be convened at least four times a year and be called by the chairman of the Board of Directors, and a notice of at least 14 days shall be sent to all Directors before the meeting is convened.

A notice of the special meeting shall be sent to all Directors at least five days before the meeting is convened.

The Directors shall attend the Board of Directors meetings in person. In the event that Directors are unable to attend the meeting for some reasons, the Directors may appoint in writing another Director to attend the Board of Directors meetings. The instrument appointing proxy shall specify the proxy's name, entrusted matters, authorization and the expiry of such authorization, and shall be signed by or affixed with the seal of the consignor. The Director who attends the meeting on behalf of another



Director shall exercise the rights of the Director within the scope of authorization. If any Director fails to attend a meeting of the Board of Directors or appoint a proxy to attend on his/her behalf, such Director shall be deemed to have waived his/her voting rights at that meeting.

Meetings of the Board of Directors shall be attended by more than one-half of the Directors (including Directors who appoint in writing other Directors to attend the Board of Directors in their place pursuant to the provisions of the Articles of Association) before the Board of Directors meeting can be convened. Each Director has one vote. Resolutions made by the Board of Directors must be approved by more than one-half of the Directors' votes.

When the number of affirmative votes equals the number of dissenting votes, the chairman of the Board of Directors is entitled to one additional vote.

Apart from certain exceptions specified in Note 1 of Appendix 3 to the Listing Rules or those permitted by Stock Exchange, a Director shall abstain from voting on any resolution for approving contract(s) or arrangement(s) in which he/she or any of his/her close associates (as defined in the Listing Rules) is materially interested in or any resolution proposed at a Board meeting; such Director shall abstain from voting, and shall not vote on behalf of other Directors and shall not be counted in the quorum of the relevant meeting. The relevant Board meeting may be conducted if more than half the number of disinterested Directors are present at the meeting and resolutions shall be adopted by a simple majority vote of all disinterested Directors present thereat. If there are less than three interested non-connected Directors present at the Board meeting, the matter concerned shall be submitted to the Shareholders' general meeting for consideration. If a substantial Shareholder (holding 10% or more Shares) or a Director has a material conflict of interests in a matter to be considered by the Board of Directors, the matter would be dealt with by way of the meeting of the Board of Directors (rather than a written resolution). Also, the independent non-executive Directors who do not have material interest in such matter should attend the meeting.

#### ***Independent Director***

The Board of Directors includes three independent Directors. The independent Directors shall carry out responsibilities in accordance with appropriate requirements of the laws, administrative rules and regulations, as well as regulations of the departments.

#### ***Secretary of the Board of Directors***

The secretary of the Board of Directors must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors.

#### ***Supervisory Committee***

The Company shall set up a Supervisory Committee.

The Supervisory Committee shall consist of three Supervisors including one chairman. The Supervisors serve three-year terms and may be re-elected. The chairman of the Supervisory Committee shall be elected and dismissed by more than a two-thirds vote of the members of the Supervisory Committee.

The Supervisory Committee shall consist of one staff representative and two Shareholder representatives of the Company. The Supervisors assumed by non-staff representatives shall be elected and dismissed by the Shareholders' general meetings. The Supervisors assumed by the staff representatives shall be elected and dismissed through the staff representatives meetings, staff meetings or through other forms of democratic election.

The Directors and senior management shall not also serve as Supervisors.

The Supervisory Committee shall convene at least two regular meetings every year. Where it is deemed necessary by the chairman of the Supervisory Committee or where other Supervisors propose, the chairman shall convene extraordinary meetings of the Supervisory Committee. The chairman shall convene meetings of the Supervisory Committee. Notices and other documents in relation to the meetings shall be delivered to all Supervisors 10 days before the meetings.

The Supervisory Committee lawfully exercises the following powers:

- (i) examine the financial standing of the Company;
- (ii) supervise the Directors and senior management to ensure that they do not, in performing their duties to the Company, act in contravention of any laws, administrative regulations or the Articles of Association;
- (iii) require the Directors and senior management to take corrective measures when their actions are detrimental to our 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 authorize, in the name of the Company, a re-examination by the certified public accountants and practicing auditors;
- (v) propose to convene an extraordinary general meeting, and to convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over the general meetings in accordance with the *PRC Company Law*;
- (vi) prepare proposals for Shareholders' general meetings;
- (vii) represent the Company in negotiating with or bringing proceedings against the Directors and senior management in accordance with Article 152 of the *PRC Company Law*;
- (viii) investigate when noticing identifying irregularities in the operation of the Company; engage accountants, legal advisers and other professionals to assist its work when necessary and the costs of which shall be borne by the Company; and
- (ix) other powers and duties stipulated in the Articles of Association.

The Supervisors shall attend the Board meeting as non-voting participants.

***President***

The Company includes one president, nominated, appointed or dismissed by the Board of Directors. The president is responsible to the Board of Directors and exercises the following powers:

- (i) be in charge of the production and operation management of the Company, organize the implementation of resolutions of the Board of Directors and report to the Board of Directors on work;
- (ii) organize the implementation of the annual operation plans and investment proposals of the Company;
- (iii) formulate the structure scheme of the internal management organization of the Company;
- (iv) formulate the basic rules of the Company;
- (v) formulate the basic regulations of the Company;
- (vi) propose the appointment or dismissal of the vice president, chief financial officer or other senior management of the Company;
- (vii) appoint or dismiss other management except those who shall be appointed or dismissed by the Board of Directors; and
- (viii) other responsibilities authorized by the Articles of Association and the Board of Directors.

***Reserves***

When the annual after-tax profits of the Company are distributed, the Company must allocate 10% of the profits to its statutory reserve. When the total amount of the statutory reserve reaches or exceeds 50% of the Company's registered capital, no more allocations need to be provided.

If our statutory reserve is insufficient to offset our losses incurred during the previous year, the profits generated during the current year must be used to make up the losses before allocating the statutory reserve in accordance with the requirements set forth in the preceding paragraph.

After allocation to the statutory reserve from the after-tax profits of the Company, we may also allocate to the reserves at will from after-tax profits in accordance with the resolution(s) adopted at the Shareholders' general meeting.

After offsetting the losses and allocating to the reserve, all surplus profits may be distributed to the Shareholders based on the proportion of their respective shareholdings upon obtaining the approval from Shareholders' general meeting.

Our statutory reserves must be used only for making up our losses, expanding the scale of business and operation or for conversion into share capital to increase our share capital, but the capital reserve shall not be used to offset our losses.

*Settlement of Disputes*

The Company shall comply with the following rules governing the settlement of disputes:

- (i) Whenever there occur any disputes or claims between holders of the overseas listed foreign investment Shares and the Company, holders of the overseas listed foreign investment Shares and the Company's Directors, Supervisors or senior management, or holders of the overseas listed foreign investment Shares and holders of H Shares regarding the rights or obligations relating to the affairs of the Company conferred or imposed by the Articles of Association, the *PRC Company Law* or any other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration.

Where the aforesaid disputes or claims of rights is referred to arbitration, the entire claim or the dispute as a whole must be referred to arbitration, and any parties who have a cause of action based on the same facts giving rise to the dispute or the claim or whose participation is necessary for the settlement of such dispute or claim, are bound by the award of the arbitration provided that such person is the Company or a Shareholder of the Company, a Director, a Supervisor or senior management. Disputes in relation to the definition of Shareholders and the register of Shareholders need not be resolved by arbitration;

- (ii) A claimant may elect for arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its 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 so elected by the claimant.

If a claimant elects for arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim 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 referred to in paragraph (i), unless otherwise provided in the laws and administrative regulations.
- (iv) The award of an arbitration body shall be final and binding on all parties.

**FURTHER INFORMATION ABOUT THE COMPANY***Establishment of the Company*

On 18 August 2011, our Predecessor Company, Deqing Zuoli Kechuang Micro-finance Company Limited\* (德清佐力科創小額貸款有限公司), was established as a limited liability company in the PRC.

On 28 April 2014, our Predecessor Company was converted into the Company, Zuoli Kechuang Micro-finance Company Limited (佐力科創小額貸款股份有限公司), as a joint stock company with limited liability under the relevant PRC laws and regulations.

The Company has established a place of business in Hong Kong at 14–15th Floor, The Bank of East Asia Building, 10 Des Voeux Road Central, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 4 July 2014, with Mr. Yip Kui Wan of 14–15th Floor, The Bank of East Asia Building, 10 Des Voeux Road Central, Hong Kong appointed as the agent of the Company for the acceptance of service of process in Hong Kong on behalf of the Company.

For the purpose of Rule 3.05 of the Listing Rules, the Company has appointed Mr. Yu and Mr. Yip Kui Wan as our authorized representatives to act as the Company's principal channels of communication with the Stock Exchange.

As the Company was established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of certain provisions is set out in Appendix V to this Prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV to this Prospectus.

*Changes in Registered Capital of the Company*

At the date of establishment, the initial registered capital of our Predecessor Company was RMB200 million. The following sets out the changes in our share capital since the date of our establishment:

- (a) on 30 March 2012, the registered capital of our Predecessor Company was increased from RMB200 million to RMB320 million;
- (b) on 30 December 2013, the registered capital of our Predecessor Company was subsequently increased from RMB320 million to RMB510 million;
- (c) on 31 March 2014, the registered capital of our Predecessor Company was further increased from RMB510 million to RMB750 million;
- (d) on 28 April 2014, we converted the net assets value of our Predecessor Company into Domestic Shares, and the registered capital of the Company increased from RMB750 million to RMB880 million; and

- (e) on 28 April 2014, our Predecessor Company was converted from a limited liability company into a joint stock company with limited liability, the Company. Immediately after the conversion, our registered capital was RMB880 million divided into 880 million Domestic Shares.

As of the Latest Practicable Date, the Company had 880 million Domestic Shares in issue and a registered capital of RMB880 million. Upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised, the Company will have a registered capital of RMB1,180,000,000 million, comprising 880,000,000 Domestic Shares and 300,000,000 H Shares.

#### *Restrictions on Share Repurchase*

Please refer to “Appendix IV — Summary of Principal Legal and Regulatory Provisions — The PRC Company Law, Special Regulations and Mandatory Provisions — Repurchase of Shares” in this Prospectus for details.

#### *Resolutions Passed at Our Extraordinary Shareholders’ Meeting on 19 May 2014, 8 August 2014, 31 August 2014, 18 October 2014, 4 November 2014 and 21 November 2014*

At our extraordinary Shareholders’ meeting held on 19 May 2014, among other things, the following resolutions were passed by our Shareholders, approving:

- (a) the issue by the Company of the H Shares of nominal value of RMB1.00 each and such H Shares be listed on the Main Board of the Stock Exchange;
- (b) the number of H Shares to be issued shall not be more than 30.16% of the total issued share capital of the Company as enlarged by the Global Offering, and the grant to the Underwriters (or their representatives) the Over-allotment Option of not more than 15% of the number of H Shares issued pursuant to the Global Offering;
- (c) subject to the completion of the Global Offering, the conditional adoption of the Articles of Association, which shall become effective on the Listing Date and the authorisation to our Board of Directors to amend the Articles of Association in accordance with the requirements by the relevant regulatory authorities in accordance with the relevant laws and regulations; and
- (d) authorisation to our Board of Directors to handle, among other things, all matters relating to the Global Offering, the issue and listing of the H Shares.

At our extraordinary Shareholders’ meeting held on 8 August 2014, among other things, the following resolutions were passed by our Shareholders, approving:

- (a) the amendment to the Articles of Association in respect of the change of composition of the Board;
- (b) the appointment of Mr. Pan Zhongmin as a non-executive Director of our Company; and
- (c) the appointment of Mr. Wang Peijun and Mr. Dai Shengqing as Supervisors of our Company.

At our extraordinary Shareholders' meetings held on 31 August 2014, 18 October 2014, 4 November 2014, 21 November 2014 and 18 December 2014, our Shareholders passed the resolutions approving, among other things, certain amendments to the Articles of Association.

#### *Conversion into a Joint Stock Company*

As confirmed by our PRC Legal Advisers, our conversion into a joint stock company complied with all applicable PRC laws and regulations, and all necessary approvals from relevant PRC regulatory authorities required for the implementation of the conversion and the Listing have been obtained. These approvals include:

- (a) On 28 April 2014, a new business license was issued by the Huzhou AIC, whereupon the Company was formally converted into a joint stock company with limited liability; and
- (b) On 5 November 2014, the CSRC issued an approval with regard to the issue of H Shares and the listing of the H Shares on the Main Board of Stock Exchange.

#### **FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY**

##### *Summary of Material Contracts*

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this Prospectus and are or may be material:



- (a) the Hong Kong Underwriting Agreement;
- (b) the Deed of Non-Competition;
- (c) the Deed of Indemnity;
- (d) the tenancy agreement dated 1 January 2014 and entered into between Mr. Yu as landlord and the Company as tenant pursuant to which a portion of office premises located at Nos. 57-67, Room 201 of No. 69, Room 201 of No. 71, Dongsheng Road, Lan Se Gang Wan, Wukang Town, Deqing, Zhejiang, the PRC was leased to the Company for a term expiring on 31 December 2016 (as supplemented by an agreement dated 13 May 2014);
- (e) a cornerstone investment agreement dated 19 December 2014 entered into among Ms. Duan Min, China Galaxy International Securities (Hong Kong) Co., Limited, Convoy Investment Services Limited, Guangdong Securities Limited and us;
- (f) a cornerstone investment agreement dated 19 December 2014 entered into among Mr. Qi Fang, China Galaxy International Securities (Hong Kong) Co., Limited, Convoy Investment Services Limited, Guangdong Securities Limited and us;
- (g) a cornerstone investment agreement dated 22 December 2014 entered into among Mr. Li Tong, China Galaxy International Securities (Hong Kong) Co., Limited, Convoy Investment Services Limited, Guangdong Securities Limited and us;

- (h) a cornerstone investment agreement dated 22 December 2014 entered into among Mr. Wei Feng, China Galaxy International Securities (Hong Kong) Co., Limited, Convoy Investment Services Limited, Guangdong Securities Limited and us;
- (i) a cornerstone investment agreement dated 22 December 2014 entered into among Mr. Xu Zhenghui, China Galaxy International Securities (Hong Kong) Co., Limited, Convoy Investment Services Limited, Guangdong Securities Limited and us; and
- (j) a cornerstone investment agreement dated 22 December 2014 entered into among Zhongrong International Trust Co., Ltd., China Galaxy International Securities (Hong Kong) Co., Limited, Convoy Investment Services Limited, Guangdong Securities Limited and us.



### *Intellectual Property Rights of the Company*

#### **Trademarks**

As of the Latest Practicable Date, we had registered the following trademarks which are or may be material to the business of our Company in Hong Kong:

No.	Trademark	Place of Registration	Class	Registrant	Registration Number	Period of Validity
1.		Hong Kong	36	the Company	303020228	5 June 2014 to 4 June 2024
2.		Hong Kong	36	the Company	303020237	5 June 2014 to 4 June 2024
3.	佐力	Hong Kong	36	the Company	303020255	5 June 2014 to 4 June 2024
4.	® zuoli ® Zuoli ® ZUOLI	Hong Kong	36	the Company	303020246	5 June 2014 to 4 June 2024

As of the Latest Practicable Date, we had applied for registration of the following trademarks which are or may be material to the business of our Company in the PRC:

No.	Trademark	Place of Registration	Class	Applicant	Application Number	Application Date
1.		the PRC	36	the Company	15170075	18 August 2014
2.		the PRC	36	the Company	15170074	18 August 2014
3.	佐力	the PRC	36	the Company	15383438	22 September 2014
4.	ZUOLI	the PRC	36	the Company	15383537	22 September 2014



**Domain Names**

As of the Latest Practicable Date, we had registered the following domain names which are or may be material to our business:

<u>Registrant</u>	<u>Domain name</u>	<u>Date of registration</u>	<u>Expiry Date</u>
The Company . . . . .	zlkcd.cn	9 April 2014	9 April 2015
The Company . . . . .	zlkcd.com	8 April 2014	8 April 2015

Save as aforesaid, there are no other trademarks, patents or other intellectual or industrial property rights which are material in relation to our business.

**DISCLOSURE OF INTERESTS***Disclosure of the Interests of Our Directors, Supervisors and Chief Executive*

Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, none of our Directors, Supervisors or chief executive of the Company will have any interest and/or short positions in the Shares, underlying Shares and debentures of the Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 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 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 the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, once the H Shares are listed, are as follows (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to our Supervisors).

Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, our Directors, one of our Supervisors will have the following interest in our Shares:

<u>Director/Supervisor /chief executive</u>	<u>Number of Shares held after the Global Offering</u>	<u>Nature of interest</u>	<u>Approximate percentage of shareholding in the total share capital of the Company after the Global Offering</u>
Mr. Yu . . . . .	88,000,000 Domestic Shares	Beneficial owner	7.46%
	307,061,040 Domestic Shares	Interests held jointly with another person <sup>(Note 1)</sup>	26.02%
Zheng Xuegen . .	2,992,000 Domestic Shares	Beneficial owner	0.25%
Hu Haifeng . . . .	10,630,400 Domestic Shares	Beneficial owner	0.90%
Ding Maoguo . . .	4,400,000 Domestic Shares	Beneficial owner	0.37%
Pan Zhongmin . .	11,792,000 Domestic Shares	Interest of a controlled corporation <sup>(Note 2)</sup>	1.00%
Shen Yamin . . . .	13,511,520 Domestic Shares	Beneficial owner	1.15%

*Notes:*

- (1) On 28 April 2014, Mr. Y Yu, Mr. Yu, Mr. Shen, Mr. Zhang and Puhua Energy entered into an Acting in Concert Agreement, pursuant to which they jointly and severally undertook that they would, by themselves, together with their associates or through the companies controlled by them, adopt a consensus building approach to reach decisions on a unanimous basis, and exercise their voting rights at the meetings of the Shareholders of the Company (and of its subsidiaries, if any in the future) based on such decisions. For more details, please refer to the section headed "History and Development" in this Prospectus. As such, Mr. Y Yu (through Deqing Yintian, Zuoli Holdings and Puhua Energy), Mr. Yu, Mr. Shen (by himself and through Dingsheng Investment and Zuoli Holdings), Mr. Zhang and Puhua Energy together will control approximately 33.48% of the issued share capital in the Company immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised. As a result of the Acting in Concert Agreement and by virtue of the SFO, each of Puhua Energy, Mr. Y Yu, Mr. Yu, Mr. Shen and Mr. Zhang will be deemed to be interested in approximately 33.48% of the issued share capital in the Company immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised.
- (2) Mr. Pan Zhongmin holds 75.50% of the equity interest of Bangni Fiber, which in turn will hold approximately 1.00% of the issued share capital in the Company immediately following completion of the Global Offering. By virtue of the SFO, Mr. Pan Zhongmin will be deemed to be interested in approximately 1.00% of the issued share capital in the Company immediately following completion of the Global Offering.
- (3) The calculation is based on the assumption that the Over-allotment Option is not exercised and the total number of 1,180,000,000 Shares in issue after the Global Offering.

***Substantial Shareholders***

For the information on the persons who will, immediately following the completion of the Global Offering (without taking into account any H Shares which may be allotted and issued upon any exercise of the Over-allotment Option), have an interest and/or short position in the Shares or underlying Shares

which would be required to be notified 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 our general meetings, please see the section headed “Substantial Shareholders” in this Prospectus.

#### *Particulars of Service Agreements*

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance of relevant laws and regulations, observance of the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

#### *Directors’ and Supervisors’ Remuneration*

For the period from 18 August 2011 to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014, the aggregate amount of remuneration and other benefits in kind (if applicable) incurred by us to our Directors and Supervisors were approximately RMB370,000, RMB965,000, RMB1,015,000 and RMB501,000, respectively.

Save as disclosed above, no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of the period from 18 August 2011 to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014. Under the arrangement currently in force as of the date of this Prospectus, the aggregate amount of remuneration payable by the Company to our Directors and Supervisors for the year ending 31 December 2014 is expected to be RMB1,450,000 in aggregate.

There was no arrangement under which a Director or Supervisor has waived or agreed to waive any emoluments during the Track Record Period.

#### *Personal Guarantees*

As of the Latest Practicable Date, our Directors and Supervisors had not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

#### *Agency Fees or Commissions Received*

None of our Directors, Supervisors or any of the persons whose names are listed in the paragraph headed “Qualifications of Experts” in this Appendix had received any commissions, discounts, agency fees, brokerages or other special terms that were granted within the two years preceding the date of this Prospectus in connection with the issue or sale of any capital of the Company.

*Related Party Transactions*

During the Track Record Period, we had engaged in the material related party transactions as described in Note 21 under Section B of the Accountants' Report set out in Appendix I to this Prospectus.

**DISCLAIMERS**

Save as disclosed in the sections headed "History and Development", "Underwriting" and "Substantial Shareholders" in this Prospectus:

- (a) None of our Directors, Supervisors and any of the parties listed in the paragraph headed "Qualifications of Experts" of this Appendix is:
  - (i) interested in our promotion, or in any assets which, within the two years immediately preceding the date of this Prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to the Company;
  - (ii) materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to our business;
- (b) save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties listed in the paragraph headed "Qualifications of Experts" of this Appendix:
  - (i) is interested legally or beneficially in any of our Shares; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Shares or any of our securities;
- (c) none of our Directors or Supervisors or their close associates or any Shareholders who to the knowledge of our Directors owns more than 5% of our issued share capital has any interest in our top five business customers;
- (d) none of our Directors or Supervisors is a director or employee of a company which has an interest in the share capital of the Company which, once the H Shares are listed on the Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO.

**OTHER INFORMATION***Estate Duty*

We have been advised that no material liability for estate duty under PRC law is likely to be imposed on us.

*Indemnities*

On 29 December 2014, our Controlling Shareholders entered into the Deed of Indemnity with and in favor of the Company, pursuant to which our Controlling Shareholders agreed and undertook with the Company, subject to the terms of the Deed of Indemnity, to indemnify and keep the Company indemnified on a joint and several basis against any and all tax liabilities falling on the 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 Global offering 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 30 June 2014; or
- (b) for which the 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 the Company on or after 1 July 2014 unless liability for such taxation would not have arisen but for some act or omission of or transaction voluntarily effected by the 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
- (d) to the extent that such taxation arises or is incurred as a result of a retrospective change in laws or interpretation by the SAT or other relevant authority or a retrospective increase of tax rates coming into force after the Effective Date; or
- (e) to the extent that any provisions or reserve made for taxation in the audited accounts of the Company up to 30 June 2014 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 (e) 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 the Company indemnified against any costs, expenses, claims, liabilities, penalties, losses and damages that the Company may suffer due to (i) the non-compliance with the relevant PRC laws in respect of social insurance contribution requirements; and (ii) the conversion from the

Predecessor Company into the Company prior to the completion of the Global Offering, save for those for which provision or reserve has been made in any audited accounts of the Company for any period up to 30 June 2014.

### *Litigation*

As of the Latest Practicable Date, the Company was not engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known by our Directors to be pending or threatened by or against the Company, that would have a material adverse effect on the Company's results of operations or financial condition of the Company.

### *Sole Sponsor and Fees*

The Sole Sponsor has declared pursuant to Rule 3A.10 (2) of the Listing Rules that it is independent pursuant to Rule 3A.07 of the Listing Rules.

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, our Shares to be issued as mentioned in this Prospectus.

The Company agreed to pay the Sole Sponsor a fee of approximately HK\$5.7 million as the sponsor to the Company for the Global Offering (the "Sponsor Fee"). The Sponsor Fee relates solely to services provided by the Sole Sponsor in the capacity of a sponsor, and not other services which it may provide, such as (without limitation) bookbuilding, pricing and underwriting.

### *Preliminary Expenses*

The estimated preliminary expenses incurred or proposed to be incurred in respect of the Global Offering (including the underwriting commissions) are approximately HK\$50 million and are payable by the Company.

### *Promoters*

The Promoters of the Company are Puhua Energy, Yiweier Industry, Huacai Chemical, Jinyan Import & Export, Bangni Fiber, Beihu Construction, being our corporate Shareholders; Mr. Yu, Mr. Hu Haifeng, Mr. Zheng Xuegen and Mr. Ding Maoguo, being our Directors; Mr. Qiu Weiguo, being a former director of our Predecessor Company; Mr. Yu Chao, being a former director of our Predecessor Company and a former supervisor of our Company; Ms. Shen Yamin, being one of our Supervisors; Ms. Xia Jing, being a member of our senior management; Mr. Shen, Mr. Zhang and 34 individual Shareholders. Please refer to the section headed "History and Development" in this Prospectus for further details.

Save as disclosed in the section headed "History and Development" 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 Hong Kong Public Offering or the related transactions described in this Prospectus.

*Qualifications of Experts*

The following are the qualifications of the experts who have given opinions or advice which are contained, or referred to, in this Prospectus:

<u>Name</u>	<u>Qualifications</u>
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
KPMG. . . . .	Certified public accountants
Dacheng Law Offices. . . . .	Legal advisers as to PRC laws
Ernst & Young (China) Advisory Limited. . . . .	Independent industry consultant

*Consents of Experts*

Each of the experts has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or opinion (as the case may be) and the references to its name or summaries of opinions included herein in the form and context in which they respectively appear.

As of the Latest Practicable Date, none of the experts named in the sub-paragraph headed “Qualifications of Experts” of the paragraph headed “Other Information” in this Appendix had any shareholding interests in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company save that the Sole Sponsor, which is also the Joint Lead Manager and one of the Underwriters may be required to perform its underwriting obligation in respect of the Offer Shares.

*Compliance Adviser*

The Company has appointed China Galaxy International Securities (Hong Kong) Co., Limited as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules.

*Taxation of Holders of H Shares*

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate chargeable on each of the seller and purchaser is HK\$1.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

*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 (WUMP) Ordinance so far as applicable.

***No Material Adverse Change***

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 30 June 2014 (being the date to which the latest audited financial information of the Company were made up).

***Miscellaneous***

Save as disclosed in the section headed “History and Development” 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 the 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) the 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 the 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 the 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) the Company is not a Sino-foreign equity joint venture or does not operate as or under a cooperative or contractual joint venture; and
- (j) we currently do 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*.

***Bilingual Prospectus***

The English language and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).



**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the Application Forms, the written consents referred to in “Appendix VI — Statutory and General Information — Other Information — Consents of Experts” in this Prospectus and copies of the material contracts referred to in “Appendix VI — Statutory and General Information — Further Information about the Business of the Company — Summary of Material Contracts” in this Prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of ONC Lawyers, at 14th and 15th Floor, The Bank of East Asia Building, 10 Des Voeux Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

- (1) the Articles of Association;
- (2) the Accountants’ Report from KPMG, the text of which is set out in Appendix I to this Prospectus;
- (3) the report from KPMG relating to our unaudited pro forma financial information, the text of which is set out in Appendix II to this Prospectus;
- (4) the audited financial statements of the Company for the period from 18 August 2011 to 31 December 2011, the two financial years ended 31 December 2012 and 2013 and the six months ended 30 June 2014;
- (5) the PRC legal opinions issued by Dacheng Law Offices in respect of our general matters and business operation;
- (6) the report prepared by *EY Advisory*;
- (7) the material contracts referred to in “Appendix VI — Statutory and General Information — Further Information about the Business of the Company — Summary of Material Contracts” in this Prospectus;
- (8) the service agreements and the letters of appointment referred to in “Appendix VI — Statutory and General Information — Disclosure of Interests — Particulars of Service Agreements” in this Prospectus;
- (9) the written consents referred to in “Appendix VI — Statutory and General Information — Other Information — Consents of Experts” in this Prospectus; and
- (10) the *PRC Company Law*, the *Special Regulations*, the *Mandatory Provisions* together with their unofficial translations.



佐力科創小額貸款股份有限公司

**Zuoli Kechuang Micro-finance Company Limited**